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## **Japan**

### **Food Service - Hotel Restaurant Institutional**

#### **Japan HRI Food Service Sector Report 2013**

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**Report Highlights:**

This is an updated guide to Japan's \$360 billion Hotel, Restaurant and Institutional (HRI) Food Service market. The food service industry suffered greatly from the affects of the March 11 Great Earthquake in 2011 and due to incidences of food poisoning in 2011 and 2012, but the industry has shown a step by step recovery in spite of a series of economic downturns. The industry is increasingly offering international cuisine throughout the market place. Competition remains intense and the sophisticated Japanese consumer continues to demand high quality food products in their meals. U.S. suppliers are well positioned to compete in many products categories provided they are willing to adjust to changing

market demands.

**Post:**

Tokyo ATO

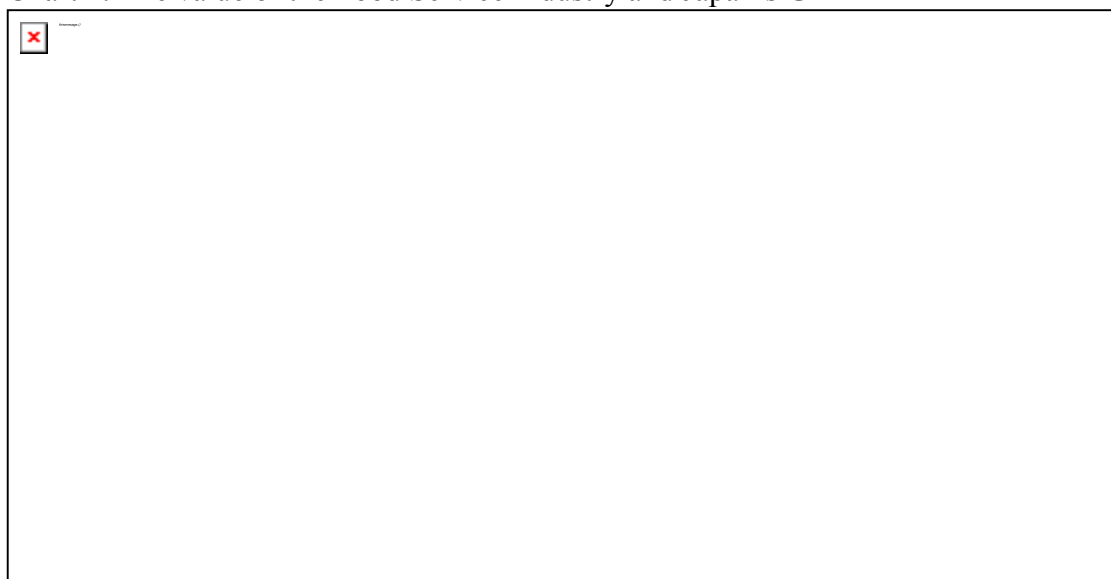
**Executive Summary:**

**I. MARKET SUMMARY**

**A. Market Volume and Trend**

The food service (HRI) sector was valued at ¥28.27 trillion in 2011, down from 29.13 from in 2010, and down from ¥30.08 trillion in 2007. Japan's food service industry is closely tied to the Japanese economy and has closely tracked general economic conditions, as reflected in chart 1.

Chart 1: The value of the Food Service Industry and Japan's GDP



Source: Food Service Industry Research Institute (Value), Japan Statistic Bureau

Note: In sections I and II, statistics used in this report are primarily expressed in yen, since year-to-year fluctuations in the exchange rate distort the reading of trends.

Chart 2: Annual Average Exchange Rates

Year Average	2007	2008	2009	2010	2011
JP¥ per US\$	117.93	104.23	93.52	88.09	79.97

Source: Trade Statistic of Japan

Chart 3: Corresponding Value in US\$ Using Annual Average Exchange Rates

Japan Food Service Market	2007	2008	2009	2010	2011
In Japanese Yen Trillion (¥)	30.35	30.08	29.23	29.31	28.82
In US Dollar Billion (\$)	257.36	288.59	312.55	332.73	360.39

Source: Trade Statistic of Japan, Food Service Industry Research Institute

The Principal reasons for fluctuations in the value of the food service sector in the last five years are attributed to the following:

1. In 2007, steady GDP growth and the corresponding increase in spending among Japanese consumers.
2. In 2008 and 2009, the economic influence exerted by the economic collapse and subsequent world economic downturn decreased discretionary spending on business meals and receptions.
3. In 2009 and 2010, economic recovery and the corresponding increase in spending both businesses and consumers.
4. The March 2011 earthquake and tsunami deeply impacted the entire economy in Japan and HRI sales dropped dramatically. For several months, Japanese consumers and business refrained from any action or event that could be perceived as celebratory.
5. Industry sales have recovered slowly since June 2010, but two deadly food poisoning incidents slowed down sales and scared consumers away from dining out temporarily in 2011 through 2012.
6. In late 2012, industry sources reported that sales are recovering, especially in the less expensive casual QSR sector and the high-end value restaurant sector. (See Chart 4)

Dining out is an important part of the Japanese culture. The sophisticated Japanese consumer demands high quality food products in their meals. As per the Chart 2, recent favorable exchange rate shifts favor to U.S. suppliers, who are well positioned to compete in many product categories provided they are willing to adjust to changing market demands.

The food service sector has re-organized in the last 5 years as many traditional mom and pop restaurants have gone out of business and have been replaced by new style family chain restaurants. From 2006 to 2009, the total number of outlets decreased from 786,078 to 721,111, down 8.3 %, and sales also decreased from 29.97 to 29.21 trillion, down only 2.5% indicating a streamlining in the industry. In addition, as deflation continues in the general economy, there has been pressure to reduce menu prices, while at the same time, imported ingredient costs are increasing.

Sales volume in the sector registered increases since 2009. However, after the Great Earthquake and Tsunami in March 2011, the sector recorded a biggest month to month drop ever. In 2012, sales in the Japanese food service industry has recovered from 2011. Especially, the sales volume in March 2012 jumped up with more sales than the same month of the year before, and industry sales showed almost stable growth in October in 2011 through October in 2012.

Chart 4: Sales change of 212 major restaurant chains as compared to the same month of the year 2011 through 2012

Month	Total	QSR*	FSR*	Pub Dining	DR*	Coffe & Tea Shop	Other*
Oct 2011	0.5%	1.4%	0.0%	-2.4%	1.1%	-0.3%	2.2%
Nov	1.0%	2.7%	-0.1%	-2.6%	1.3%	-1.2%	0.1%
Dec	1.8%	4.0%	0.0%	-1.6%	0.3%	-0.4%	-0.2%
Jan 2012	0.0%	0.7%	-0.8%	-2.0%	0.7%	-0.7%	0.9%
Feb	1.0%	1.9%	0.7%	-4.5%	4.3%	3.5%	-2.5%
Mar	13.1%	10.1%	13.2%	23.6%	32.3%	11.6%	26.2%
Apr	3.4%	2.9%	4.3%	0.4%	8.6%	4.6%	5.2%

May	-1.5%	-3.2%	0.2%	-0.8%	2.6%	1.6%	2.0%
Jun	2.6%	3.1%	2.8%	-0.3%	4.5%	-1.0%	6.3%
Jul	-1.7%	-1.1%	-1.2%	-7.1%	-1.7%	-1.3%	-2.2%
Aug	2.3%	2.3%	2.6%	0.0%	6.6%	2.2%	1.8%
Sep	3.6%	1.9%	8.4%	-1.9%	7.6%	1.8%	2.8%
Oct	-2.1%	2.3%	1.4%	-4.8%	-1.9%	1.3%	-1.1%

QSR: Quick Service Restaurant, FSR\* Family Style Restaurant, DR\*: Dinner Restaurant

Other\* including; Institutional, school meal, delivery pizza and other

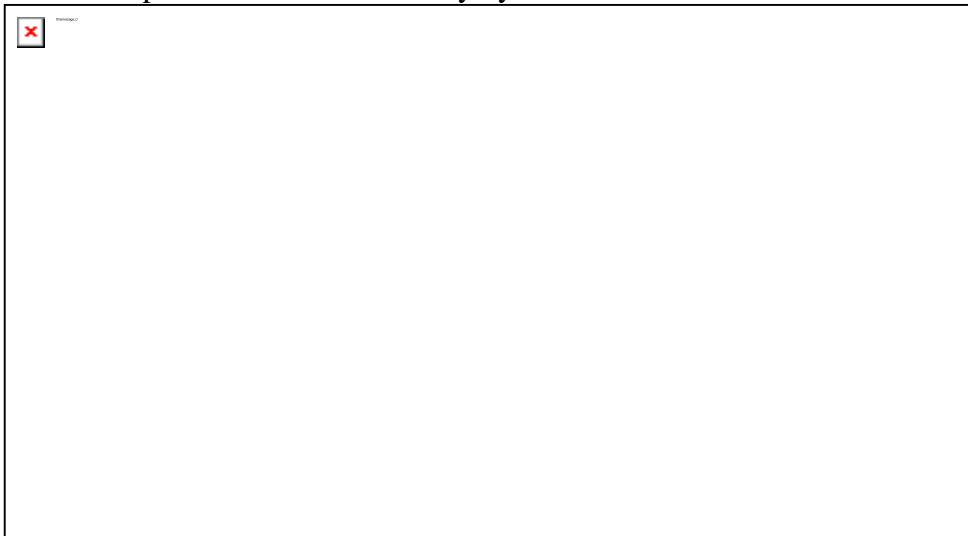
Source: Foodservice Industry Research Institute

## B. Sectors

The Japanese food service industry, as broadly defined, has six major segments. Among the five traditional food service establishments, in 2011, the largest sector was Restaurants (42.3% of the market and valued at \$152.6 billion), followed by Drinking Establishments (16.3% valued at \$58.9 billion), Institutional Food Service (11.4 % valued at \$41 billion), Hotels (9.0% and valued at \$32.5 billion), and Transportation Related Food Service (0.8% valued at \$2.9 billion).

A sixth, separate category that has increasingly grown in importance in Japan is “Prepared Meals Sold at Retail Stores” such as convenience stores, supermarkets and department stores. These foods are ready-to eat, Home Meal Replacement (HMR) type products (obento lunch boxes at the office are one example) and are classified by the Japan Food Service Association within the Food Service Sector. The value of the “Prepared Meals sold at Retail Stores” sector in 2011 was \$72.5 billion, accounting for 20.1 % of the total Japanese food service industry. It increased by 1.6 % in sales from the previous year and is estimated that 13 percent of all meals in Japan are prepared meals sold at retail stores.

Chart 5: Japan food Service Industry by Sector



Source: Foodservice Industry Research Institute

The growth in HMR is driven by two demographic sectors: the elderly and young single professionals. Japan’s population is aging faster than any in the world, and many elderly do not have the ability to drive or travel far to grocery shop. As a result, many get their daily meals from the local “conbini” or

convenience stores, such as 7-11, Lawsons, or Family Mart. Likewise, young professional who live alone or with roommates often don't cook and almost exclusively eat outside food. This may explain why according to the OECD, a low proportion of Japanese (46%) participate in cooking and cleaning up afterwards, the second lowest in the OECD and much below the OECD average of 64% participation. However, those Japanese who cook do a considerable amount of it, cooking for 1 hour 39 minutes per day, the fourth highest in the OECD after Mexico, Turkey and Portugal and well above the OECD average of 1 hour 24 minutes.

This HRI industry was overwhelmed twice in last five years. The 1<sup>st</sup> major influence was the world market melt-down in 2008, and the 2<sup>nd</sup> impact was the Great Earthquake and Tsunami on March 11, 2011. The office meal delivery sector of institutional and HMR sector of prepared meals were the only two sub-sectors that didn't decrease in 2011.

Chart 6: Japan HRI Market by Sector by Year

Sector	2007	2008	2009	2010	2011		Change '10 to '11	Share
	Unit	¥ Tri.	¥ Tri.	¥ Tri.	¥ Tri.	¥ Tri. / \$ Bil.		
Restaurants		12.48	12.85	12.61	12.50	12.20 / 152.56	-2.4%	42.4
Hotels		3.13	3.07	2.76	2.70	2.60 / 32.51	-3.7%	9.0
Institutional		3.62	3.36	3.28	3.28	3.28 / 41.02	0.0%	11.4
Drinking Establishments		5.22	4.99	4.76	4.73	4.71 / 58.90	-0.4%	16.4
Transportation		0.25	0.26	0.25	0.25	0.23 / 2.88	-8.0%	0.8
Prepared Meals		5.64	5.54	5.57	5.69	5.78 / 72.26	1.6%	20.1
Total		30.34	30.07	29.2282	29.15	28.80 / 360.12	-1.2%	100.0

Source: Foodservice Industry Research Institute

The March 11, 2011, earthquake and tsunami disaster weakened dining out sales more than the industry expected. QSR sales were particularly affected as convenience stores added to their meal selection. The key factors affecting the food service industry can be summarized as follows;

- A series of worldwide economic crises have chipped away discretionary spending on both business meals and consumer's eat out.
- A strong yen has been slowing down Japanese economy and export business. Many Japanese industries rely heavily on exports.
- Food service industry rationalization by chain restaurants, hotels and food suppliers. The industry has been pursuing mergers and acquisitions that improved industry structure and reduce operating costs.
- Increased opening of new outlets by new restaurant chains and up-scale hotels and the creation of an attractive new style food business, high in value and quality.
- Redevelopment projects have been active in Tokyo metropolitan area. New pub restaurants and sophisticated casual restaurants are being introduced when older buildings are demolished and replaced by newer buildings. These new restaurants are more likely to target women and affluent young people, who are willing and able to pay for higher quality menus.
- The trend to identify popular restaurants. TV programs target specific restaurants and have introduced tasty and high value restaurants, both five star class restaurants and casual style restaurants in both metropolitan area and local region. At the same time, TV programs promote

home-grown agricultural products as high-end food products.

- A new food trend, B-class gourmet, features regional restaurants serving localized menus.
- Japanese consumers now tend to show tolerance with imported food including imported food from China after the nuclear accident in Fukushima in 2011. This may be a result of some concerns with domestic foods and radiation.

The Japanese food service sector has traditionally been very receptive to the use of imported food products. This is due partly to the fact that;

- Imported food products are often less expensive than their domestic counterparts.
- The food service industry does not require unique specifications for food packages as does the retail industry.
- The food service sector often incorporates new food concepts from abroad, which makes it more receptive to importing items used in the menu.

### C. Value of Total Imported Food vs. Domestic Products

According to the statistics of the Japan's Ministry of Agriculture, Fishery and Forest (MAFF), domestically produced Agricultural and marine products accounted total of ¥9.6 trillion (\$109.1) which is equivalent of 39% in calorie terms and 66% in value terms of all food consumed in Japan in 2010. In 2011, Japan imported \$88.02 billion in agricultural and marine products.

While it is difficult to say exactly what percentage of imported food vs. domestic food is used for the food service sector as a whole, it is estimated that well over half of all food service menu items involve imported food stuffs in one form or another. Imported items such as beef, pork, shrimp, salmon, wine, cheese, frozen vegetables, frozen potatoes and the like are heavily used by the food service sector.

Japan imported a total of \$88 billion agricultural and marine products in 2011, increasing 13.3% over the previous year. The total value of food and agricultural imports from the United States increased by 21.6% to a 23.5 % share in 2011. This overall growth is somewhat due to the disaster, and demonstrates that Japan has more potential for food imports than previous statistics showed. (See Chart 7)

Chart 7: Japan Food and Agricultural Import Total by Country

Partner Country	United States Dollars, million			% Share			% Change
	2009	2010	2011	2009	2010	2011	2011/2010
World	59,106	65,694	81,057	100.00	100.00	100.00	23.39
United States	14,810	15,640	19,009	25.06	23.81	23.45	21.55
China	7,347	8,570	10,103	12.43	13.04	12.46	17.90
Australia	3,898	4,316	5,025	6.59	6.57	6.20	16.42
Canada	3,500	3,905	4,941	5.92	5.94	6.10	26.51
Thailand	3,365	3,741	4,841	5.69	5.69	5.97	29.40
Brazil	1,996	2,607	3,687	3.38	3.97	4.55	41.43
Netherlands	1,692	1,840	2,803	2.86	2.80	3.46	52.37
Korea South	1,533	1,799	2,241	2.59	2.74	2.77	24.58

Chile	1,547	1,657	2,160	2.62	2.52	2.67	30.38
France	1,512	1,591	1,820	2.56	2.42	2.25	14.39

Source: Global Trade Atlas (HS Code 02 through 24, except 13 and 14)

The strong yen exchange rate and increasing domestic food price of the last few years have driven up food imports from foreign countries to Japan. In particular, dairy products from the U.S. to Japan increased by 57 percent in quantity in 2011 from the previous year. Japanese importers have shifted sourcing natural cheese from Oceania countries to the U.S. due to favorable exchange rates, importing shredded cheese mainly used for food service sectors (i.e. pizza and Italian style restaurants). U.S. exports of red meats, chicken, fresh vegetables, and tree nuts to Japan experienced the double digit increases in 2011 over 2010.

Certain segments continue to do better than others, in particular, French and Italian style restaurants, U.S. branded restaurants which serve a higher quality food and atmosphere than ordinary quick service restaurants (QSRs). The QSRs which attracted consumers with low menu prices are struggling due to pressure from the high cost of ingredients. Korean and Chinese style restaurants have decreased sales with diminished number of tourists from South Korea and China due to recent territorial disputes between Japan and these two countries.

Many industry experts predict the Japanese food service sector will be back on the track to recovery in 2012. QSR and streamlined family style restaurant chains continue to lead the industry. Hotel restaurants, new concept casual dining, and ethnic food restaurants are expanding as a result of consumer demand. Catering, including home meal replacement, and institutional meal businesses are also expected to grow due to a deflationary environment which will cause most individuals to tighten their budget when it comes to dining out. After several years out of the market, “Cinnabon” has just returned to Japan. McDonald’s proves new business style including expansion of delivery service and reopening with snazzy café style atmosphere.

#### D. Advantages and Challenges

The industry increasingly offers international cuisines throughout the market place and competition is intense. The sophisticated Japanese consumer generally demands high quality food products in their meals and U.S. suppliers are well positioned to compete in many product categories provided they are willing to adjust to changing market demands.

On the other hand, limited U.S. beef imports continue to affect the food service industry in Japan. The Government of Japan has allowed imports of cattle aged 20 months or less since December 2005. This age restriction is still in place at the time this report was written, and will likely limit the supply to U.S. beef in the food industry as a whole, and particularly in the food service industry.

Nonetheless, U.S. beef imports to Japan increased from 105,000 metric tons (MT) in 2010 to 120,600 MT in 2011, an increase of about 32% in quantity. However, 120,600 tons is still less than a half of the total imports in 2002 before BSE was detected in the United States. As a result of U.S. Meat Export Federation and FAS Japan’s marketing efforts, a greater number of major city hotels and family style restaurants are currently serving U.S. beef.



When and if U.S. beef export restrictions are relaxed, we expect that U.S. beef exports will quickly approach pre-2002 levels as Japan’s restaurant and institutional industry is the most supportive business community for U.S. beef in the market.

Chart 8: Japan Beef Import by Country

Rank #	Partner Country	Quantity (M. ton)			% Share			% Change
		2010	2011	2012	2010	2011	2012	2012/2011
	World	491,198	532,708	540,125	100.00	100.00	100.00	1.39
1	Australia	349,385	346,451	336,146	71.13	65.04	62.23	- 2.97
2	United States	82,222	119,569	135,691	16.74	22.45	25.12	13.48
3	New Zealand	31,734	30,470	31,932	6.46	5.72	5.91	4.80
4	Mexico	10,549	18,007	20,007	2.15	3.38	3.70	11.11
5	Canada	11,251	11,744	12,050	2.29	2.20	2.23	2.60

Year Ending: November 2011 – October 2012

Source: Global Trade Atlas (HS Code 020110 through 020230, 020610 through 020629, and 021020)

Food service operators are also dealing with the escalating domestic rice prices that thins profit margins. The industry appears to be more accepting of imported rice usage, a situation that expands opportunities for U.S. rice in the market.

A brief summary of the advantages and the challenges for U.S. food exporters targeting the Japanese food service sector appears below:

Chart 9: Advantages and Challenges

Advantages	Challenges
The success of U.S. fast food and restaurants chain concepts helps introduce American style food inputs into the general diet.	Many consumers view American food culture as less attractive than European or Japanese counterparts.
U.S. food producers have a positive image for safety compared to many Asian competitors, especially among the trade.	Most imported food products are viewed by some consumers as less safe than domestically, except Fukushima region, produced Japanese food products.
The U.S. has a reputation and history as reliable supplier of food (both availability and delivery) at reasonable price.	The quality and reliability of Asian exporting countries has been growing as the distribution infrastructure and quality assurance (QA) procedures have improved.
The United States has a wide variety of food products, including fresh & further processed.	Japanese buyers are sourcing from all over the world rather than from only a few countries.
High Japanese farming costs and a weak dollar make imported food products attractive.	The perception of U.S. price competitiveness and quality has declined vis-à-vis other exporting countries.
After the Fukushima nuclear power plant accident in 2011, the United States is recognized as a source of advanced food processing and food safety assurance technology including sustainability and organic production.	Japanese government policies relating to food safety pose increasing impediments to trade, such as a strict Maximum Residue Level (Positive List), BSE standards and stringent labeling requirements.

## II. Road Map for Market Entry

### A. Entry Strategy

There are no magic formulas for new-to-market exporters to enter the Japanese food service market.

Strategies will vary depending on the type of food product being introduced and the current competitive environment. However, there are some basic procedures that new-to-market exporters are recommended to follow when considering the Japanese food service market for the first time.

#### 1. Market Access

One of the fundamental first steps is to determine the market access for your products. In particular this means:

- Determine if your product category can currently be imported into Japan. Due to food safety concerns the Japanese government has become increasingly strict in allowing food products into Japan.
- Determine the import classification and tariff rate for your product. Some product categories such as those containing rice and dairy products are still highly protected by the Japanese government and face either prohibitively high tariff or quota barriers. It is important to know in advance if this is the case to prevent time and energy being dedicated to products that will not ultimately be price competitive. Freight forwarders and traders can be helpful in determining into what category your product falls.
- Determine whether your product meets Japanese regulations for food ingredients. If the product contains prohibited ingredients it will have to be reformulated before it can be imported into Japan. In some cases this may be difficult for U.S. exporters due to volume constraints or because the ingredients is a key element of the formulation. By ascertaining this in advance, U.S. exporters can save themselves much frustration later if it is difficult to reformulate. Sources for this information include:

<http://gain.fas.usda.gov/Pages/Default.aspx>, set your search to select “Country: Japan”, and “Categories: FAIRS

Freight forwarders can also be helpful in determining ingredient acceptability.

#### 2. Competitive Analysis

Once it is established that the product can be physically exported into Japan it is important to establish whether the product will be accepted from a competitive standpoint. This entails doing at least a preliminary analysis of the market to determine:

- What is the size of the opportunity for the type of product?
- Who are the key customer targets for the products?
- What is the current pricing of similar types of products?

- Can the product be cost effectively introduced?
- What are the key points of differentiation for the product compared to others?
- In what form and what kind of packaging is the competitor's product sold? Will customers expect the same?

To do this analysis it is helpful to take some combination of the following steps:

- Visit Japan to research in person the customers your type of product is sold to and see how the product is marketed.
- Utilize resources such as U.S. Foreign Agricultural Service and the local U.S. Agricultural Trade Office (ATO), State Regional Trade Groups (SRTG's) to obtain information about the market relevant to your product.
- Talk with freight forwarders and Japanese importers that handle your category of products.
- If possible, meet with potential customers to determine the kinds of needs they have and their current sources for your products.

### 3. Comparative Advantage of the products

To succeed in entering the Japanese market, it will be important to define the comparative advantage of your products versus the competition. Potential customers in Japan will have to perceive merit in using your products. The most common merits are:

- Offering price savings that will encourage the customer to give your product a trial.
- Offering a product or form of product that is new to the Japanese market. Every year there are new items that become popular in Japan that newly introduced unique foods. Recent examples include gourmet hamburgers, craft beers, fresh baked pretzel, smoothies, varietal honey, and sparkling wines, to name a few.
- Offering a more convenient form of the product that makes it easier for food service operators to use. This may include a smaller package and a new technology for packaging that make the product easier to prepare or a new form of the product that offers advantages in terms of labor cost, preparation time or efficiency.
- Offering a high quality product. Food service operators are always interested in products that offer better quality in one form or another. For example, it may be that your product has a demonstrably better track record than competitors on safety issues. These points of difference are worth promoting.

### 4. Receptivity of the Distribution Trade

It is important for new-to-market exporters to understand how the distribution system works and to identify potential partners or distributors. Such partners or distributors can offer invaluable advice on issues related to the product, its positioning, packaging, labeling, and custom clearance procedures. There are numerous ways to identify these partners. Some suggestions include:

- Ask the ATO and co-operator groups research market potential for your category of products.
- Attend trade shows such as Foodex, Super Market Trade Show and Food Service Industry Show to meet potential partners and obtain leads.
- If visiting Japan, discuss potential importers and distributors with freight forwarders, and if meeting any customers, enquire as to their preferred distribution channel. Many times customers will have their own preferred channels which they use for imported products.

It is important to obtain a reliable on-site partner or importer if you expect to do long term business in Japan and you do not plan to have your own in-country office. Some things to look for include:

- Does the partner/importer represent other imported products?
- Do they have a favorable reputation and financial background in the marketplace?
- Do they have the capability of communicating daily with you in English?
- Do they have an understanding of import procedures for your type of food product?

#### 5. Ability of Willingness to Meet Market Requirements

To be successful, it is very important for the new-to-market exporter to be willing to make changes to the product if necessary to meet market expectations in terms of service, quality, and price. This process working with Japanese clients will also polish your products quality and increase marketing competitiveness. Some basic suggestions include:

- Make sure you are willing to re-formulate the product if necessary to meet relevant Japanese Food Sanitation Laws and Regulations.
- Be willing to adjust the product or packaging to meet Japanese taste profiles and market expectations. For example, many Japanese operators prefer smaller package sizes due to lack of space to store items.
- Provide samples on a timely basis, but only upon request of a client/importer.
- Ensure that all documentation necessary to clear customs and quarantine procedures is provided in proper form. Japanese customs always request clarify food ingredients and processing outline to define import tariff rate.
- Reply to requests for information in a timely manner, within at least 48 hours, preferably less.
- Work closely with your partner or importer to prepare sales materials in Japanese.
- Be patient. Most Japanese food service operators will start with only a small order in order to test the potential supplier. This is especially true for new-to-market suppliers where the risk of

something going wrong (clearing customs, wrong documentation, wrong labeling, etc.) is the highest.

- Japanese food service operators are looking for suppliers who can provide consistent high quality product without defects or foreign materials, and who are reliable partners in terms of both delivery and safety issues. To help cement relations, it is strongly recommended to have face-to-face meetings at least once per year with your customers.

## B. Market Structure

### 1. Distribution

Most imported food products still pass through trading companies. The large general trading companies such as Mitsubishi, Itochu and Mitsui have many divisions specializing in a wide variety of imported food products, while small importers tend to specialize in a limited line of high value-added items. Trading companies function as legal importers of the products and serve a variety of functions including clearing customs, handling documentation, product testing, warehousing the product, and financing the inventory. In the past, trading companies would normally sell the product to first line wholesalers who in turn would sell to secondary wholesalers and even to third line distributors before the product finally reached the food service operator.

This pattern has changed in the past decade, particularly for chain food service customers who have substantial buying power. In order to reduce food costs, most large food service operators now take possession of the product or use designated distribution centers rather than use wholesalers. In addition, more food service operators import product directly, but the majority still use trading companies. One unique aspect of Japanese food distribution, even though food service operators developed import products directly, they contact out supply chain operation including import procedure, inventory and delivery to vendors. This is a growing trend toward outsourcing after the vendors could streamline their supply chains.

The deflationary environment of the past several years has intensified price competition among food service chains, and has accelerated the trend to eliminate middlemen.

In order to survive in an increasingly competitive marketplace, wholesalers are being forced to consolidate. Smaller wholesalers are either disappearing or being bought by larger ones. In order to add value, most large wholesalers own their own distribution trucks. Wholesalers now focus on carrying broad product lines that can efficiently service small food service operators or small chains with one-stop service. Some wholesalers are now also beginning to import products directly to reduce costs further.

Meanwhile, a written food safety assurance is now the standard in Japan. Food vendors, not manufacturers, are responsible for food safety even if they just deliver food products. Food suppliers are required to provide affidavit like assurance to chain restaurants. This causes food service operators to use several distributors in Japan to hedge risks.

The Cash & Carry trade, including wholesale clubs such as COSTCO and METRO are becoming popular as resource of food products among Japan's smaller size food service operators in order to

reduce food costs. The biggest is Gyomu Super (Business Supermarket), which has a total of 600 outlets throughout Japan. Additionally, regional food wholesalers have formed a strategic purchasing alliance and have opened cash & carry outlets in the region. These local outlets substitute historical food vendors for food service operators. Bulk packed meat, seafood, fresh produce, coffee, seasonings/condiments, wine, cheese, frozen vegetables and frozen bakeries are hot selling food products at these outlets.

See Appendix Chart 1: A diagram of the flow of product from the U.S. exporter

## 2. Segmentation

A discussion of some of the key trends in the HRI industry that U.S. exporters should be aware of:


### i. Price Competition

Consumers continued to tighten their belts. Saizeriya, the biggest Italian cuisine-family style restaurant with about 1020 outlets, introduced authentic Italian cuisine at reasonable prices. For instance, a 500 milliliter carafe of wine is sold at ¥370 (\$4.50) and a bowl of cheese risotto with meat sauce is sold at ¥299 (\$3.60). Saizeriya increased sales by 4.4% in 2011 and has become very popular company in the market.

In order to compete in the market, many other fast food and family restaurants took a similar approach by introducing low cost menus. However, the major beef bowl chains Yoshinoya, Zensho (“Sukiya” brand operator) and Matsuya, had competed by offering lower menu prices, have been outflanked by convenience stores’ mixed HMR merchandising.

### ii. Convenience Store Gain Power as Food Service Operator

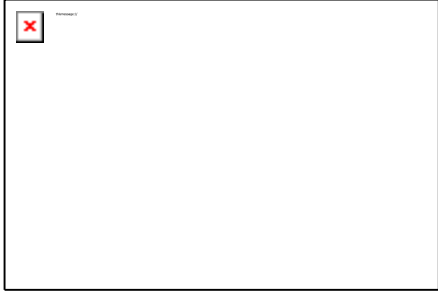

Convenience stores (CVS) keep evolving on food merchandising and became the biggest rivals for Japan’s beef-bowl chains. Like beef-bowl restaurants, convenience stores used to heavily rely on male customers. But over the years, they have succeeded in appealing to other customer segments, such as seniors and women, by offering meals in smaller portions and expanding their dessert lineups which customers can buy with their main meal at same store.

	<p>A variety of sweets, cakes, puddings and Japanese sweets, at a major convenience store, Seven-Eleven</p>
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### iii. New Tastes from America

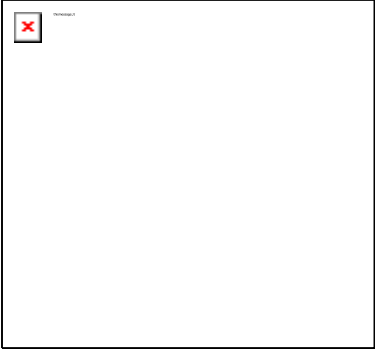
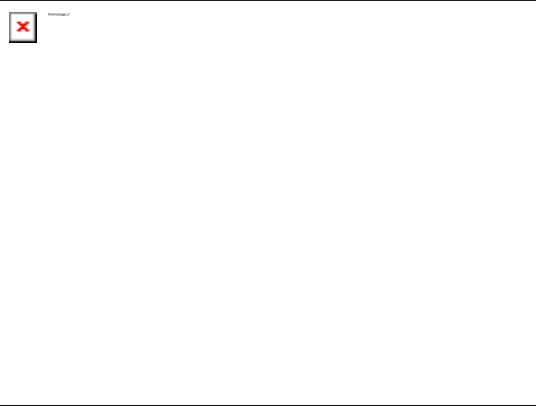
The variety of menus available in Japan continues to expand. Partly due to the large number of Japanese traveling abroad every year, foods from Europe, Asia, Australia and the Americas are

becoming increasingly popular. Japanese consumers are interested in trying new cuisines. Examples of this include Wetzel’s Pretzel, and Bubby’s New York, which have successfully launched new business formats in Japan. Cinnabon also came back to Japan in November 2012 from several year’s absence. The interest in new food ideas opens the door to food exporters to introduce new concepts in to the Japanese market.

			
<p>Ambassador John V. Roos was the guest of honor at the Grand Tokyo Opening of Cinnabon in November, 2012. Cinnabon returns to Tokyo after an absence of about four years.</p>		<p>The first Wetzel’s Pretzel shop in Tokyo, Japan</p>	

iv. Willing to Pay More for Healthy Eating at Breakfast Restaurants

Japanese consumers are increasingly interested in foods that are perceived as healthy. This trend takes a variety of forms. For example, family restaurant chains are including nutritional information on the menu, such as allergen content and calories per serving. Fast food restaurants and casual style restaurants strengthen breakfast menus and are introducing small size fruit-rich menus, such as cup salad and pancakes with fruits. MOS Burger offers burgers featuring in-season vegetables.

			
<p>Mos Burger’s Vegetable Burger comes with flied vegetables (carrots and gobo/burdock roots) and rice buns</p>		<p>Restaurant Bills and a line of people waiting for breakfast at an atmosphere with unconventional living, the restaurant is located in front of Shonan beach.</p>	

In addition, breakfast specialized restaurants have gained popularity. The consumers are willing to pay more for a quality breakfast. You often see long queues people waiting in front of refreshing charm restaurants, Bills from Australia, eggs and things from Hawaii, and newly joined Sarabeth’s Kitchen from New York. These are the restaurants recently have opened in Tokyo and adjacent cities where have environments as urban resort, and offer sophisticated authentic western style breakfast featuring their original ingredients from the region.



U.S. exporters that have products that fit into the “healthy” category will have opportunities as this

sector grows.

v. Seniors Hold Key to Spending Growth


Japan’s elderly population accounts for an expanding share of total consumer spending. According to Japanese news reports, households headed by people 60 or older spent more than 100 trillion yen in 2011, or about 40% of total consumer outlays. But this is a highly stratified consumer group marked by a small number of wealthy, but frugal, consumers.

In an effort to attract customers in this group, many food operators have introduced delivery service. McDonald’s is planning a home-delivery service in order to reach seniors and consumers who eat at home. Many chain restaurants, such as Yoshinoya, Royal Host, and others have renovated their restaurants to include bigger spaces, a number of big sofas or cotton-candy machines which cater to three generation families to enjoy the food and atmosphere. Seniors’ wallets tightly sealed but can be loosen for their grand children.

			
Steak Restaurant Ken, family style restaurant chain, offers events for children come with family to experience working at the restaurant kitchen.		A restaurant offering three generation families to make soba noodles together	

vi. Information Technology (IT) and B-class Gourmet

The IT evolution and prevalence of smart phones provide a dynamic to the local food service industry. One new trend is affectionately called “B-kyu-gurume (B-class gourmet)”. Japanese food service operators are striving to introduce new ideas and formats using these local food flavors or combinations. B-Class Gourmet is a new buzzword throughout Japan, meaning cheap, local food, served in local restaurants. Most of menus are everyday home meals, such as fried/soup noodles, deep fried cutlets, and sweets. B-class gourmet establishments have banded together and conduct Japan-wide events that vie with each other for the best B-class gourmet dish.


	The National B-Kyu Gourmet Contest winner, Fujinomiya Yakisoba (fried noodle) has uniquer texture than other fried noodles
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vii. Theme Park Restaurants

While overall Japanese consumer spending remains weak, the sales into leisure activities have been solid in 2012. Oriental Land Co., the operator of Tokyo Disney Resort saw the number of visitors in the April-September period hit a first-half record of 13.25 million, an increase of about 400,000 due to new attraction openings and special seasonal events.

Major theme parks in Japan feature U.S. history and culture including Tokyo Disney Land, Tokyo Disney Sea, and Universal Studios Japan in Osaka). Restaurants located in these theme parks often focus on foods from abroad and offer opportunities for U.S. exporters to test their products. The Disney Resort will celebrate its 30<sup>th</sup> anniversary in Tokyo in 2013 which may create a good new-to-market opportunity for U.S. food products.




	Tokyo Sky Tree town is composed of the tallest 634 meter tower, shopping and restaurant complex, an aquarium and office spaces. The town recognized as the city's new landmark
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Meantime, Tokyo's brand-new broadcasting tower "Skytree" is recognized as a new theme park with the "Solamachi" (Sky-town) shopping facility at the bottom of tower. Since its doors open on May 22, 2012, the entire Tokyo Skytree Town complex had hosted about 21 million visitors as of September 30, 2012. The Beer Pub – World Beer Museum, features U.S. craft and third country beers, recording the highest sales in the shopping complex in this summer.

Food buyers there are always looking for original and unique new products associated with the United States (for example, smoked turkey drumsticks and caramel popcorn are two popular items at Disneyland).

viii. HMR Prepared Foods

The area of sharpest growth in the food industry has been ready-to-eat products that can be purchased at retail shops. For example, many consumers purchase take-out lunches at convenience stores or similar retail shops that can be eaten quickly at the office or elsewhere. Vendors of these foods have steadily increased the freshness, quality, and variety of the foods they offer, providing a more attractive menu selection to consumers. U.S. exporters that provide the kinds of products that would fit lunchbox-type or HMR items should consider approaching assemblers of these types of foods.

		
<p>Nippon Restaurant Enterprise's, beautifully setout lunch boxes. An idea of authentic Japanese home meal and good for vegetarian, retail price at JPY1,155 (US\$14.43). This bento box is available at both Train station KIOSK and catering</p>	<p>SeikoMart, Hokkaido based major convenience store chain, with 1146 outlets offers "Hot Chef" which cooks lunch boxes in its stores and serves at fresh/hot temperature. Picture - pork cutlet and egg on top of rice at JPY550 (\$6.88)</p>	<p>Ito-Yokado's mixed lunch box sold at JPY 399 (\$4.98) good for big appetite consumers. This kind of reasonable price lunch boxes became poplar and attracted consumers away from QSR industry</p>

Seasonable and special lunch box development is common in the industry for special occasions. Frequent menu changes can become both an opportunity and constraint for imported food products.

ix. Food Safety

The importance of food safety has risen continuously in consumers' minds over the past decade due to a series of highly visible food scares and scandals. In particular, radioactive cesium exceeding the government-set permissible limit was detected in local dairy cows, beef, rice, and many leafy vegetables in Fukushima prefecture (and adjacent prefectures) after the nuclear accident in Fukushima. In addition, there have been a number of recent cases where domestic food service operators were responsible for food poisoning events.

As a result of these incidents, food service operators have become much more stringent in demanding strict procedures and systems for food safety from their suppliers. This includes detailed documentation from suppliers regarding QA systems and procedures at the production site, documentation relating to all ingredients used by the supplier including country of origin, and certification that the products adhere to Japanese regulatory requirements. Many chain operators will not consider buying from a new supplier until all the documentation is provided and an on-site inspection of the production facilities is conducted to verify the standards of the supplier.

In addition, food service operators have become much more demanding regarding quick and accurate responses to any product quality complaints to ensure steps are taken to prevent reoccurrence. Suppliers who do not measure up to the expectations of the food service operators for food safety are often replaced. We highly recommend having a quick response procedure in place to address food safety or product quality complaints to ensure a minimized disruption to trade.

x. GMO:

The first GMO Hawaiian papaya was launched and sold in Japan in December 2011 after a decade-long negotiation between the Japanese government and the U.S. government. This is significant as it is the first direct to consumer GMO product to be sold in Japan. The road to acceptance will be long, but eventually, we believe that GMO foods will enjoy a certain amount of acceptance. However, at this time, most food service operators in Japan normally require GMO free food products from suppliers and

most Japanese consumers do not accept the concept of GMO products.  
See GAIN report JA2520.

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/GMO%20Papaya%20Reaches%20Out%20T%20Japanese%20Consumers\\_Tokyo%20ATO\\_Japan\\_8-15-2012.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/GMO%20Papaya%20Reaches%20Out%20T%20Japanese%20Consumers_Tokyo%20ATO_Japan_8-15-2012.pdf)

### C. Sub Sector Profiles

A detailed discussion of the various sub-sectors of the HRI food service industry follow.

#### 1. Restaurant Sector

The restaurant sector is the largest of the HRI food service segments. Restaurant sales in 2010 were ¥12.7 trillion equivalent to \$144.2 billion. This represents 43.2% of total food service industry sales. The restaurant sector includes a wide variety of operators, ranging from American-style fast food chains to more traditional family owned single outlet restaurants.

The restaurant sector is divided four major sub-segments. A chart diagramming this segmentation follows:

Chart 10: Japanese Restaurant Sector - 2011

<b>Restaurant Sector      ¥12.2 Trill. (\$153 Bill.)</b>	General Restaurants (69.9%)	¥8.6 Trillion (\$106.9 Billion)
	Sushi Shops (10.5%)	¥1.3 Trillion (\$16.1 Billion)
	Noodle Shops (8.7%)	¥1.1 Trillion (\$13.3 Billion)
	Other (10.9%)	¥1.1 Trillion (\$16.6 Billion)

Source: Food Service Industry Research Institution

#### 2. General Restaurants

General restaurants used to be categorized by the Ministry of Economy, Trade & Industry (METI) into five categories: non-specialized restaurants, Japanese restaurants, Western Restaurants, Chinese Restaurants, and Meat/Other Asian until 2006. In 2009, the latest available census year, METI combined Western cuisine and other ethnic cuisine together as “other specialized” restaurants. The largest numbers of outlets are non-specialized restaurants, followed by specialized, Chinese and Japanese.

Chart 11: Number of Restaurant Outlets by Type of General Restaurant

Type of Restaurants	2004	2006	2009*	Change '06 to '09
Non-Specialized	73,628	73,298	63,427	-13.5%
Specialized: Western, Other Ethnic Cuisine & Meat	57,034	60,394	61,913	2.5%
Chinese	60,930	59,552	56,541	-5.1%
Japanese	41,963	42,572	50,763	19.2%
Total	233,555	235,816	232,644	-1.3%

Source: Ministry of Economy, Trade & Industry

ATO Japan has pursued newer statistics for this part, and obtained statistics published from a private research company which categorize a restaurant segment to five different categories to 1) Family Style Restaurant, 2) Western Style Restaurants including French, Italian and American, 3) Japanese Style Restaurants including noodle shops, sushi bars and almost of other Japanese foods, 4) Oriental Cuisine Restaurants including, Korean (barbecue), Chinese and Mongolian cuisine, and 5) Ethnic Cuisine Restaurants including, Mexican, Indian and South-East Asian cuisines. According to this statistics, number of outlets also shows decreasing transitions due to deflationary trend and related market rationalization. The trends in number of outlets and sales volume see below.

Chart 12: Number of Restaurants Outlets by Type of General Restaurants

Type of Restaurants	Total Number of Outlets					
	Year	2008	2009	2010	2011	*2012
Family Style Restaurants		11,755	11,416	11,376	11,281	11,365
Western Style Restaurant		10,190	10,105	9,995	9,925	9,890
Japanese Style Restaurant		116,815	116,495	112,335	108,905	107,315
Oriental Restaurant		37,912	37,755	37,615	36,830	36,780
Ethnic Restaurant		1,870	1,855	1,830	1,825	1,825
Total		178,542	177,626	173,151	168,766	167,175

Source: Fuji Keizai – Food Service Industry Marketing Handbook 2012

\* 2012: Estimate

Chart 13: Sales Amount by Type of General Restaurants

Type of Restaurants	Sales Amount in JP ¥ Million					
	Year	2008	2009	2010	2011	*2012
Family Style Restaurants		1,497.4	1,405.8	1,382.8	1,360.2	1,369.4
Western Style Restaurant		775.8	757.3	747.3	732.8	726.1
Japanese Style Restaurant		3,016.6	2,917.4	2,791.4	2,713.4	2,666.7
Oriental Restaurant		1,349.0	1,321.8	1,316.9	1,272.8	1,288.4
Ethnic Restaurant		120.4	115.8	111.2	109.4	108.5
Total		6,759.2	6,518.1	6,349.6	6,188.6	6,159.1

Source: Fuji Keizai – Food Service Industry Marketing Handbook 2012

\* 2012: Estimate

The category with the greatest opportunity for most U.S. food exporters are restaurants. The trend has been driven by diversified Western, Japanese and ethnic fusion cuisines. These restaurants are composed of casual and family style restaurants which serve mainly Western dishes as well as restaurants specializing in specific menus such as steak, Hamburg (meat loaf) and pizza/pasta. As a result the menu relies heavily on imported food products to provide authenticity as well as taste. Large family restaurants chains such as Saizeriya (Italian style), Skylark, Royal Host, Denny's, Coco's, Jonathans, and Joyful, are major users of imported U.S. foods including items such as beef, pork, frozen potatoes and vegetables.

Up-scale American-style concepts have taken hold in Japanese market in last five years, such as the Oregon Bar & Grill, Ruth's Chris Steak House, Union Square Cafe, Lawry's, and Wolfgang Puck pizza. A popular sector are casual steak restaurant chains that offer free salad, side dishes and cooked rice come with all in one main meal, steak and/or hamburger, at reasonable price (\$10 to \$20). This is an example of authentic American style dishes have been modified and popularized in the industry. These

companies use imported foods on their menu extensively.

French restaurants have traditionally been popular in Japan and more recently Italian restaurants have also surged in popularity. Mexican restaurants, which are still few in number, are slowly growing in popularity and provide opportunities for U.S. exporters for items such as tortillas, frozen guacamole, and related Tex-Mex foods. Food service chains that come to Japan from the U.S. are perfect targets for U.S. exporters who also sell those food product concepts in the U.S.

### 3. Sushi Restaurants

Japan is famous for sushi, which is increasingly popular around the world. Japan is the world's largest importer of seafood products and a substantial portion ends up in sushi form. This includes tuna, scallops, sea urchin, salmon, salmon eggs, yellow fin, crab and shrimp. Most seafood imports pass through wholesale markets such as Tsukiji Fish Market in Tokyo before being delivered to sushi shops throughout Japan. The U.S. is a major exporter of salmon, salmon eggs, and sea urchin used by sushi operators.

The value of the sushi food service segment was estimated at ¥1.3 trillion in 2011, equal to \$16.1 billion. In 2009, the most recent census year, a total of 28,865 sushi restaurants were reported, significantly declined from the prior census (32,327 sushi restaurants in 2006).

### 4. Noodle Shops

Noodles, served either hot or cold, are one of the most popular foods eaten outside of the home in Japan. Japanese noodles come in two forms. Soba, which are noodles made from buckwheat, and Udon, noodles made from wheat.

In 2011, the value of the soba/udon food service segment was estimated at ¥1.1 trillion or \$13.5 billion. There were estimated 33,005 soba/udon shops in 2009, many of them were used to be single proprietorship shops but chain operators have increased their number of outlets, typically at shopping malls and roadside that have replaced from regional business to chain operation.

Noodles consumed outside of the home are frequently ranked as the most popular lunch item by consumers because they are both quick to serve and eat, and quite inexpensive. A typical soba set will cost only ¥300 - ¥500. It is common for the Japanese 'salaryman' to down a bowl of noodles within minutes during lunch.



Opportunities for U.S. exporters are principally the ingredients used as toppings for noodles. This includes items such as chicken products, seasoned pork slices and sweet corn kernels. Since many noodle shops are individual outlets rather than large chains, U.S. exporters' strategy for selling toppings must rely on major food service wholesalers who supply the shops.

### 5. Other Restaurant Types

The Food Service Research Center categorizes a number of special food service concepts into its "All

Other” category. These include:

- Hamburger Chains
- Fried Chicken Restaurants
- Pizza Shops
- Donuts and Ice Cream Shops
- Beef bowl
- Curry & Rice
- Okonomiyaki

A brief description of those that are of particular interest to the U.S. exporter follows:

i. Hamburger Chains

The number one food service operator in Japan is McDonalds Japan, which opened in 1972 and now has about 3,300 units nationwide. The hamburger fast food concept has been one of the most visible and successful segments over the past 40 years. However, McDonald’s fell in its seven-year sales growth streak, down 1.4 % to ¥535.1 billion in 2011 as the company closed number of loss making stores. Meantime, McDonald Japan succeeded in attracting customers by increasing the number of new type outlets that have up-scale eat-in counters, and kept continuous growth on a same store basis in sales in 2011. A list of the top five hamburger chains includes:

Chart 14: Major Hamburger Chains

Hamburger Chains	Number of Outlets		
	Name of Company	2011	2012
McDonald’s Japan	3,302	3,298	-0.1
Mos Foods	1,391	1,411	1.4
Lotteria	465	453	-2.6
Freshness Burger	178	168	-5.6
First Kitchen	130	130	0.0

Source: Fuji Keizai – Food Service Industry Marketing Handbook 2012

By providing reasonably priced, fast and clean service, the hamburger chain concept has captured a significant share of the youth and family dining out budget.

Because the hamburger chain menu uses concepts originating in the U.S., they are ideal targets for U.S. exporters. For example, McDonald’s Japan has long imported many of its food items from the U.S. including frozen potatoes, pork patties, fresh tomato, and cut lettuce. Hamburger chain sales declined in 2003 as a result of BSE concerns in Japan but are steadily returning to better than previous levels.

ii. Pizza Chains

The pizza industry has been lead by delivery service companies and has been a bright spot of growth in Japan over the past decade. Fuelled by the launch of Domino’s Pizza in the late 1980’s, pizza delivery chains have successfully carved out a niche in the food service market in Japan with their promise of rapid delivery. A partial list of some of the top pizza chains includes:

Chart 15: Major Pizza Chains

Pizza Restaurants (delivery)	Number of Outlets
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Name of Company	2011	2012	% Increase from 2011
Pizza La (Four Seeds Corp.)	542	544	0.4
Pizza Hut (Kentucky Fried Chicken Japan)	359	365	1.7
Dominos	205	225	9.8
Strawberry Cones	203	210	3.4
Chicago Pizza Factory	108	112	3.7
Pizza California (PCS Inc.)	99	100	1.0

Source: Fuji Keizai – Food Service Industry Marketing Handbook 2012

Pizza shops offer a wide variety of choices, many tailored specifically to Japan. In addition to traditional toppings such as pepperoni and sausage, pizzas in Japan feature toppings such as shrimp, squid, scallop, prosciutto, corn, garlic, potatoes and pineapple. Pizza industry has driven a shift of shredded cheese supply from Oceania region to the U.S. due to better value of U.S. products. In addition to sourcing toppings from abroad, pizza chains also source tomato sauce either in chunked and/or pasted from abroad.

### iii. Fried Chicken Chains

KFC Japan dominates the fried chicken restaurant market with over 1,520 units nationwide. KFC Japan's has changed policy from promoting domestic Japanese chicken to diversify food products resource abroad a few years ago, the opportunities for U.S. exporters were increased as non-chicken menu items such as fried potatoes and corn kernels for salad have expanded.

## 6. Drinking Establishments

The drinking establishment sector had sales worth ¥4.7 trillion in 2011, equivalent to \$58.9 billion. This represented 16.3% of the total food service industry sales. The sector is comprised of four segments: pub dining (Izakaya)/beer pub, coffee/tea house, high end Japanese restaurants (Ryotei) and bar/nightclub food service.

Chart 16: Japan's Drinking Establishments Sector

Sector	2007	2008	2009	2010	2012		Change '10 to '11	
	Unit	¥ Bil.	¥ Bil.	¥ Bil.	¥ Bil.	\$ Bil.		%
Total		5,216	4,988	4,756	4,666	4,707	58.9	0.88%
Pub Dining		1,101	1,061	1,012	995	994	12.4	-0.14%
Coffee/Tea Shop		1,057	1,036	1,005	1,011	1,018	12.7	0.71%
Roytei		366	346	328	318	322	4.0	1.32%
Night Club		2,692	2,546	2,412	2,343	2,373	29.7	1.28%

Source: Food Service Industry Research Institute

### i. Pub Dining

Pub dining restaurants (Izakaya) are Japan's unique drinking pubs where a variety of home-style meals are served with various kinds of alcohol beverages including beer, sake, Shochu (Japanese white sprits), wine and cocktails. The market share of chain operations have increased more than individually-owned businesses since 2008. The industry has rationalized its procurement and distribution system due to competition within the sector. Most of chain restaurants use imported food products and beverages in moderation while using regional food products that are popular among consumers.

At pub dining restaurants, consumers order various cooked meals and side dishes together at the same table and share these dishes with colleagues, friends and family. Chain operations are popular because of their reasonable menu pricing and range in food items. Pub dining chain restaurants usually have central buying systems and are looking for new menu ideas. Pub dining operators also modify overseas recipes for their own style and taste. The industry uses fresh oyster, frozen vegetables, canned tomato sauce, canned olive oil, and further processed foods, such as frozen soups, and frozen seasoned pork and beef that are imported from the United States.

A list of major pub dining chains and Coffee/Tea Room Chains in Japan appears below:

Chart 17: Major Pub Dining chains

Rank 2011	Company	Sales (\$ Mil.)	Brand Name, # of Outlets	Location	Purchasing Agents
1	Monterozza	1,844.8	Sirokiya, Uotami, Wara-wara, 1,890	Nation wide	Wholesalers
2	Watami Food Service	964.7	Watami, 636	Nation wide	Trade firms, wholesalers
3	Daisho	919.2	Shoya, 795	Eastern Japan	Wholesalers
4	Colowaide East Japan	749.6	Amata-ro, Hokkaido, Hiikiya, 529	Eastern Japan	Trade firms, wholesalers
5	Chimney	663.9	Hananomai/Sakanaya-dojou, Kodawariyama, 566	Eastern Japan	Trade firms, wholeslers
6	Dynac	408.6	Hibiki/Toridori, Sakura, Unoya, 247	Eastern Japan	Trade firms, wholesalers
7	Yoro-no-taki	386.1	Yoro-no-taki, 726	Nation wide	Trade firms, wholesalers, Direct import
8	Marche	304.5	Suikoden/Hakkenden, 627	Nation wide	Trade firms, wholesalers
9	Sanko Marketing Food	303.9	Toho Kenbunroku, Tsuki no shizuku, Kin no Kura, 172	Eastern Japan	Trade firms, wholesalers
10	Sapporo Lion	302.6	Ginza Lion, Kakoiya, Agura, Ten, 193	Eastern Japan	Trade firms, wholesalers

Source: Nikkei Marketing Journal, May 2012

## ii. Coffee/Tea Shops

The coffee/tea shop sector is very popular throughout Japan. The sector is grouped into two subsectors, one is a new style self-service coffee/tea shops that are mainly located in major cities and another is conventional style full service coffee/tea rooms that tend to be regional. Total coffee/tea shop sales have shown a downward trend. However, the category of new style coffee shops has increased in sales and number of outlets from ¥294.9 billion and 3,860 outlets in 2007 to ¥320.3 billion and 4,270 outlets (estimates) in 2012. Most of these American style self-service coffee shops serve western style side dishes and finger foods, such as wrap sandwich, cookies, muffins and bagels that have been imported from the United States and other foreign countries.

Meanwhile, the traditional coffee/tea shops have decreased in both sales and number of outlets from ¥1,049.5 billion and 72,000 outlets in 2007 to ¥958.5 billion and 66,950 outlets (estimates) in 2012.



Most of them do not have a central buying system and buy food products including coffee beans from wholesalers and/or cash & carry stores.

A list of major new style coffee/tea shop chains in Japan in 2011 appears below:

Chart 18: Major Coffee/Tea Room Chains

Rank 2012	Company Name (Brand)	Sales (\$ mil.)	# Units	Location	Purchasing Agents
1	Starbucks Coffee Japan, Ltd.	1,348	970	Nation wide	Trade firms, Wholeslers, Direct Import
2	Doutor Coffee Co., Ltd.	1,100	1,280	Nation wide	Same as above
3	Tully's Coffee Japan	384	405	Nation wide	Same as above
4	Komeda Coffee	374	460	Central Japan	Same as above
5	Saint Marc Café Holdings	269	300	Nation wide	Same as above
6	Pront Corporation	226	220	Nation wide	Same as above
7	Italian Tomato Café Jr.	163	189	Eastern Japan	Same as above
8	UCC Foodservice Systems Inc.	166	383	Wester Japan	Same as above
9	Chat Noir (Veloce)	141	183	Wester Japan	Same as above
10	Pokka Create (Café de Crie)	91	160	Wester Japan	Same as above

Source: Nikkei Marketing Journal, May 2012

## 7. Hotel Food Service Sector

The Hotel/Inn sector had food sales worth ¥2.6 trillion in 2011, equivalent to US\$32.5 billion. This represents 9.0% of the total food service industry sales.

Even though new hotel openings by upscale hotel groups such as Conrad, Peninsula, Grand Hyatt and Ritz-Carlton boosted industry sales in 2007, the hotel food business has shown a downward trend in last decade. Most recent statistics in 2012 showed slight sales recovery of the hotel food business in banquet and reception business from the previous year.

First class hotels have a large variety of on-site restaurants to choose from including Western, Chinese and Japanese restaurants. Hotels are major users of almost all kinds of foods, particularly imported products. Because they have a large professional chef staff, hotels tend to create many dishes from scratch rather than relying on prepared or further processed foods.

Decision making on what kinds of items to put on the menu is usually made by the executive chefs of each hotel. Because they cater to international travelers, many major hotels regularly feature promotions of different country's cuisines. For the same reason, they are historically more receptive to imported food. A list of major hotel chains in Japan in 2012 appears below:

Chart 19: Major Hotel Chains in 2012

Company (Name of Hotel)	Sales \$ Million	# of Outlets
Seibu HD (Prince Hotel)	854.1	45

JAL Hotels (Nikko)	397.6	35
Hankyu Hanshin Dai-ichi Hotel Group	378.9	49
Hotel Okura & Resourts	371.4	16
New Otani Group	350.1	17
Rihga Royal Hotel Group	360.1	12
Tokyu Hotels	340.1	48
Marriotto International (Ritz-Carlton)	312.6	8
Imperial Hotel	308.9	3
Resort Trust (Xiv, Sun Resort)	312.6	41
Nihon Hotel	237.6	44

Source: Fuji Keizai – Food Service Industry Marketing Handbook 2012

Japan also has many small *Ryokan* or Traditional Japanese style inns, which primarily serve holiday travelers. The menu tends to be limited and features traditional Japanese dishes. *Ryokans* are a less inviting target for U.S. exporters due to their focus on traditional Japanese foods.

#### 8. Institutional Food Service

The institutional food service sector had sales worth ¥3.28 trillion in 2011, equivalent to \$41.1 billion. This represented 11.4% of the total food service industry sales. Institutional food sales slightly decreased in 2011 from the previous year. The institutional food service sector was one of the very few sectors that showed upward trend until 2010.

The institutional food service sector is comprised of four segments: business/office cafeterias, school lunch programs, hospitals, and welfare facilities. This might be one segment to see growth as Japan’s aging demographic intensifies. Many food service companies are gearing up to service what is called the “silver” market.



A new trend is food to promote health. Tanita is a manufacturer of bathroom scales that can measure stored body fat. The company runs a famous employee cafeteria which has reduced most of the employees’ weight. Tanita has published a series of well known recipe books that featured restricted total calorie and tasty menus which have become very popular among consumers. In response to the readers who want to taste those menus at the cafeteria, Tanita opened a restaurant, Tanita Shokudo, in the center of Tokyo in January 2012. The restaurant has an image of an

employee cafeteria and is serving same menus that the company cooks for their employees.

Sales by segment in 2011 were as follows:

Chart 20: Institutional Food Service Sales by Sub-Sectors

	2011 Sales		
	¥ billion	\$ billion	Share
Business/Office Cafeterias	1,713.9	19.5	7.2%
School Lunch	496.7	5.6	2.1%

Hospitals	798.0	9.1	3.4%
Welfare Facilities	267.8	3.0	1.2%
Total:	3,276.4	37.2	13.9%

Source: Food Service Industry Research Center

Chart 21: Ranking Institutional Food Service Chains

Rank 2011	Company Name	Sales	# Units	Location	Principal Purchasing Agents
		(\$ mil.)			
1	Nissin Healthcare Food Service Co.,	2,211	4,639	Tokyo	Wholesalers
2	AIM Service	1,268	1,324	Tokyo	Wholesalers
3	Green House	1,045	1,672	Tokyo	Wholesalers
4	Seiyo Food-Compass Group, Inc.	928	*1,750	Tokyo	Wholesalers
5	Fuji-Sangyo Co., Ltd.	817	1973	Tokyo	Wholesalers
6	Uokuni Sohonsa	750	2,550	Osaka	Wholesalers
7	Leoc Co., Ltd.	681	*1,859	Tokyo	Wholesalers
8	MEFOSU Inc.	576	2,219	Tokyo	Wholesalers
9	Nikkoku Trust Ltd.	357	980	Tokyo	Wholesalers
10	Nihon General Food	337	626	Aichi	Wholesalers

Source: Nikkei Marketing Journal, May 2012

Chart 22: Top 50 Restaurant Company Profile

Rank 2011	Company	Sales (\$ Mil.)	Outlet Name, Type, & # of Outlets	Location	Purchasing Agents
1	McDonald's Japan	6,691.1	McDonald's, QSR hamburger, 3,298	Nation wide	Trade firms, wholesalers, Direct import
2	Skylark	3,068.9	Skylark/Gusto/ Yumean/Barmiyan, FSR, 2,266	Nation wide	Trade firms, wholesalers, Direct import
3	Nisshin Health Food Service	2,210.8	Office/hospital meals, Institutional, 4,639	Nation wide	Trade firms, wholesalers
4	Zensho	2,026.4	Sukiya, Coco's, QSR-beef bowl & various, 1783	Nation wide	Trade firms, wholesalers, Direct import
5	Plenus	2,014.0	Hotto Motto, take out meals, 2,758	Western Japan	Trade firms, wholesalers
6	Monterozza	1,844.8	Sirokiya/Uotami/Wara-wara, pub dinning, 1,890	Nation wide	Wholesalers
7	Kentucky Fried Chicken Japan	1,750.4	KFC/Pizza hut, QSR-delivery meals, 1529	Nation wide	Trade firms, wholesalers
8	Duskin	1,434.6	Mr. Donuts, QSR, 1,377	Nation wide	Trade firms, wholesalers
9	AIM Service	1,268.0	Institutional, 1,324	Eastern Japan	Wholesalers
10	Moss Food Service	1,250.5	Moss Burger, QSR, 1,411	Nation wide	Trade firms, wholesalers
11	Akindo Sushiro	1,248.2	Akindo, Sushi-ro, QSR-Sushi, 319	Western Japan	Trade firms, wholesalers, Direct import

12	Reins International	1,239.6	Gyukaku, casual stake house, 1,230	Nation wide	Trade firms, wholesalers, Direct import
13	Saizeriya	1,193.1	Italian FSR/Saizeriya, 882	Nation wide	Trade firms, wholesalers, Direct import
14	Honke Kamadoya	1,163.2	Kamadoya, take out meals, 1,896	Nation wide	Trade firms, wholesalers
15	Doutor Coffee	1,162.3	Doutor, coffee shop, 1,421	Nation wide	Trade firms, wholesalers, Direct import
16	Osho Food Service	1,138.8	Gyoza no Osho, Ramen shops, 622	Nation wide	Trade firms, wholesalers
17	Yoshinoya Holdings	1,125.5	Yoshino-ya, Hanamaru Udon, 1189	Nation wide	Trade firms, Direct import
18	Green House	1,045.4	Institutional, home meal replacement, 1672	Nation wide	Trade firms, wholesalers
19	Kappa Create	1,023.5	Kappa Zushi, QSR-Sushi, 388	Eastern Japan	Trade firms, wholesalers
20	Seven and I Foodservice	967.9	Denny's, Famil, Popo, FSR/QSR, 858	Nation wide	Trade firms, wholesalers
21	Watami Food Service	964.8	Watami, pub dining, 636	Nation wide	Trade firms, wholesalers
22	Matsuya Foods	944.3	Matsu-ya, QSR-beef bowl, 953	Nation wide	Trade firms, wholesalers, Direct import
23	Kura Corporation	930.7	Kura-zushi, QSR, 285	Western Japan	Trade firms, wholesalers
24	Seiyo Food Compass	927.9	Han/CASA/Itoguruma, pub dining/family style/Institutional, 800	Eastern Japan	Trade firms, wholesalers, Direct import
25	Daisho	757.8	Shoya, pub dining, 795	Eastern Japan	Wholesalers
26	Ichiban-ya	196.8	Ichiban-ya, QSR-curry shop, 1,212	Nation wide	Trade firms, wholesalers
27	Fujisangyo	817.4	Institutional, 1973	Eastern Japan	Wholesalers
28	Coco's Japan	801.1	Coco's, FSR, 559	Eastern Japan	Trade firms, wholesalers
29	Joyful	791.4	Joyful, FSR, 707	Western Japan	Wholesalers
30	Toridoll	761.4	Marukame Seimen, QSR-noodle, 629	Nation wide	Wholesalers
31	Four Seeds	755.7	Pizza La, pizza delivery, 908	Nation wide	Trade firms, wholesalers, Direct import
32	Uokuni Sohonsha	752.8	Office cafeteria-Institutional, 2,550	Western Japan	Wholesalers
33	Colowide East Japan	749.6	Amata-ro, WPJ, pub dinings, 529	Eastern Japan	Trade firms, wholesalers

34	LEOC	680.7	Institutional,	Nation wide	Trade firms, Wholesalers
35	Aleph	276.6	Bikkuri Donkey, FSR, 313	Eastern Japan	Trade firms, wholesalers
36	Nippon Restaurant Enterprise	668.2	American Diner B&G /Ajisai-tei, multi-FS/ restaurants/bento, 478	Eastern Japan	Trade firms, wholesalers, Direct import
37	Chimney	663.9	Hananomai/Sakanayadojo, pub dinings, 566	Eastern Japan	Trade firms, wholesalers
38	Rock Field	579.5	RF1, take out meals, 219	Central Japan	Trade firms, wholesalers
39	Mefos	575.9	Institutional, 2219	Eastern Japan	Trade firms, wholesalers
40	Origin Toshu	568.9	Origin Bento, take out meals, 580	Eastern Japan	Trade firms, wholesalers
41	Kisoji	545.5	Kisoji, Japanese style restaurants, 169	Nation wide	Trade firms, wholesalers
42	Fujio Food Systems	542.0	Maido Okini, Japanese style rst, 644	Western Japan	Wholesalers
43	B-R Thirty-One Ice Cream	534.2	Thirty-One Ice Cream, QSR-ice cream, 1087	Nation wide	Trade firms, wholesalers
44	Atom	497.7	Steak Miya, FSR/QSR, 387	Eastern Japan	Trade firms, wholesalers
45	Koraku-en	461.9	Korakuen, noodle shops, 401	Eastern Japan	Trade firms, wholesalers, Direct import
46	Royal	458.3	Royal Host, Cowboy Family, Shakey's, FSR, 753	Nation wide	Trade firms, wholesalers, Direct import
47	Create Restaurants	425.3	Hinazushi, QSR/FSR/pub dinings, 352	Eastern Japan	Trade firms, wholesalers
48	Dynac	408.6	Hibiki/Toridori, pub dinings/restaurants, 247	Eastern Japan	Trade firms, wholesalers
49	Green House Foods	406.4	Saboten, Shahoden HMR/restaurant, 552	Nation wide	Trade firms, wholesalers
50	Nakau	395.1	Nakau, Japanese QSR, 490	Nation wide	Trade firms, wholesalers

Source: Nikkei Marketing Journal, May 2012

### III. POST CONTACT AND FURTHER INFORMATION

*Reports from Japan's ATOs, in addition to those from the Agricultural Affairs Office in Japan, frequently updated and can be found latest using the links provided or by searching from the FAS Japan Reports website at:*

<http://www.fas.usda.gov/scripts/attacherep/default.asp>

In Japan, the Foreign Agricultural Service has two Agricultural Trade Offices located in Japan.

## A. Post Contacts

### ***In Tokyo:***

ATO Tokyo  
1-10-5 Akasaka  
Minato-ku, Tokyo 107-8420  
email: ATOTokyo@fas.usda.gov  
Tel: 81 (3\*) 3224-5115  
Fax: 81 (3\*) 3582-6429

### ***In Osaka-Kobe:***

ATO Osaka  
American Consulate General  
11-5, Nishitenma 2-chome  
Kita-ku, Osaka 530-8543  
email: ATOOsaka@fas.usda.gov  
Tel: 81 (6\*) 6315-5904  
Fax: 81 (6\*) 6315-5906

*\*Please add a zero before this number if dialing from within Japan.*

The following homepages and reports can provide useful information to interested exporters.

## B. Agricultural Trade Office's homepages

<http://www.usdajapan.org/> (FAS Japan, English)  
<http://www.us-ato.jp/> (ATO Japan, B2B web site, English & Japanese)  
<http://www.myfood.jp/> (ATO Tokyo, Japanese)

## C. Exporters Guides

*Reports from Japan's ATOs, in addition to those from the Agricultural Affairs Office in Japan, can be found using the links provided or by searching from the FAS Japan Reports website at:*

<http://www.fas.usda.gov/scriptsw/attacherep/default.asp>

\*Please visit the Foreign Agricultural Service's website at <http://www.fas.usda.gov/> and then continue on to the above Reports Website for the available updated versions of the following reports:

### *Japan Exporters Guide*

This is comprehensive document from the ATOs in Japan containing information useful to exporters and U.S. suppliers, considering the Japan market for the first time. These reports are frequently updated and can be found latest using the links provided or by searching from the FAS Japan Reports website at:

<http://www.fas.usda.gov/scriptsw/attacherep/default.asp>. Search for Japan, Exporter Guide

#### D. Regulations & Standards

USDA/FAS GAIN Report, “Japan Food and Agricultural Import Regulations and Standards (FAIRS Country Report)”, provide a packaged information about food import regulations and standards.

*Reports from Japan’s ATOs, in addition to those from the Agricultural Affairs Office in Japan, frequently updated and can be found new one using the links provided or by searching from the FAS Japan Reports website at:*

<http://www.fas.usda.gov/scriptsw/attacherep/default.asp>

#### E. Market Trends

*Market Trends Reports from Japan’s ATOs, in addition to those from the Agricultural Affairs Office in Japan, frequently updated and can be found latest using the links provided or by searching from the FAS Japan Reports website at:*

<http://www.fas.usda.gov/scriptsw/attacherep/default.asp>

##### *Food Processing Sector Study*

A detailed look at Japan's food processing sector by ATO Osaka, identifying key trends and leading Japanese manufacturers.

GAIN Report JA2527

##### *Retail Food Sector Report*

This is a comprehensive report by the ATOs in Japan on the Japanese retail food market detailing the structure, size and areas of growth of this sector, its key industry players and prospects for various U.S. products.

GAIN Report JA2522

##### *Japan Wine Market Annual Report from ATO Tokyo*

GAIN Report JA2506:

##### *Fresh Tomato for Food Service Industry 2011*

GAIN Report JA1507