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Japan

Retail Foods

Retail Food Sector Report

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Report Highlights:

The events of March 11, 2011 affected the operations of the Japanese Retail Food industry, but even with the resulting consumer restraint, the Japanese market experienced growth in 2011. Convenience stores were first responders in the Northeast portion of Japan and developed mobile stores. Supermarkets continued to expand with AEON and Ito Yokado looking to develop city-style stores. Department stores unveiled new and renovated locations to reach customers. Overall market consolidation, mergers, and alliances continued in 2011. The

growth of smartphone users for making purchases increased greatly in 2011, and is expected to remain a growing force for Japanese consumers in the years to come.

Post:
Tokyo ATO

Executive Summary:

SECTION I: JAPAN RETAIL FOOD SUMMARY

A. Overview

In 2011 the Japanese retail market had to cope with the March 11, 2011 shock and then compensate for the various after effects. Initially consumption spiked with the mass purchases of emergency items such as bottled water and batteries, followed by corresponding declines in purchases like party items and non-essential goods. The economy shifted from a rocky footing onto a more stable pathway by summer and consumer behavior normalized.

The post March 11 consumer adapted to new preferences in reaction to the events, changing retail market demands significantly. First, Japanese consumers began eating out less, while having meals at home more. This has led to an increase in the Home Meal Replacement (HMR) sector, as well as the frozen food sector. Second, Japanese consumers are more attentive to products with longer shelf life, in case of future emergency situations.

The Japanese retail market is dominated by two demographics: Young career seeking individuals in single person households, and the fast growing elderly population referred to as Generation M.

Within this report, unless stated otherwise, the following average annual exchange rates were used:

Yearly Average	2009	2010	2011
JPY¥ per USD\$	94.57	88.81	80.84

Source: http://www.murc.jp/fx/year_average.php

B. Market Breakdown

Total retail sales including food, beverages, general merchandise, fabrics, apparel, and accessories in Japan amounted to \$832.6 billion in 2011. Of this figure the total food and beverage retail sales amount was \$527.4 billion. Total retail sales have increased each year since 2008. In 2007, there were total retail sales of \$614.6 billion and food & beverages sales of \$370.6 billion. Below are the total sales figures:

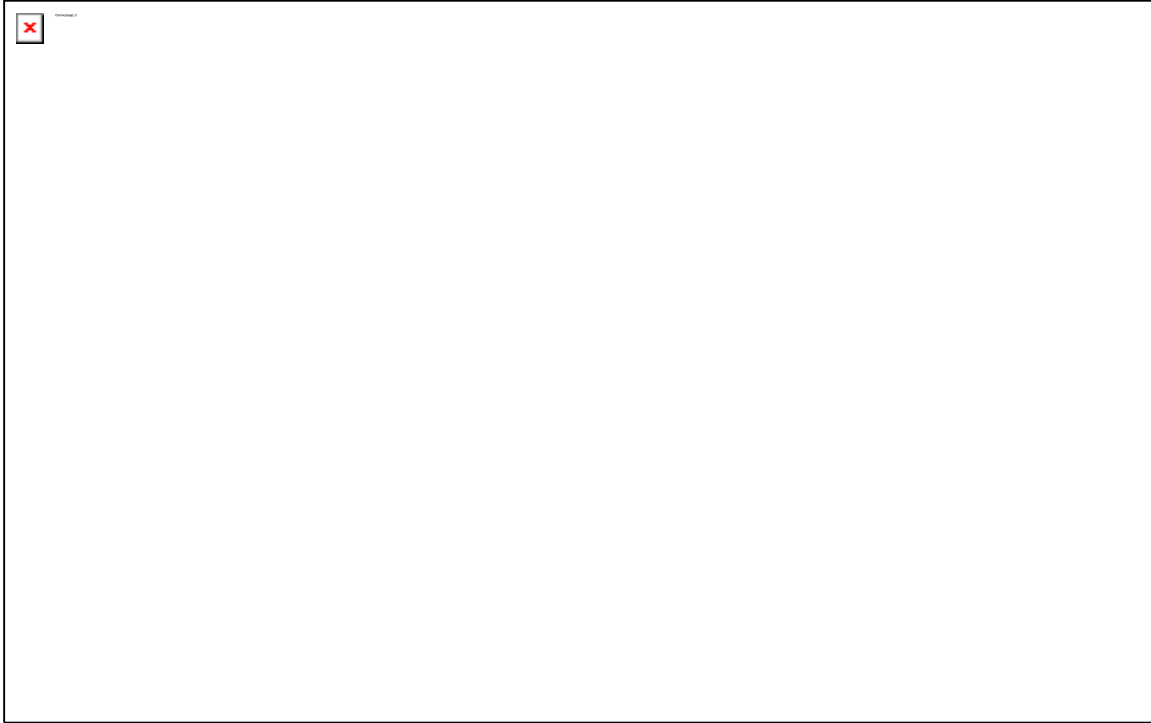
FIGURE 1: Total Retail Sales (Million USD\$)

Year	Total	Food & Beverage	General Merchandise	Fabrics, Apparel, & Accessories
2009	701,766	437,940	155,123	108,703
2010	752,573	472,638	160,095	119,840
2011	832,608	527,375	171,747	133,486

Source: http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

The following chart displays the segments of the retail market.

FIGURE 2: Bar Graph of Total Retail Sales (Million USD\$)



Source: http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

C. Food Sales in 2011

The Japanese retail food industry in 2011 experienced growth across all three categories of large and conventional supermarkets, department stores, and convenience stores (FIGURE 3). As stated previously the resilience of the industry and its ability to quickly adapt to the market changes along with economic growth in the latter half of the year helped spur on the retail food industry growth.

Food sales increased from 2009 to 2011 for the three retail categories, according to the Current Survey of Commerce conducted by The Ministry of Economic, Trade and Industry (METI). A consolidated explanation of the Current Survey of Commerce is in the table and full details can be found at the METI website.

FIGURE 3: Food Retail Sales of Three Categories for 2009-2011 (Million USD\$)

Year	Large-scale Supermarket & Conventional Supermarkets	Department Stores	Convenience Store
2009	84,919	21,579	53,687
2010	92,567	22,174	58,119
2011	104,626	23,945	66,226

SOURCE: METI Part 3-1, 4-1 http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

D. Food and Beverage Sales

While food sales grew across all segments, overall sales growth was observed in most regions of Japan as many households spent more time and money purchasing food items to consume at home rather than spending money at restaurants in 2011. Restaurant spending did increase in 2011, but food purchases for home consumption were the larger portion of spending.

Six out of eight prefectures showed positive sale growth rates from 2009 to 2011; even Northeast Japan (Tohoku) showed a 0.5% increase despite the March 11 disaster. Also, in each prefecture, the number of large-scale retail stores increased. Japanese real economic growth rate for 2011 was estimated at minus 0.7% by EuroStat and minus 0.4% by the Bank of Japan. The negative growth rate was expected due to the hardships that had to be overcome, but it is important to keep in mind that even in an environment of stagnant sales; geographic markets in Japan are quite sizable - often exceeding that of entire countries. For example, the Kyushu Fukuoka region alone has a GDP that exceeds that of Norway or Taiwan (Kyushu Bureau of Economy, Trade and Industry, 2011).

FIGURE 4: Regional Sales and Population

	Year	Overall Food & Beverage Sales (JPY Mil)	Number of Establishments	2010 Population	Food Purchasing Power per Household (Yen)	Sales Growth '09-'11
Hokkaido	2009	554,309	283	5,506,419	681,430	4.08%
	2010	563,196	313			
	2011	577,914	316			
Miyagi (Tohoku)	2009	244,972	135	2,348,165	747,818	0.47%
	2010	241,704	139			
	2011	246,119	138			
Tokyo (Kanto)	2009	1,260,387	346	13,159,388	803,107	-0.82%
	2010	1,260,243	360			
	2011	1,250,190	368			
Aichi (Chubu)	2009	718,871	302	7,410,719	*	1.89%
	2010	726,741	313			
	2011	732,697	318			
Osaka (Kinki)	2009	836,003	294	8,865,245	800,702	-1.14%
	2010	817,535	297			
	2011	826,593	305			
Hiroshima (Chugoku)	2009	202,869	91	2,860,750	709,465	5.17%
	2010	208,919	100			
	2011	213,940	101			
Ehime (Shikoku)	2009	110,981	70	1,431,493	862,357	4.54%
	2010	112,734	72			
	2011	116,254	73			
Fukuoka (Kyushu)	2009	264,166	144	5,071,968	793,021	8.29%
	2010	269,333	161			
	2011	288,035	170			

Source: http://www.meti.go.jp/english/statistics/tyo/syoudou_nenpo/index.html Part 3-Table 2

2010 Census MIC Statistics

*Data not currently available from Japan Ministry of Internal Affairs and Communications (MIC)

SECTION II: RETAIL MARKET INDUSTRY

A. Establishment Trends

In 2011, supermarkets and convenience stores continued to be the primary distribution channel for food in Japan. The market has been relatively stable over the last 3 years with the only notable trend that department

stores are losing ground slightly, but this corresponds with the decline of department store sales in general. Regional and national supermarkets are vying for market share, and in order to compete against AEON and Ito Yokado, regional supermarkets such as ARCS in Hokkaido and Universe in Northern Japan are merging. The breakdown of Japan Retail Food market data for 2011 is:

FIGURE 5: Japan Retail Food Market Percentages for 2011

Year	Large-scale Supermarket & Conventional Supermarkets	Department Stores	Convenience Store
2009	53.0%	13.5%	33.5%
2010	53.6%	12.8%	33.6%
2011	53.7%	12.3%	34.0%

SOURCE: Figure 2.1 & METI Part 3-1, 4-1

http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

B. Large Scale and Conventional Supermarkets

Supermarkets in Japan represent the largest provider of food and within the supermarket sector the top 5 companies (AEON, Ito Yokado, Uny, Daiei, and Life Corp.) represent 65% of all sales. The two main players, AEON & Ito Yokado, account for 42.5% of all supermarket sales. These companies are the driving force behind innovation and expansion.

1. Outlets

The supermarket business in Japan is a mature market which is at full saturation levels for standard large-scale and conventional supermarkets. As in 2010, the status quo changed very little. A few supermarkets closed, but others emerged in Western Japan. The greatest change to how supermarket retailers perceived their business model was in response to the disaster in Northeast Japan and how best to provide the support. This can be seen in the development of city-style stores.

2. City-style Stores

One key finding from March 11 was that convenience stores were better suited to quickly re-establish their stores and support the local consumers in an emergency situation. Convenience stores were the first ones to deliver products using small vans and to open their stores in affected areas. Taking the lessons learned to compete with convenience stores, large supermarkets are developing small “City-style stores”. Store sizes measure about 1800 square yards of floor space. Tokyo and other cities are major targets for these city-style stores.

3. Target Market

As the Japanese market continues to mature, supermarket giants AEON and Ito Yokado have strengthened their networks to reach single adults and Generation M. The older generation especially has wealth to spend and AEON is targeting this group by changing store hours to open 2 hours early. In addition to opening early, AEON has special promotions related to these early bird specials – resulting in more foot traffic especially among the elderly population.

4. Price Competition

Price competition has become more intense and is a major feature of the supermarket business in Japan. Supermarkets are reducing costs and improving their infrastructures through restructuring and closing unprofitable stores in an effort to improve efficiency. The companies which have succeeded to reduce management cost and to prevent losses have regained their profit. One strategy has been the creation of

Private Brands (PB), such as AEON TopValu or Ito Yokado store brands. Seiyu, acquired in full by Wal-Mart in 2008, has finally leveraged their 10 years of experience and vast global network to more efficiently bring products to the Japanese market, such as U.S. beef for 30% less than standard outlets. Notably, on June 13, 2012, Wal-Mart announced plans to slash prices on 1400 products by the end of the year.

5. Company Highlights

The following table highlights the Japanese supermarket industry food sales, and the percentage component those sales represent. The general trend has been greater food sales in 2011.

FIGURE 6: Top Supermarkets by Total Sales in 2011

Rank*	Company Name	Total (USD Mil.)	Food (USD Mil.)	Ratio of Food Sales	Number of Outlets	Location of HQ & Stores
1	AEON Retail	27,214	13,751	51%	500	Chiba
2	Ito-Yokado	16,505	8,022	49%	173	Tokyo
3	Uny	9,280	6,174	67%	227	Aichi
4	Daiei	8,127	4,985	61%	211	Hyogo
5	Life Corp.	6,040	4,960	82%	224	Tokyo
6	Izumi	5,821	1,942	33%	80	Hiroshima
7	York Benimaru	4,242	3,179	75%	176	Fukushima
8	Arcs	4,307	3,768	87%	253	Sapporo
9	Heiwado	3,868	2,591	67%	131	Shiga
10	Maruetsu	3,910	3,653	93%	262	Tokyo
11	Fuji	3,645	1,537	42%	96	Ehime
12	Izumiya	3,671	2,171	59%	86	Osaka
13	Okuwa	3,152	2,375	75%	156	Wakayama
14	MV West	3,084	2,839	92%	161	Hiroshima
15	AEON Kyushu	2,893	1,349	47%	104	Fukuoka

Source: FY2011 Annual Statements (various) & Tokei Geppou May 2012 pp 79 & 81

*Original rankings based on Total Operating Revenue

6. Specialty

Specialty supermarkets are important for export products because these stores carry products with higher prices. Here is a list and some background information for these specialty supermarkets.

Kinokuniya: First self-service supermarket in Japan.

<http://www.e-kinokuniya.com/kinokuniya2.pdf>

Meidi-ya: First supermarket to specialize in imported products.

<http://www.meidi-ya.co.jp/en/>

Seijo Ishii: Combination of specialty products and convenience store.

<http://www.seijoishii.co.jp/> (J)

Dean & DeLuca: Premium product and prices. Emphasis on delicatessen.

<http://www.deandeluca.co.jp/>

Queens Isetan: Special shelf space for imported products.

<http://www.queens.jp/pc.html> (J)

Kaldi Coffee: Specializes in premium imported products.

<http://www.kaldi.co.jp/english/>

C. Convenience Stores (CVS)

In 2011 convenience stores were proactive and were one of the first retailers to move into the Northeast Japan area. The mobility of convenience store operations, smaller size, and less SKUs allowed convenience stores to play a vital role in supplying the region. One way convenience stores helped after the disaster was by releasing “Mobile Convenience Stores”. These are small 3 ton trucks which can hold up to 300 items of *bento* boxes, rice balls, drinks, and snacks. These trucks were used in areas where stores were destroyed or where evacuees had trouble accessing food.

1. Outlets

Convenience stores in 2011 continued strategies to develop and maintain efficient networks. Convenience stores for the top 7 operators in 2010 numbered 41,663 and in 2011 the total number of convenience stores in Japan increased by 13.4% to 48,139 according to the Nikkei fiscal 2011 convenience store survey. This expansion and competitive trend will continue in 2012 as the top 5 convenience stores plan on opening over 3,700 new stores.

2. Company Highlights

The following table (Figure 7) summarizes the top convenience stores in Japan 2011. Food sales grew again in 2011 by an additional \$8 billion and three of the top 4 convenience store chains broke their records for operating profit. Profits were boosted by female and elderly customers buying fresh food, desserts, and ready to eat meals in the aftermath of the quake. Seven & i* became the first Japanese retailer to achieve more than ¥3 trillion (\$37.1 billion) in annual sales. With the earnings in 2011, convenience stores are set to once again expand outlets and network capabilities in 2012.

*Note: Seven & i is the parent company of Ito Yokado, Seven Eleven Japan, and others.

FIGURE 7: Top Convenient Stores in 2011 (Sales & Outlets)

Rank	Company Name	Total (USD Mil.)	Number of Outlets	Location
1	Seven Eleven	26,337	14005	Nationwide
2	Lawson	17,870	9065	Nationwide
3	Family Mart	10,897	8164	Nationwide
4	Circle K Sunkus	6,144	5084	Nationwide
5	Mini Stop	2,727	2046	Tokyo/Nagoya
6	Three F	789	639	Tokyo Area
7	Poplar	654	700	Nationwide

D. Department Stores

Since the 1980s Japanese department stores have faced steeper competition from the growth of supermarkets, malls, and convenience stores. Department stores generally have a variety of shops and services, with the basement level having a grocery or eatery shops.

1. Outlets

Significant restructuring among major department stores has increased. For example, the major department store Sogo filed for bankruptcy and merged with Seibu Department Store, which is now Millennium Retailing Co. The second largest department store, Isetan, merged with the third largest department store Mitsukoshi. The Kansai region's large department store Hankyu merged with its strongest competitor, Hanshin Department Store. They now operate under the name, H2O Retailing. Daimaru Department Store merged with Matsuzakaya and established J Front Retailing.

Various retailers renovated and reopened stores; Isetan Mitsukoshi updated their stores and are targeting consumers with better promotions; H2O Retailing has been renovating a flagship store that will reopen in November.

2. Sales

In 2011 department store food sales amounted to \$23.9 billion, representing 12.3% of the Retail Food market in Japan. Over the last decade total department store sales of non-food products have declined. However, food sales at department stores have grown because of premium products, location, and the use of the *depachika*.

3. Depachika

Depachika means the basement floor of the department store where fresh food halls are traditionally located. Traditionally, *depachika* was a quiet retail food location. This changed when shops introduced high-quality HMR, creating a new niche food market in Japan. In addition, famous restaurants became tenants and lent their brand names to popularize *depachika*. The *depachika* phenomenon turned the basement floor into an attractive place and a means of bringing customers to department stores.

Department stores are often attached to large train stations (such as the newly opened Shibuya Hikarie owned and operated by Tokyu Corp). Because of the proximity to the stations, pedestrians can easily access *depachika* eateries; Tokyu Corp's Hikarie location is estimated to attract 14 million visitors a year, with 200 shops, and many of the eateries staying open until 4am on weekends.

4. Pricing, Quality and Premium

Department stores usually carry imported branded products, but they are typically in low quantities. Many of the items are packaged as take-and-go products due to the proximity to stations and the premium nature of the products for use as gifts.

5. Company Highlights

Listed below are the top 10 department stores and their food sales for Japan in 2011.

FIGURE 8: Top Department Stores by Total Sales in 2011

Rank*	Company Name	Total (USD Mil.)	Food (USD Mil.)	Ratio of Food Sales	Number of Outlets
1	Takashimaya	9,436	2,793	30%	20
2	Sogo & Seibu	10,118	2,112	21%	26

3	J Front	9,116	2,035	22%	22
4	Mitsukoshi	7,890	1,831	23%	15
5	Marui	4,118	653	16%	26
6	H2O Retailing	4,643	1,545	33%	15
7	Kintetsu	3,332	1,140	34%	12
8	Tokyu	2,425		**	11
9	Tobu	2,499		**	4
10	Odakyu	1,838		**	3

Source: 2012年食品マーケティング使覧 (2012 Shokuhin Marketing), FY2011 Annual Statements (various)

*Original rankings based on Total Operating Revenue

**Note: not all department stores list food as separate sales figures

Section III: Consumer Trends and Changes

A. Historical

Japanese consumers are a sophisticated clientele with tastes and preferences instilled via cultural, societal, and environmental drivers. If you are considering developing products or searching for products to export to Japan, please consider these following historical characteristics of the Japanese market that still have relevance today.

1. Demographics

An abundance of literature abounds on the topic of Japanese demographics and rightly so – Japan’s baby boom generation of 1947-1949 is now retiring. The roughly 6.6 million citizens are expanding the silver demographic market. Japan has the fastest growing elderly population (over 65) or Generation M, in the world. In 2010, Generation M represents 23% of the entire population in Japan. By the year 2020, it is estimated to increase to 29% and then 36% by the year 2040. Of course the total population is estimated to decline from 127 million in 2010 to approximately 105 million in 2040. The Japanese National Institute of Population and Social Security Research estimate the demographic change as:

FIGURE 5: Forecast for Japanese Demographics

Year	Population (Thousand) by Age Group			
	Total	0-14	15-64	65+
2005	127,768	17,585	84,422	25,761
2010	127,176	16,479	81,285	29,412
2015	125,430	14,841	76,807	33,781
2020	122,735	13,201	73,635	35,899
2025	119,270	11,956	70,960	36,354
2030	115,224	11,150	67,404	36,670
2035	110,679	10,512	62,919	37,249
2040	105,695	9,833	57,335	38,527
2045	100,443	9,036	53,000	38,407
2050	95,152	8,214	49,297	37,641
2055	89,930	7,516	45,951	36,463

Source: National Institute of Population and Social Security Research

http://www.ipss.go.jp/webj-ad/WebJournal.files/population/2008_4/05population.pdf

FIGURE 6: Forecast Population Percentage by Age Group



Source: National Institute of Population and Social Security Research

http://www.ipss.go.jp/webj-ad/WebJournal.files/population/2008_4/05population.pdf

2. Seasons and Holidays

Japan prides itself for the four distinct seasons that they experience – and this is reflected in the changes in consumer purchasing habits and patterns of gift giving throughout the year. A quick breakdown for reference is:

Month	Sales, Promotions, Events, and Holidays
<i>Spring – March</i>	<ul style="list-style-type: none"> • High School & University Graduation events • White Day (another Valentine’s Day) • Sakura (cherry blossom) travel • Fiscal Year begins – job rotation
April	<ul style="list-style-type: none"> • New school year begin events • Entrance ceremony for companies – sales, promotions
May	<ul style="list-style-type: none"> • Mother’s Day • Golden Week – holiday sales, travel, events
<i>Summer – June/July</i>	<ul style="list-style-type: none"> • Father’s Day • Ochu-gen, summer gift giving
August	<ul style="list-style-type: none"> • Obon holiday promotions
<i>Fall – September</i>	<ul style="list-style-type: none"> • Respect for the Aged day
October/November	<ul style="list-style-type: none"> • Oseibo, gift giving
<i>Winter – December</i>	<ul style="list-style-type: none"> • Christmas sales • New Years & end of year sales campaigns
January	<ul style="list-style-type: none"> • Coming of Age holiday • Setsubun promotions
February	<ul style="list-style-type: none"> • Valentine’s Day • Fiscal Year ending promotions by companies

Christmas, New Years, and winter sales are very common. For Valentine’s Day, Japan has embraced the purchasing of gifts and notably chocolate, but only women give presents to men. Men then give presents to

women on White Day in March. As reported by The Japan Times, Bloomberg, and by Isetan Mitsukoshi Holdings Ltd. in Tokyo, Valentine’s Day accounts for over 20% of total annual chocolate sales in Japan. For exporting to Japan or bringing a product to the retail market, please keep in mind the Japanese holidays, promotions, and seasonal factors.

3. Preferences

Japanese consumers have some general historic preferences that one should consider. Japan is a nation that prefers convenience, quality, and single-serving sizes. Returning to the latter item, an estimated 3.23 million people commute into Tokyo every day according to Tokyo Metropolitan government. The commute is mostly done via train and then on foot. Therefore convenience and accessibility are highly valued by Japanese consumers.

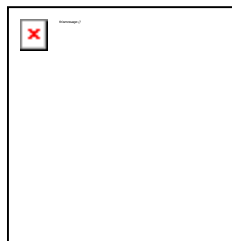
B. Recent Trends

There are recent trends of burgeoning growth for Private Brands, Healthy Foods, Eco-friendly or Energy saving foods (typically as frozen foods), market consolidation for greater efficiency, and new retail ideas to meet new demands. Energy efficient foods (frozen foods - *bento dashi*), prepared foods (Home Meal Replacements – HMR), and desserts have all seen a strong market growth. Healthy or Functional foods continue to be important.

1. Healthy or Functional Foods

The demand for healthy and nutritionally balanced foods has increased with interest strongest among those aged 50 and above and adult women.

The healthy food category (or functional foods) has been growing steadily since the mid 1990’s. In Japan, functional food can be divided into “Foods for Specific Health Use,” or FOSHU, and health enhanced food. Among the numerous attributes that serve to distinguish one from the other, the most important is that FOSHU products require government approval, while health-enhanced food products do not. What motivates companies to pursue the FOSHU designation, rather than avoid the often-lengthy approval process, is that they can affix the FOSHU seal on the product in question should it meet the Minister of Health Labor and Welfare (MHLW) criteria.



FOSHU Seal, Source: MHLW

In 2005 the Japanese government eased regulations, blurring the line between the two categories, but receiving the FOSHU logo on a product still requires approval. For comparison a product in the U.S. that has health claims such as *a diet that consists of more fiber may reduce cholesterol* must receive approval from the FDA – the same applies to the FOSHU logo from the MHLW in Japan.

2. Home Meal Replacements (HMR)

“Prepared Meals Sold at Retail Stores” are increasing in sales in every retail area. The foods are ready-to eat, Home Meal Replacement (HMR) type products (*obento* lunch boxes at the office are one example). It is estimated that 22% of all meals in Japan are HMR.

The growth in HMR is driven by the increase of Japanese households eating at home and two demographic

sectors. 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 buy groceries. As a result, many get their daily meals from the local convenience stores. Likewise, young professionals who live alone or with roommates often don't cook and almost exclusively eat out.

The expanding retail presence of "delicatessen" in supermarkets, department stores, and convenience stores attests to the popularity of the HMR market. Frozen foods have also gained a large presence in the HMR market. "Thaw and Serve *Bento*" are lunches that are bought frozen in the morning, and by lunchtime are thawed and ready to eat. At home frozen noodle dishes, *okonomiyaki* (a savory Japanese style pancake or pizza), and cooked rice dishes are meals that can be brought home frozen, reheated, and consumed.

3. Private Brands (PB)

The majority of major food retailers now feature their own private brands. Studies conclude that PB products will continue to gain more shelf space. A 2009 survey by the Japan Finance Corporation found that 67.8% of all food manufacturers produce PB products and that 23.2% of those companies would like to increase the number of PB products; and 9.8% of all manufacturers wished to introduce PB products to their line-up. In another survey performed in 2010 on consumer response toward PB products; the survey found that even if the economy improves consumers will continue to purchase PB products.

4. Frozen Foods

Frozen food sales in Japan have steadily increased since 2010. This rise drastically increased in 2011 after March 11, because Japanese consumers are dining in and valuing products with longer shelf-lives which can be stored in case of future disasters. Many versions of home meal replacement frozen foods are trending in Japan now with prepared foods composing 56.8% of the frozen food market. Some examples of these foods include cooked rice dishes, Asian and Western noodles, breads, and fish.

Overall, Japanese frozen food imports have experienced a large increase in 2011. Total frozen food imports to Japan rose 17.6% from the previous year. Of those, frozen vegetable imports increased to ¥120.1 billion (\$1.49 billion), a 7.6% increase from 2010.

5. Sweets

Sweets are an important section of convenience stores. Recently they have been marketing their dessert brands through advertising campaigns with the goal of distinguishing themselves from the competition. Lawson's series' called "Uchi Café Sweets" (Our Café Sweets) is famous for their roll cakes and cookies. Family Mart's "Sweets +" has shown positive sales since 2007. Finally, Circle K Sunkus' brand "Cherie Dolce" released a crème tiramisu that is very popular.

Male consumers are increasingly consuming more sweets. To prepare for this, new sweets products targeted at men are being released. In 2010 Family Mart introduced "Ore no suitsu" or "Manly sweets" with the emphasis on being a masculine product. These sweets are labeled with blue text instead of pink, and are larger than the female targeted products.

6. Consumption

Japan is a nation fueled by consumption, a key component to economic recovery. In 2010 the World Bank reported consumption in Japan as 58.58% of GDP and 23% of household expenditures in Japan go towards food according to Japanese Ministry of Internal Affairs and Communications 2009 Survey. There are two main consumer groups in Japan: Generation M and Youth.

Generation M Consumption

Just like in the United States with the Baby Boom Generation retiring, Japanese of Generation M (roughly 6.6 million citizens currently) are expanding the silver demographic market. Last year Japanese age 60+ spent \$1.18 trillion (¥101 trillion) and these silver spenders account for 44% of the consumer spending in Japan. Of the \$1.18 trillion, 70% was from the 65+ age bracket.

The retail response has come in the form of delivery services, mobile operations, expanded internet shopping, smart phone market integration, specific oriented promotions, and products developed with Generation M in mind. Seniors will continue to play an integral role in the Japanese market and projections show the 60+ age category will expand worldwide from 800 million in 2010 to 2 billion in 2050. Researchers expect spending by seniors worldwide to double to \$15 trillion (the 2011 size of the U.S. GDP) and see Japan's rich aging consumers as a dynamic testing ground.

Youth Consumption

With such a large senior market, the youth in Japan are often overlooked. But recent indicators show consumption spending increases among Japanese youth. The Ministry of Internal Affairs and Communication showed a December 2011 improvement of 12.5% in spending within the lower income bracket where 20 year olds tend to be. A survey of businessmen in their 20s showed a return to the 2009 level of average spending of \$42.50 (¥3600) on nights out. Finally, there is a growing trend in groups –youth (20s-30s) whom prefer going out as a group of three; restaurants, movies, events.

7. Market Consolidation

Market consolidation highlights from 2011 were:

On February 18, 2011 Mitsubishi wholesale company was established with the merger of Mitsubishi Shokuhin (food), RyoShoku, Meidi-ya, San-Esu, and Food Service Network. Ryoshoku was one of the strongest beverage distributors and was the second largest wholesale company after Kokubu. Meidi-ya ranked eighth and Food Service Network ranked ninth. The press release states the reason for the merger was to protect the safety of food quality and food supply by creating a new wholesale distribution model capable of adapting to changing consumer demands and diversification and to withstand long term deflation.

On October 21, 2011, Universe supermarkets, headquartered in Aomori, the most northern prefecture on mainland Japan joined ARCS, creating a group that includes 47 stores located in three northern prefectures, (Aomori prefecture 30 stores, Iwate prefecture 16 stores, and Akita prefecture 1 store) adding \$1.3 billion in value to the ARCS group.

Recently AEON acquired a 50% stake for ¥1 (\$0.01) in Tesco Japan as Tesco is leaving the Japanese market after 9 years of trying to gain a foothold. Tesco Japan currently operates 117 small supermarkets in Tokyo and surrounding areas and hired Goldman Sachs last year for advice on the sale of its stores. These stores are larger than convenience stores, but smaller than typical supermarkets and fill the new “city-style” stores that AEON has been looking to expand into.

Section IV: Road Map for Market Entry

A. Food Distribution System in Japan

There are no magic formulas for new-to market exporters to enter the Japanese retail food market. Strategies will vary depending on the type of food product being introduced and the current competitive environment. However, looking into the differences in distribution systems and structure can also help you formulate a feasible market entry into Japan, for example:

1. Overall, traditional entry points via importers are beginning to make way for other more diverse avenues. For

example, even within one food retail organization (i.e., large-scale supermarket, regional supermarket chain, convenience store chain, etc.), there may be several routes for procurement – including importers, wholesalers, etc.

2. Large-scale supermarkets still rely primarily on importers and wholesalers. Most are engaged to some degree in developing and maintaining private labels, which they tend to outsource to food processors.

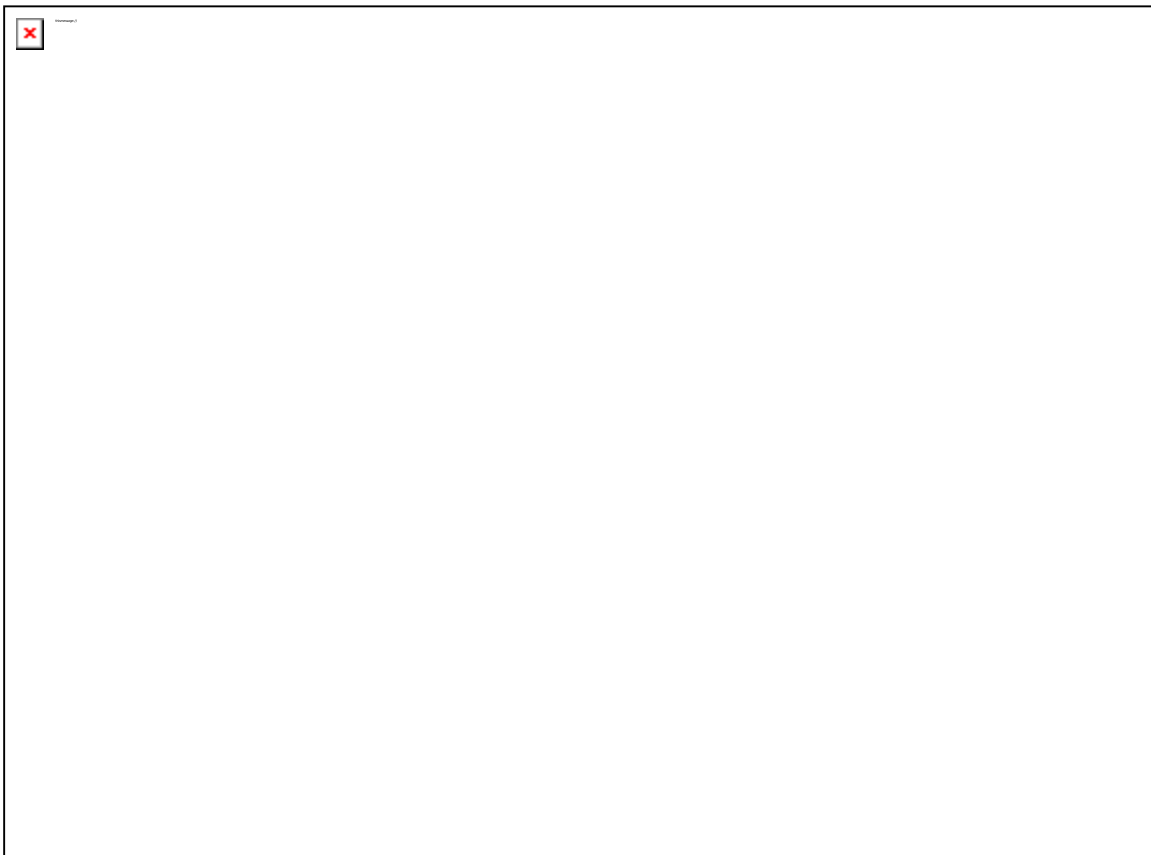
3. Conventional supermarkets tend to depend more on wholesalers. They usually procure from a number of regional/local and national wholesalers who buy imported food products from trading houses and importers. Wholesalers and big trading houses are generally interested in handling high volume products, not niche-oriented products.

B. Supermarket Store Structure

Giant nationwide supermarket chains including AEON and Ito Yokado mainly purchase their foods through three channels:

1. Direct from the importers
2. Direct from the manufacturers and processors
3. Wholesalers and distributors

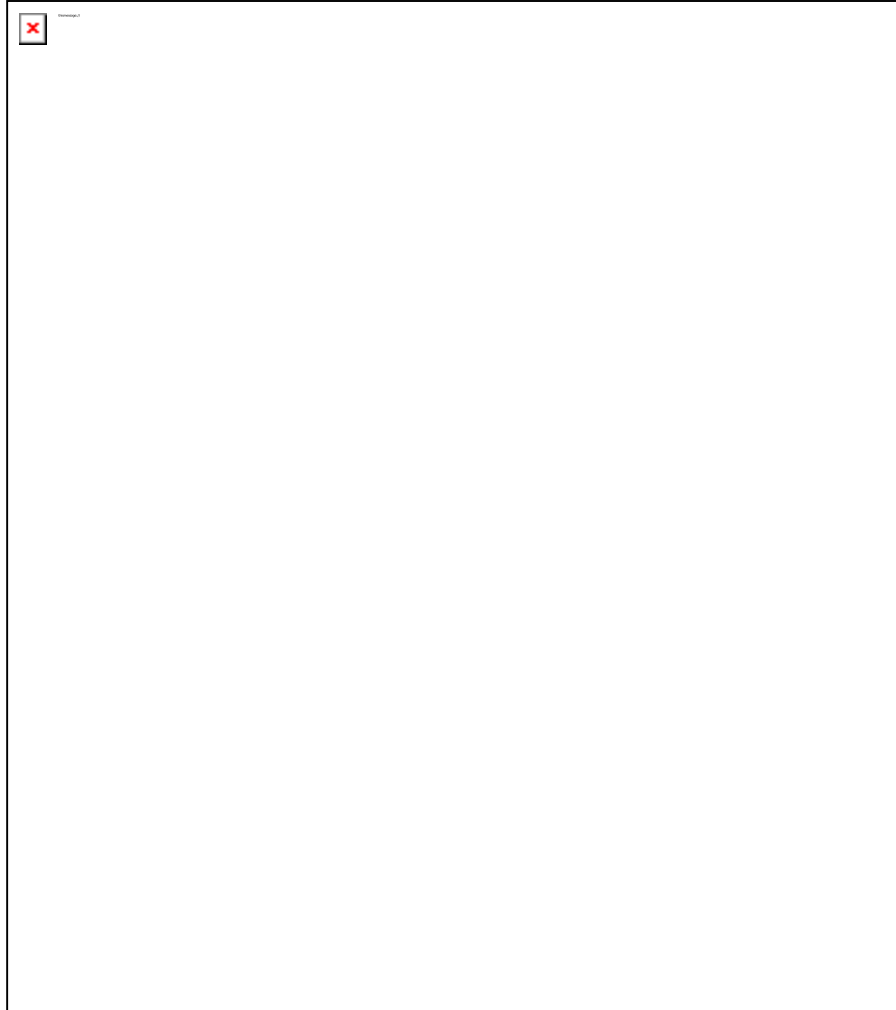
Conventional supermarkets purchase through similar distribution channels, although they mainly purchase from wholesalers, whereas the major national chains rely more on direct routes.



Source: ATO

C. Department Store Structure

Food items at department stores are procured almost entirely through wholesalers and tenant merchants. Imported products reaching department store “tenant merchant” shelves is dependent upon the wholesaler purchasing these products from importers or trading companies. Tenant merchant companies mainly purchase the ingredients for their products from wholesalers and then manufacture the products to be sold.



Source: ATO

D. Convenience Store Structure

Convenience store chains utilize trading companies and wholesalers, depending on the type of product. Due to limited space, convenience stores can only handle a few brands per category. Product performance is reviewed continuously, and slow moving products are replaced quickly, ensuring the highest turnover possible. Their management systems present the most significant challenges for imported packaged processed foods, since they require that U.S. exporters:

1. Modify product taste/specifications to fit the tastes of Japanese consumers
2. Shorten delivery time to ensure freshness
3. Update and introduce new products frequently

E. Specialty and Other Stores

The remainder of the Japanese Retail Food industry is made up of a small, but energetic group of stores ranging the gamut of co-ops, traditional shops, specialty shops, and the online marketplace.

1. Co-Ops and Voluntary Chains

These use a variety of sources, including importers, wholesalers and direct importing. Serving voluntary chains, there are several major joint procurement organizations: CGC Japan, Nichiryu, All Japan Supermarket Association (AJS) and Consumer Cooperatives (Co-ops). Their major role is to develop private brand products with Japanese food processors and overseas sources to sell to member retailers. Some of these organizations directly import non-branded food products that are “volume” oriented in nature.

2. Traditional Stores

These are Mom & Pop or “one category” stores that typically depend on wholesalers. Penetration of imported foods into these shops and stores is relatively low.

3. Specialty Shops

These shops (i.e., foreign foods, discount foods, etc.) also primarily depend on wholesalers. Selected coffee shop chains, discount stores and natural food specialty stores with chain operations may be worth development for U.S. food exporters.

4. Online

Finally, online sales including TV, mail order offers yet another possible channel that U.S. exporters can consider for retail food distribution. Majority of the sales are still non foods, but food and beverage sales are increasingly being purchased online.

The Japan Direct Marketing Association in August 2011 reported that total online sales in Japan of ¥4.67 trillion (\$57.8 billion). Over the past decade consumer purchases online have doubled and the annual growth from 2010 to 2011 was 8.4%. This illustrates the power of the internet for consumers in Japan. In a July 2012 White Paper released by the Communications Ministry, smartphones will play a huge role in the future market. Smartphones are expected to generate ¥7.2 trillion (\$89.1 billion) in economic revenue and currently represent 10% of the domestic e-market.

Rakuten, a virtual mall powerhouse in Japan, reported that roughly 10% of all transactions are received via smartphones. And for the Jan-June 2012 period enjoyed double-digit growth and consolidated operating profit of ¥36 billion (\$450 million), making it the 4th largest retailer in all of Japan. The report attributes the gain to sustained strength in online food and drink purchases. Food and groceries are also cheaper on the Amazon site; Cup of Noodles by Nissin are ¥126 when purchasing a pack of 20 in comparison to the AEON Koto store of ¥138. Amazon Japan allows e-tailers to sell commerce through their portal site more efficiently and with greater profit margins and Amazon Japan generates an estimated ¥500 billion (\$5.86 billion) in yearly sales. By using warehouses and IT-based inventory control these retailers are increasing the share of food purchases online by Japanese consumers.

It is worth noting that as Japan continues to embrace e-money, point cards, smart phone technology (NFC payment systems, store apps, and web based purchasing), and discount or promotions accessed via the web – this market will continue to grow. AEON Shop is an online store that continues to expand; KFC has launched an online only store with 20-30 internet only products, and Dominos Japan smart phone app allows you to deliver to a specific GPS location (such as a gathering at a park). Seven & i plans on consolidating its subsidiaries (Ito Yokado, Seven-Eleven Japan, etc) into a joint online store called Seven Net Shopping in 2012 and expand

grocery operations.

F. International Competition of Food Exports to Japan

The United States is by and far the largest exporter of food products to the Japanese market, representing 26.68% of all imported value in 2011. China’s export has remained stable over the last three years. Thailand and Brazil represent the fastest growing exporters to the Japanese Retail Food market.

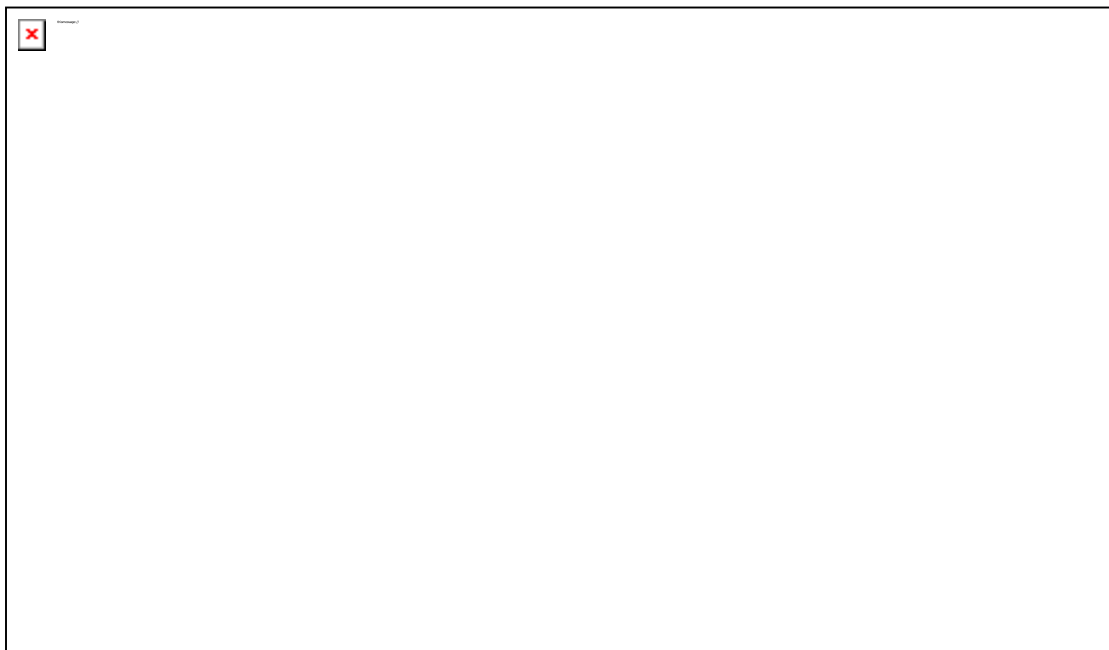
FIGURE 11: Major Food Exporters to Japan

Rank	Partner Country	USD (millions)			% Share			% Change
		2009	2010	2011	2009	2010	2011	2011/2010
	World	44,353	50,652	62,986	100.00	100.00	100.00	24.35
1	United States	12,974	13,862	16,803	29.25	27.37	26.68	21.22
2	China	5,160	6,022	7,071	11.63	11.89	11.23	17.42
3	Thailand	2,959	3,785	5,290	6.67	7.47	8.40	39.74
4	Australia	3,806	4,232	4,954	8.58	8.36	7.87	17.07
5	Canada	3,165	3,503	4,510	7.14	6.92	7.16	28.77
6	Brazil	1,809	2,380	3,451	4.08	4.70	5.48	44.99
7	Indonesia	861	1,547	2,492	1.94	3.05	3.96	61.12
8	France	1,228	1,307	1,516	2.77	2.58	2.41	16.03
9	New Zealand	1,142	1,287	1,467	2.57	2.54	2.33	14.01
10	Malaysia	849	1,029	1,424	1.91	2.03	2.26	38.36

Source: Global Trade Atlas (Agriculture Total, Group 2)

Using the same data presented as a pie chart, one can see the commanding lead of U.S. food exports to Japan and conversely the preference and liking of U.S. goods by the Japanese consumer.

Figure 12: Food Exporters to Japan



Source: Global Trade Atlas (Agriculture Total, Group 2)

Key factors affecting food exports to Japan are: imported food products are often less expensive than their domestic counterparts, Japanese consumers now tend to show tolerance with imported food after the Fukushima incident, and the strong yen exchange rate of the last few years has driven up food imports from foreign countries to Japan. In particular, dairy products from the U.S. to Japan increased by 56.7% in value 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. U.S. exports of red meats, chicken, fresh vegetables, and tree nuts to Japan experienced the double digit increases in 2011 over 2010 (Global Trade Atlas).

G. Summary of U.S. Food Product Advantages in the Japanese Market

Key Words	Advantages	Current Position
Quality	U.S. specialty food products attract Japanese consumers. U.S. products usually have a good story to tell.	Have a good story to educate customers about the quality of your product. Emphasize quality.
Cultural Influences	Japanese consumers are strongly influenced by U.S. food culture.	Be able to explain how your product relates to American culture.
Health Consciousness	Health related food market in the U.S. is advanced. Even though your product may not be a health product, make sure to emphasize any health benefits.	Address health related benefits but be careful you don't make claims unless you have Japanese government approval.
Food Safety	U.S. agriculture can successfully differentiate itself from Japan and third countries on food safety issues by HACCP, GAP, ISO, etc.	Educating your customer about safety issues helps to facilitate communication and provides your customer transferable knowledge.
Stable Supply	The U.S. is the largest exporter of food products to Japan. As a largest supplier of food products in the world, the U.S. has a great opportunity to expand exports to Japan.	Japan's food self sufficiency rate is only 39% and it has been declining due to aging population and the declining farm population.

SECTION V: CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance with exporting to Japan, please contact the U.S. Agricultural Trade Offices in Tokyo or Osaka at the following addresses:

Tokyo	Osaka
U.S. Agricultural Trade Office	U.S. Agricultural Trade Office
U.S. Embassy, Tokyo	U.S. Consulate General, Osaka-Kobe
1-10-5 Akasaka, Minato-ku	2-11-5, Nishi-tenma, Kita-ku,
Tokyo 107-8420	Osaka 530-8543
Tel: 81-3-3224-5115	Tel: 81-6-6315-5904
Fax: 81-3-3582-6429	Fax: 81-6-6315-5906
E-mail: atotokyo@fas.usda.gov	E-mail: atoosaka@fas.usda.gov

ATO Japan has begun a series of regional reports to provide specific information on major regions in Japan. Please go to <http://www.usdajapan.org/> and click on "Regional Briefs". To date, the ATO has reports on the Kansai region (Osaka/Kobe), and the Chugoku region (Hiroshima). Reports on Hokkaido (Sapporo), and Kyushu (Fukuoka/Kagoshima) will be available soon.

Other websites: <http://www.myfood.jp> <http://www.us-ato.jp>

Additional Reports:

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>