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Japan

Food Processing Ingredients

Food Processing Sector

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Report Highlights:

The Food Processing Sector in Japan remained strong during 2011 even with resulting consumer restraint after March 11. The Japanese market experience growth in 2011 and the U.S. continued their strong relationship with the Japanese market. The health, safety, prepared, and processed foods sectors showed increased demand. Key market drivers such as greater women in the workforce, an aging population, and health conscious consumers have led to product personalization, product convenience, and product innovations. The Japanese food processing industry remains a vibrant market.

Post:
Tokyo ATO

Executive Summary:

SECTION I: Market Summary

A. Overall Market Summary

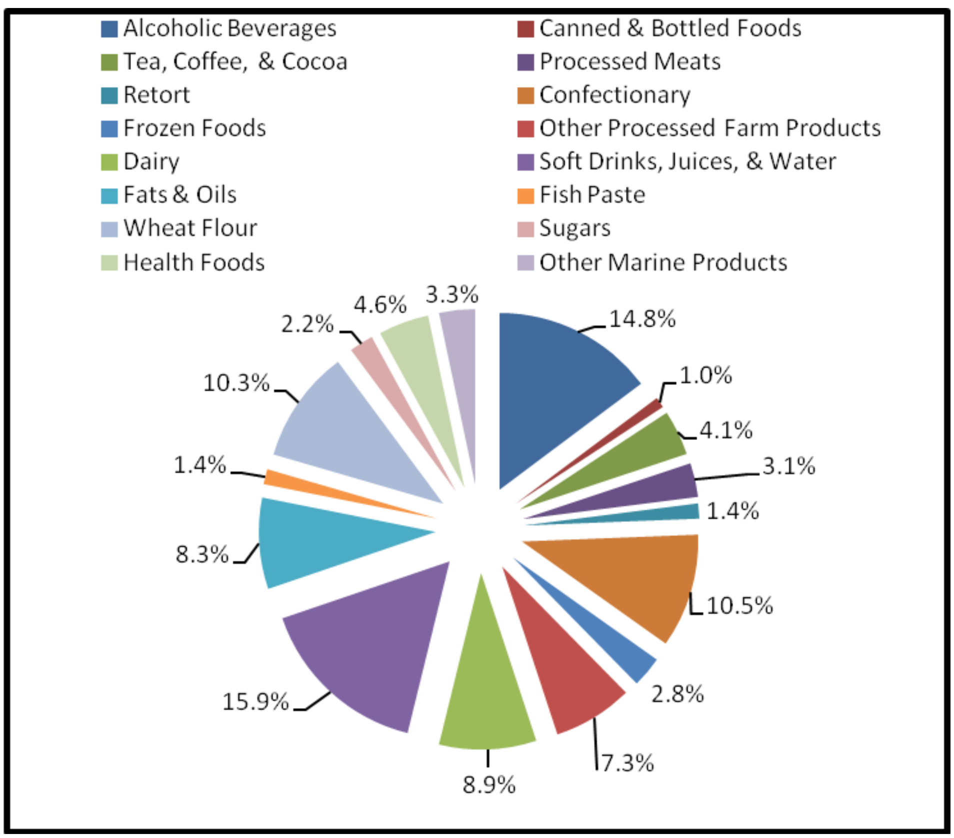
The value of the Japanese food processing industry was estimated at $280.2 billion in 2011, an increase of 8.93% from 2010. Despite the events of March 11 and sub-normal performance of the economy, the food processing industry recovered well. Products that contribute to home cooking or ready-to-eat options have experienced growth. Several product categories sold well in 2011 compared to 2010, mostly due to changes in consumer preferences. The greatest increase in sales occurred in the health foods sector which saw a 10.5% gain. Fish paste, retort, wheat, and sugars all had a modest increase in sales from 2010. The food processing industry is still viewed as a stable and growing industry within Japan.

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

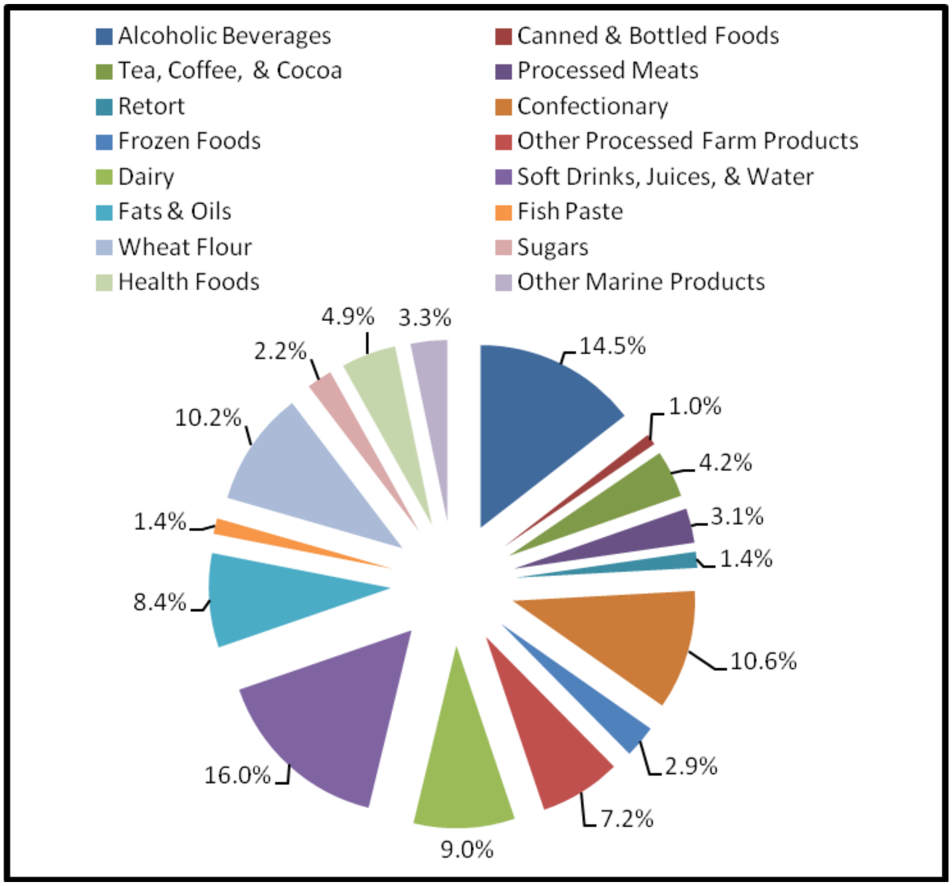
Source: http://www.murc.jp/fx/year_average.php

FIGURE 1: Japan Food Processing Industry in 2011



2012 projections are expected to be very minor differences from 2011, which shows the stability of the food processing sector. Health foods are expected to increase by 0.3%. Smaller changes are expected in beverages, dairy, and frozen food products.

FIGURE 2: Japan Food Processing Industry 2012 Estimate



Source: Shurui Shokuhin Tokei Geppo （酒類食品統計月報, January 2012）

A. Domestic Companies

The Japanese food processing industry is dominated by 15 major companies, making up almost 50% of the market sales in 2010 (most current available data), with the largest company, Kirin Holdings Co., Ltd., claiming a 10% market share. Appendix A provides a table of the top 15 Japanese food processing companies with their net sales, end channels, production locations, procurement channels, and contact information. This table has been included to provide you with a more detailed image of the current food processing industry in Japan.

B. Key Market Drivers

Key market drivers for the food processing sector include:

- A deflationary economic environment over the past decade, causing processors to seek out lower cost food inputs and international processing options in order to remain competitive.
- Increasing interest in health and functional foods with an emphasis on the growing aging population.
- Increasing emphasis on convenience, ready-to-eat, and value-priced foods.
- Continued diversification of the Japanese diet.
- Personalization and individualization of food and food marketing.
- Larger focus on the demographic of twenty to thirty year olds.
- Heightened consumer and retailer food safety concerns.

C. U.S. Involvement in the Industry

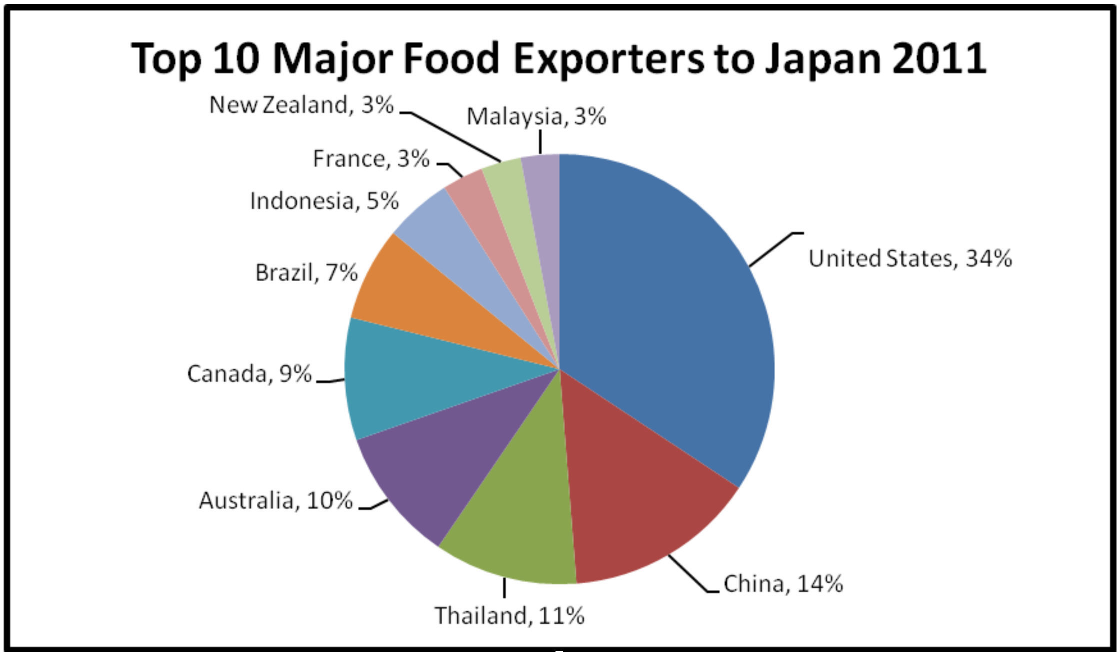
The United States is by and far the largest exporter and supplier of agricultural products to the Japanese market, representing 26.68% of all imported value in 2011. This is a small decline from the 27.4% figure in 2010, but the gross value has increased from $13.9 billion to $16.8 billion. The U.S. remains the dominant exporter for agricultural products both in market share and value. Competitors continue to be the same with China's export having remained stable over the last three years. Thailand and Brazil represent the fasting growing exporters to the Japanese market.

FIGURE 3: 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)

FIGURE 4: Top 10 Major Food Exporters to Japan



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

Analysis

These are three key factors affecting food exports to Japan.

1. Imported food products are often less expensive than their domestic counterparts.
2. Japanese consumers have shown greater acceptance towards imported food after the Fukushima incident.
3. The strong yen exchange rate has driven up food imports from foreign countries to Japan and helped increase the attractiveness of U.S. goods.

For example, in 2011 U.S. cheese products exported to Japan increased in volume by 56.7 % from the previous year. U.S. exports of red meats, chicken, fresh vegetables, and tree nuts to Japan all experienced double digit increases in 2011 over 2010 (Global Trade Atlas). Japanese consumers and importers continue to have a preference for U.S. goods.

A. Key Advantages & Challenges for U.S. Food Products

In addition to being the largest exporter to Japan and benefitting from the strong yen purchasing power of U.S. goods, some other factors can be beneficial for U.S. products. Japanese consumers are familiar with ingredients from the U.S. such as: meats, dried fruits, and nuts, etc. Products from the U.S. are also recognized for quality, cultural influences, and health conscious aspects. Some of the key advantages and challenges for U.S. food products are:

FIGURE 5: U.S. Food Product Advantages & Challenges

Advantages	Challenges

The U.S. has a reputation as a reliable supplier of food inputs in terms of availability and delivery.	Consumers perceive Japanese food production as safer than production overseas, including the United States.
U.S. manufacturers produce many specialty food products that are attractive to Japanese consumers.	Making available detailed information to the most appropriate purchaser and company can be difficult in Japan.
Many Japanese love American culture.	Getting your product and product information to the purchaser and consumer is a challenge.

B. **Developments within the Industry**

Continuing efforts to reduce costs, an increasing number of Japanese food processors have been going off-shore to source processed food items. Examples include Ajinomoto Frozen Foods, the fourth largest frozen food company, has seven overseas manufacturing plants. Another is Nippon Ham, the largest meat processor in Japan, has joint ventures in Thailand, Australia, Mexico and the United States. Many Japanese companies continue to invest in China to produce frozen vegetables and processed frozen foods specifically for the Japanese market. It is becoming a very common practice to import ingredients and maintain licensing, processing, and packing privileges in Japan.
With that being noted, the March 11 earthquake and tsunami did affect the production capabilities of Japan. The JETRO 2011 White Paper Report (Global Trade and Investment Report) noted that 54.6% of all beverage and food production from the Tohoku region (Northeast Japan) is typically consumed by other parts of Japan. The March 11 initially set back any production capabilities and then safety concerns reduced consumer confidence about food products from that region. This created a demand for products outside the domestic market.

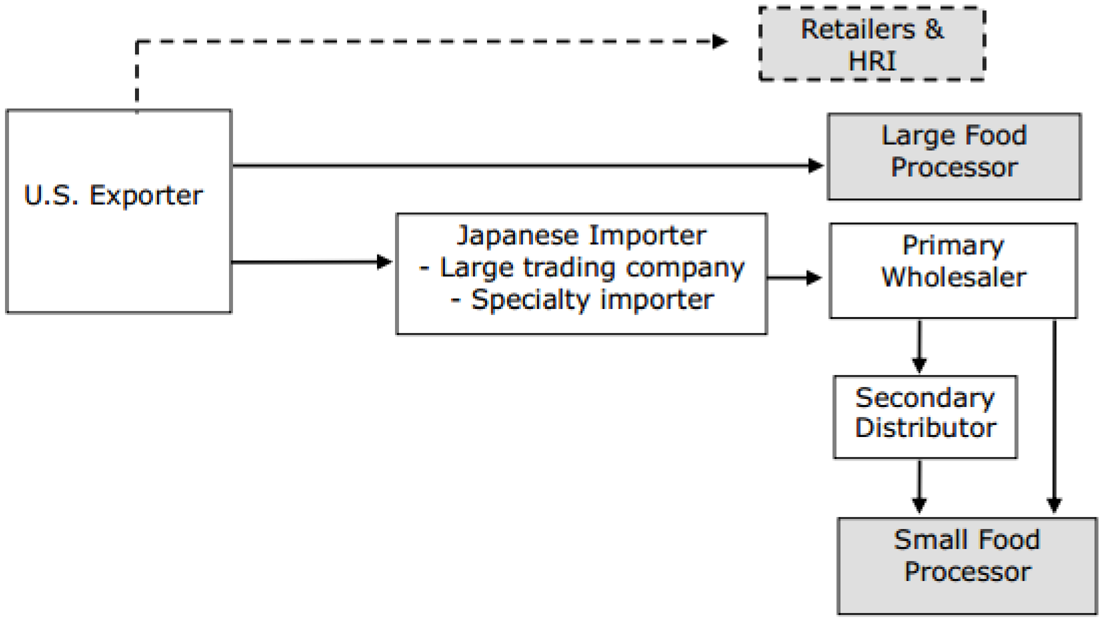
The JETRO report can be accessed here:
http://www.jetro.go.jp/en/reports/white_paper/trade_invest_2011_outline.pdf

SECTION II: Market Structure & Entry

A. Market Structure

The Japanese market structure and distribution system is different from that of the U.S. and thus a thorough understanding of its mechanics before entering the market is essential. The following illustration is a basic flowchart showing how U.S. products would enter and move through the Japanese distribution system. The traditional system looks like this:

FIGURE 6: Food Ingredient Distribution Flow Chart



Source: ATO

Your product will most likely be handled by a:
1. General trading company
2. First-line wholesaler
3. Second-line wholesaler
4. Retailer, HRI or food processor

Trading companies provide the following services:
1. Legal importer
2. Financier
3. Customs clearance
4. Warehousing
5. Order and shipping documentation

In the past, trading companies would normally sell to first-line wholesalers, who would then sell product to secondary distributors. This pattern has changed in the past decade as companies seek to reduce logistical costs. Large food processors and retailers are now purchasing sizeable quantities of product directly from trading companies. In some cases, the HRI and retail sectors are choosing to directly import items themselves if the size of the transaction makes it cost effective, as displayed in the graph above by the dotted line from U.S. exporters to retailers and HRI. These HRI importers are often large family chain restaurants, *kaiten* (conveyer belt) sushi restaurants, and regional restaurants. Often times, the importer or trading company needs to also add value through special processing, designing, or packaging. These transactions circumvent the usual second-line wholesalers and distributors, but in these tough economic times wholesalers and trading companies realize traditions need to be circumvented.

B. Market Entry

The Japanese market can be a complicated market in which to enter. There are many factors to consider before entering this market, specifically the strict regulations on specific ingredients and additives. Despite this, the Japanese market is still one of enormous potential. With the changing population, demand is shifting and new opportunities are presenting themselves. These trends are discussed in the later sections of the report.

Strategies for entering the Japanese market will vary depending on product characteristics, competition, and the market environment. Tools such as The Market Assessment Checklist are an effective way in which to begin the process of evaluating your product's potential within the Japanese market. The Market Assessment Checklist can be found at:
http://www.fas.usda.gov/agx/market_research/Market_Assessment_Checklist.pdf

For further guidance and a more detailed outline of the variety of resources available to U.S. exporters, please refer to Appendix B.

SECTION III: Best Prospective Products

A. **Established Products**

1. *Pork*

Pork demand remains high. The HRI and retail sectors offer dishes like pork bowl and pork barbecue, which have become central items on many menus. Imported frozen pork cuts from Canada, United States, and the EU are mainly used as raw materials for ham, bacon, and sausage products. Danish frozen belly cut is a mainstay for bacon, while U.S. frozen picnic cut is used to make sausage. Japan also is a major importer of seasoned processed pork and this processed meat is often used in prepared and ready-to-eat foods such as bento lunch boxes as well as in the restaurant sector. While the import demand for frozen pork cuts for ham, bacon, and sausage products has remained stable in recent years, the growth prospect for Japan's prepared and ready-to-eat sector remains strong.

The U.S. holds a 45.0% share of the Pork export market to Japan; this represents a basically stable trend over the last three years (2009 at 45.71% – 2010 at 43.67% – 2011 at 44.97% respectively). As noted above, Pork products run the gamut of processed, to bacon, to prepared, and others.

2. *Surimi, Roe, and Urchin*

Japan is a major market for U.S. *surimi*, roe, and urchin roe. *Surimi* is Japanese for literally 'ground meat' and typically used in regard to fish products. The best example for American producers is imitation crab meat that you find in the United States. *Roe* refers to egg or fish egg – a common ingredient for various Japanese dishes. Other fish that show potential in Japan are salmon roe, cod roe, and herring.

3. *Processed Fruits & Vegetables*

The U.S. has competitive advantages in higher value-added products such as fruits and vegetable purees and pastes as well as a variety of mixed vegetable assortments. The United States also has competitive advantages in potatoes, corn, peas, carrots, and various berries. Overall imports of processed fruits and vegetables were one of the few agricultural sectors to experience an increase in the last few years. Most of the gain has been from China.

The U.S. has a 20.2% share of the Processed Fruit & Vegetable export market, second behind the 52.5% that China has to Japan. Potatoes (prepared, frozen, etc) represent 54.1% of the U.S. exports, with Corn (cooked and raw) each at 6%, and then Tomatoes (paste, processed) and Grapes (dried) at 5%. Other products are less than 3%.

4. *Soybeans*

The United States is a dominant supplier of soybeans to Japan for use in traditional food items such as soy sauce, tofu, *miso* (soybean paste) and *natto* (fermented soybeans). Soymilk products have also been expanding at a rapid rate in Japan. Note that these soybeans for food use are not GMO and must be identity preserved (IP).

The U.S. has a 67.0% share of the Soybean export market to Japan; this represents a decline of 4.44% from 2010, but as noted in the USDA World Agricultural Supply and Demand Estimates report from July 11, 2012 there has been a reduction in the number of bushels produced, higher price per volume since 2010, and greater volume exports to China.

5. *Fruit*

The U.S. is a leading supplier of quality and price competitive citrus fruits such as grapefruits, lemons, and oranges. Other fresh fruits have also remained consistent or have experienced minor growth over the last year including strawberries, which are used in cakes during the off-season in Japan. While strawberries have been a mainstay as a cake ingredient, this is also changing as the confectionery industry is experimenting with other fruits such as figs. American cherries are also popular for the retail market and many supermarkets plan promotions of American products around the import of American cherries. Success of fruit products from one season to another is dependent on the quality of the previous year as well as the expected quality of the new harvest.

The U.S. holds a 15.5% share of the Fresh Fruit export market to Japan, second behind the Philippines with 66.1%. The breakdown of produce that comes from the U.S. is: Grapefruit at 37.6%, Oranges at 30.8%, Lemons and Limes at 11.8%, and the remainder are smaller amounts in the 6%, 3%, and smaller categories (Cherries, Grapes, Strawberries, etc).

6. *Tree Nuts*

The U.S. is a major supplier of almonds, walnuts and pistachios to Japan. Almonds and walnuts are largely used in confectionery items or covered in chocolate. Consumer awareness of nut health benefits in Japan has helped to increase demand.

The U.S. holds a 61.2% share of the nut import market to Japan; representing 98.6% of the almond market, 96.8% of the walnut market, and 87.8% of the pistachios market in 2011. This represents one of the strongest export markets by U.S. producers.

7. *Wheat*

The U.S. is the leading supplier of wheat to Japan because of its stable supply and quality. As a result of this, the U.S. consistently holds a market share of above 50% in terms of volume. Wheat is a staple in the Japanese diet and is used for noodles, baked goods, confectionery products, and a variety of other items.

The U.S. has a 58.1% share of the Wheat export market to Japan and the volume exported by the U.S. increased 9.23% from the 2010 total.

8. *Health & Functional Foods*

Health related functional foods experienced decreases in FOSHU (Foods for Specified Health Use) approvals and sales in 2011. FOSHU is the Japanese regulation system that was put into place in the 1990's to regulate the growing market of functional foods. Though the Ministry of Health, Labor, and Welfare (MHLW) oversees the FOSHU regulatory process, the process is administered by the Japan Health Food and Nutritional Food Association. The FOSHU process has become a means for companies to make health claims about their product. The number of approved FOSHU products has continued with another 100 products gaining FOSHU approval, bringing the total to 983 in 2011. While the number of products has increased, sale of FOSHU items has decreased from the 2007 peak. The Japan Health Food and Nutrition Food Association report gives the 2011 sales figure of $6.04 billion (517.49 billion yen) for FOSHU items, a decline from the $6.41 billion (549.40 billion yen) in sales during 2009.

FIGURE 7: FOSHU Category Sales in 2011(Millions USD)

FOSHU Annual Sales by Category		**2005**	**2007**		**2009**		**2011**	
		$	**$**	**%**	**$**	**%**	**$**	**%**
Intestinal Regulation	Oligosaccharide	72.9	88.8	121.9%	42.1	47.4%	36.6	87.1%
	Lactic Acid Bacteria	4350.3	4019.4	92.4%	3619.0	90.0%	3419.3	94.5%
	Dietary Fiber	160.7	188.6	117.4%	129.4	68.6%	132.4	102.3%
	Sub Total	**4583.9**	**4296.9**	**93.7%**	**3790.5**	**88.2%**	**3588.3**	**94.7%**
Cholesterol		282.0	284.9	101.0%	290.0	101.8%	307.8	106.1%
Blood Pressure		182.7	309.9	169.6%	257.5	83.1%	302.9	117.6%
Bone and Mineral		177.3	90.7	51.2%	238.2	262.8%	206.2	86.6%
Tooth		1188.8	1180.1	99.3%	633.3	53.7%	403.1	63.7%
Blood Glucose Level		288.1	260.4	90.4%	267.1	102.6%	223.3	83.6%

Neutral and Body Fats	1089.4	1986.6	182.4%	1320.0	66.4%	1369.7	103.8%
Total	**7792.2**	**8409.5**	**107.9%**	**6796.6**	**80.8%**	**6401.4**	**94.2%**

Source: Japan Health Food and Nutritional Food Association, 2011 Tokuho Report

B. Sector Trends and Products with Good Sales Potential

At the consumer level, the following trends are driving the way food processors are marketing their products.

1. *Food Safety*

Japanese consumers have always been sensitive to food safety issues and March 11 highlighted that trend. Japanese are responsive to two concepts *Anzen* (safety), and *Anshin* (peace of mind). It is not enough for consumers to feel that product is safe; they demand that foods promote a peace of mind. Merchants and retailers can always promote *anzen*, safety, but only time and reputation can bring about the feeling of *anshin*.

2. *Health & Functional Foods*

With food safety being one of the key food trends of 2011, it comes as no surprise that healthy and functional foods are popular. The official definition of functional foods (FOSHU) and drinks in Japan is "foods which are expected to have a specified effect on health due to the relevant constituents or foods from which allergens have been removed." Functional ingredients such as dietary fiber, oligosaccharides, non-cariogenic sweeteners, calcium, iron, mineral absorption promoters, beta-carotene, chitosan, specified soy protein, collagen, polyphenols, lactic acid bacteria cultures, soy iso-flavones and germinated brown rice (GABA) have been included in functional foods marketed in Japan. Examples of functional foods include yogurt with lactic bacteria to help digestion and candies with collagen to target skin health. Also, breads with added wheat germs are another functional food.

In addition to these specialty functional foods, there has also been growing popularity in traditional health foods such as soy milk, which has increased due to its perceived health benefits. Diet conscious consumers have been switching from sugar, soft drinks, cakes and ice creams to low calorie teas, mineral water, as well as fruit and vegetable juices. Tree nuts, especially almonds and walnuts, are also becoming popular.

Snack foods are an area that is truly evolving in terms of health. There are limited snack bar and on-the-go snack options in Japan that specifically target health. While products like Soy Joy have begun to pioneer the path, there is still opportunity in introducing health-based snack products such as low-calorie nutritional bars, energy bars, and processed fruits and vegetables snacks. Many of the health bars and snack options on the market are targeted towards men or athletes and the few low-calorie options that do exist for women are very expensive. The major distribution line for these snack products is through convenience stores, where sales are split between Otsuka Pharmaceuticals, the makers of Soy Joy and CalorieMate, and Asahi, which produces a cereal bar. Affordable health snacks and nutritional bars, both low-calorie and otherwise, have significant potential in this market. In an effort to avoid the high volume, competitive market of convenience stores sales, another recommended entry point is through high-end coffee shops.

Finally, new avenues are being explored for FOSHU by producers to continuing meeting consumer needs. One recent success featured by Nikkei Marketing Journal in the first half of 2012 is Mets Cola (by Kirin Beverage Co.). Mets Cola, released in April, sold over 1.4 million cases in the first month and is the first soft drink to gain certification for health benefits effective in reducing fat if consumed during a meal.

3. *The Aging Population*

Japan is in the midst of a major demographic change. Much like the trend that will also hit the United States in the next couple of decades, the percentage of young people has been shrinking since the 1980's, and the aging population has been growing. By the end of this decade, there will be three pensioners for every child under 15 in Japan. This significant change is creating a substantial new market with new demands. Many domestic firms in Japan have begun the process of creating product lines that cater to the physical and dietary needs of this aging population. These companies claim that products in the market need improvement in the areas of taste, texture, and price. Raising the quality and lowering the price of these products is the current goal of manufacturers and thus many are demanding new purees, specifically meat, fish, vegetable, and fruit, to add as the bases of their soft foods. Last year Japanese aged 60+ spent \$1.18trillion (¥101 trillion) – or presented in another fashion, these silver spenders accounted for 44% of the consumer spending in Japan. Further exemplifying the power of this segment, 70% of the \$1.18trillion was in the 65+ age bracket. As Japan is just the first of many postindustrial nations to experience this trend, the food technology that is pioneered here and now will be the same technology that will cater to the aging population in other nations in the future.

4. *Growth of Convenience Foods*

The fast paced Japanese lifestyle has led to the growth of processed foods as a replacement for meals made from scratch at home. The best example is the rapid expansion of convenience (*konbini*) store chains over the past decades, which specialize in a large variety of prepared meals. Examples of prepared meals are traditional bento lunch boxes, *onigiri* (rice ball), pasta dishes, sandwiches, salads, baked goods, and desserts. Ingredients such as low-cost processed vegetables to be added to bento lunches or as ingredients in very popular snack foods such as *korokke*, a breaded and fried potato or meat patty, are in high demand. Additionally items such as lunch meats and fruit or nut ingredients for confectionery use are also in demand. With over 48,000 convenience stores in Japan, these prepared food options are major competitors with fast-food chains. Major fast food companies describe these "*konbini*s" as competition because they are located in high traffic areas and thus are easy to access on lunch breaks and before dinner. They are open 24 hours and the meals are inexpensive and tasty.

In addition to these pre-made meals available at convenience stores, processed and packaged convenience food is also becoming very popular. Over the last 7 years, there has been a decline in restaurant dining as many Japanese are looking for less expensive options. These 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. Many versions of home meal replacement frozen foods that 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. These dishes have a long shelf life and are easy to prepare. In addition to this, young Japanese are marrying later which has lead to more Japanese cooking single portions and thus looking not only for freshly prepared meals to grab on the go but also easy to make meals at home. Packaged sauces, meals in-a-box, instant meals, and other easy to make options are growing in popularity and it is this sector of easy home cooking which will continue to grow.

5. *Value Pricing*

The deflationary environment of the past decade has caused consumers to be more cost conscious within their food budget. Fast food locations as well as almost all mid-range restaurants have promoted low-priced value sets, which has led to intense competition among food service and retail operators. This, in turn, is causing food suppliers to seek lower cost inputs in order to provide more competitive prices to their customers. The producer industry as a whole has embraced the idea of Private Brands (PB) as a way to create value items for consumers. Cost conscious consumers have accepted these new PBs, as shown by Seven & I daily sales at convenience stores showing average sales increases of $467 over those without PB items.

On the other end of the value pricing spectrum, consumers are also looking for gourmet food items without the high price tag. Consumers are looking for elegant, stylish meals that are easy to prepare at home. Ingredients for semi-homemade or frozen meal options thus have potential in this market.

6. *Breakfast*

Traditionally, breakfast has been eaten at home at the kitchen table. External changes to the Japanese lifestyle have led to the growing need for on-the-go breakfast options. As more women enter the workforce and as young Japanese begin to get married at an older age, there has been a significant move toward eating fast, easy, and inexpensive. This growing trend of convenient on-the-go breakfast products can be seen in almost every office building as the workday begins, as people now bring their breakfast to work. Items such as hearty instant cup soups, breakfast bars, and granola are stepping in as filling substitutes for the traditional sit down meal. While some bring these items from home, many Japanese are picking their breakfast up as they go. The McDonald's breakfasts, given the name *asamaku*, (literally: morning McDonald's) as well as other fast food breakfast items have become increasingly popular, mainly for their convenience, price, and the variety of hearty options. Even such items as muffins and morning pastries are becoming more popular as a result of the growing Western influence of coffee shops. But while these sweeter breakfast items are growing, more savory foods and filling food items are preferred in the morning by both men and women.

7. *Individuality & Personalization*

As has occurred in the U.S. in recent years, the Japanese are experiencing similar levels of individualization and personalization especially within consumer products. Each member of the family has their own needs and preferences and the Japanese consumer is beginning to personalize their spending to make sure each individual is satisfied. This type of personalization is normal in hygiene products such as shampoo but has also started to seep into the food and processed food world. Many companies have created product lines with each specific family member in mind. Specifically taking into account differing preference for packaging, texture, and health; and these more personalized food products have done well.

Products such as snack foods, frozen dinners, soft drinks and juices, and confectioneries have particularly benefited from this new trend. For instance, there are many alcoholic drinks that are targeted specifically to young women. Over the past three years Japan has seen the introduction of Highball (whiskey + seltzer/carbonated drink), 0% alcohol beers, 0 calorie drinks, and a slew of fruit cocktails that each target different market segments. While this personalization trend is becoming more and more common, it must be kept in mind that space is limited inside the Japanese home. Refrigerators, cabinets, and food storage areas are small, as reflected in the packaging of almost all Japanese food products.

8. *Twenties & Thirties*

While most food items have been introduced with a target demographic of homemakers, mainly women in their forties, there has been significant growth in food items targeted toward men and women in their twenties and early thirties. As the number of women in the workforce has grown, the age at which people are getting married is pushed back further. This trend coupled with more and more young professionals living outside their parents' homes has resulted in a new demographic, especially for processed foods. These twenty and thirty year olds are looking for single portion meals that are easy to prepare and that fit their lifestyle. Products that are starting to appear are single serving pasta meals, where the directions are simple, the packaging is sleek and modern, and the pasta sauce choices available are gourmet in nature.

Packaging is a large portion of marketing to these groups, which responds well to bright colored packaging with simple and modern themes. For example with wine, twenty and thirty year olds have basic knowledge about wine but not enough to differentiate quality. Much of the decision making is based on price. Instead, when making a selection, it is a reasonable price (less than $10.00) and a brightly colored label with a bold slogan or interesting graphic that influences the purchase most. This new demographic has been receiving a great deal of attention because of their decisiveness in what they like, their willingness to spend money on what they like, and their brand loyalty.

9. *Beauty & Anti-aging*

Beauty and anti-aging products have always been popular in the Japanese market, yet have remained mainly within the areas of cosmetics and pharmaceuticals. Along similar lines as functional foods, beauty and anti-aging is becoming a new marketing tactic within a growing aging population. This trend is showing large potential in the area of processed foods. While one approach is to educate the public on the natural anti-aging effects of some processed fruits and vegetables as well as juices, other companies have started to add anti-aging ingredients, such as collagen, to candies, beverages, and snack foods. The addition of these beautifying and anti-aging ingredients to food is becoming very popular among women of all ages. While this portion of the industry continues to grow, Japanese regulations surrounding health claims are extremely strict.

10. *Diversification in the Diet*

The internationalization of the Japanese diet offers U.S. exporters an opportunity to supply ingredients to meet this increasing demand. Japanese consumers have embraced U.S. goods and food ingredients into their diet; nuts, fruits, vegetables, and meat products have become a part of Japanese dietary habits.

C. Producer Trends

Food producers have certain themes and priorities for their goods and the way to present them to the Japanese consumer. In general, the best place to see producer trends and ideas are at the large trade shows (see Appendix: Entry Strategy: part 3). One of the largest in Japan is FoodEX and has roughly 75,000+ unique visitors a year who come to look at vendors, both domestic and foreign. The FoodEX 2012 report shows the most popular foreign and domestic products.

FIGURE 8: Product Ranking

Foreign Food Products	Domestic Food Products
1. Wine	1. Other Seafood Products
2. Canned, Bottled Vegetables	2. Other Functional Foods, Health Oriented Products
3. Frozen Vegetables	3. Other Confectionary, Desserts
4. Dried Fruits	4. Other Seasonings, Spices
5. Olive Oil	5. Other Ingredients
6. Sparkling Wine	6. Other Vegetable Products
7. Canned, Bottled Fruits	7. Fruits, Vegetable Juice
8. Fresh Vegetables	8. Japanese Sake
9. (Tie) Frozen Fruits & Snack Foods	9. Boiled, Pickled Vegetables
10. (Tie) Fresh Fruits & Nuts, Seeds	10. Wine
11. Dehydrated Vegetables	11. Liqueur
12. (Tie) Other Vegetable Products & Fruit, Vegetable Juice	12. (Tie) Frozen Seafood Products & Cakes, Tarts
	13. Other Soft Drinks

Source: FoodEX Japan 2012

You can see a clear trend for foreign products in vegetables and fruits. The United States fills a portion of this market and those U.S. producers experience a good, albeit competitive, relationship for their goods in Japan.

D. Products not Present Due to Significant Barriers

The Japanese consumer has always demanded high quality products and regulations reflect this. March 11 enhanced the desire for safe and secure food. While this may at first seem like a deterrent it has actually worked in the favor of exporters to Japan. The earthquake and subsequent disaster were localized to Japan and therefore the regulations and safety concerns are intensified on Japanese products. This in turn has given rise to a more favorable outlook on foreign products, their safety features, and just not being from the Tohoku region. That being said, the Japanese market still maintains a very high standard and restrictions do apply as always.

1. Items Containing Prohibited Ingredients or Excess of Allowable Limits

Because of the strict Japanese regulations on food additives, some U.S. food products containing prohibited additives or excess amount of allowable limits cannot enter Japan. It is highly recommended that U.S. exporters check their product compliance as a first step when considering business in Japan. Contact ATO Japan at atotokyo@fas.usda.gov

For more information on food additives, please refer to JETRO's Specifications and Standards for Foods, Food Additives, etc. Under the Food Sanitation Act (2010)
http://www.jetro.go.jp/en/reports/regulations/pdf/foodext201112e.pdf

2. High Tariff Rate or Quota Restricted Items

A variety of dairy products such as butter, edible non-fat dry milk and whey products, cheese, yogurt, and other dairy products are subject to TRQ/high tariffs. Likewise, sugar and rice face very high tariff rates. It is wise to check the tariff rates as well as quota restrictions for your product classification. Quotas still exist on some items such as dry beans. Refer to the latest Japan Customs' tariff schedule:
http://www.customs.go.jp/english/tariff/2012_4/index.htm (April 2012).

3. Quarantine Restricted Items

Numerous fresh produce products are prevented from entering Japan due to the Japanese plant quarantine regulations. For example, fresh potatoes are prohibited to import. The list of prohibited produce items can be obtained from APHIS, Tokyo at (011-81-3) 3224-5111 as well as through ATO offices in Japan at atotokyo@fas.usda.gov

SECTION IV: Post Contact & Further Information

For those with questions or seeking additional assistance, please contact the U.S. Agricultural Trade office (ATO) in Tokyo or Osaka at the following addresses:

ATO Tokyo
U.S. Embassy
1-10-5, Akasaka, Minato-ku, Tokyo 107-8420
Tel: 81-3-3224-5115 Fax: 81-3-3582-6429
E-mail address: atotokyo@fas.usda.gov

ATO Osaka
American Consulate General
2-11-5, Nishi Tenma, Kita-ku, Osaka City, Osaka 530-8543
Tel: 81-6-6315-5904 Fax: 81-6-6315-5906
E-mail address: 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.

Websites: http://www.us-ato.jp, http://www.usdajapan.org, http://www.myfood.jp
Note: It is recommended that U.S. exporters verify relevant import requirements with their foreign customers, who normally have the most updated information on local requirements, prior to exportation. Final import approval of any product is subject to the importing country's rules and regulations as interpreted by border officials at the time of product entry.

SECTION V: Appendix

A. **Company Profiles**

	Company (Main Products)	Net Sales ($ billions) (¥ millions)	End User Is	Procurement Channels	Address	Phone # Website
1	Kirin Holdings Co., Ltd. (Beer, Liquors, Wine, & Foodstuff)	$24.75 ¥2,177,802 (Dec. 2010)	Retail/HRI	Importers, Direct	2-10-1 Shinkawa Chuo-ku, Tokyo 104-8288	03-5541-5321 www.kirinholdings.co.jp
2	Suntory Ltd. (Liquors, Beer, Soft Drinks, & Wine)	$19.80 ¥1,742,373 (Dec. 2010)	Retail/HRI	Importers, Direct	2-1-40 Dojimahama Kita-ku, Osaka City 530-8203	06-6346-1131 www.suntory.co.jp/
3	Meiji Holdings (Dairy, Beverages, Frozen Foods, Processed Foods, & Baby Foods)	$12.66 ¥1,114,095 (Mar. 2010)	Retail/HRI	Importers, Direct	1-2-10 Shinsuna Koto-ku, Tokyo 136-8908	03-3273-4001 http://www.meiji.com/english/
4	Asahi Breweries, Ltd. (Beer, Liquors, Wine, & Foodstuff)	$10.95 ¥963,270 (Dec. 2010)	Retail/HRI	Importers, Direct	1-23-1 Azumabashi Sumida-ku, Tokyo 130-8602	03-5608-51112 http://www.asahibeer.com/
5	Maruha Nichiro Holdings (Marine Products)	$9.36 ¥823,399 (Mar. 2010)	Retail	Importers, Direct	1-1-2 Otemachi Chiyoda-ku Tokyo 100-0004	03-6833-0826 http://www.maruha-nichiro.co.jp/english/index.html
6	Nippon Meat Packers. Inc. (Beef, Pork, Chicken, Ham, Sausages, & Deli)	$7.60 ¥668,973 (Mar. 2010)	Retail/HRI	Importers, Direct	3-6-14 Minami-Honmachi Chuo-ku, Osaka City 541-0054	http://www.nipponham.co.jp/en/
7	Ajinomoto Co., Inc.	$7.55 ¥664,661	Retail/HRI	Importers, Direct	1-15-1 Kyobashi	03-5250-8111 www.ajinomoto.co.jp

	(Amino Acids, Instant Boullion, & Sauces)	(Mar. 2010)			Chuo-ku, Tokyo 104-8315	
8	Yamazaki Banking Co., Ltd. (Breads, Confectonary, Jam, & Spread)	$6.99 ¥615,151 (Dec, 2010)	Retail/HRI	Importers, Direct	3-10-1 Iwamotocho Chiyoda-ku, Tokyo 101-8585	03-3864-3111 http://www.yamazakipan.co.jp/english/index.html
9	Megmilk Snow Brand Co., Ltd (Milk, Yogurt, Pudding, Functional Dairy Products, Fruit & Vegetable Juices)	$5.73 ¥504,223 (Mar. 2010)	Retail/HRI	Importers, Direct	13 Honshio-cho Shinjuku-ku, Tokyo 160-8575	03-6887-3690 http://www.meg-snow.com/english/
10	Morinaga Milk Industry Co., Ltd. (Dairy, Baby Foods)	$5.05 ¥444,593 (Mar. 2010)	Retail/HRI	Importers, Direct	5-33-1 Shiba Minato-ku, Tokyo 108-8384	03-3798-0111 http://www.morinagamilk.co.jp/english/
11	Nichirei Corporation (Frozen & Retort Processed Foods, Chicken, Pork, Beef, & Fish)	$4.98 ¥437,808 (Mar. 2009)	Retail/HRI	Importers, Direct	6-19-20 Tsukiji Chuo-ku, Tokyo 104-8402	03-3248-2101 http://www.nichirei.co.jp/english/index.html
12	Nisshin Seifun Group Inc. (Flours, Pastas, Pasta Sauces, Rehydratable Noodles, Frozen Foods, & Beverages)	$4.82 ¥424,156 (Mar. 2009)	Retail/HRI	Importers, Direct	1-25 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-8441	03-5282-6666 www.nisshin.com
13	Sapporo Holdings (Beer, Liquors, Soft Drinks, & Wine)	$4.42 ¥389,244 (Dec. 2008)	Retail/HRI	Importers, Direct	4-20-1 Ebisu Shibuya-ku, Tokyo 150-8522	03-6694-0002 www.sapporoholdings.jp
14	Itoham Foods Inc. (Beef, Pork Chicken, Ham & Sausages, & Deli)	$4.36 ¥383,925 (Mar. 2009)	Retail/HRI	Importers, Direct	4-27 Takahatacho Nishinomiya City, Hyogo 663-8586	0798-66-1231 www.itoham.co.jp
15	Coca-Cola West Japan Co., Ltd. (Beverages, Functional Beverages, & Functional Foods)	$4.27 ¥375,764 (Dec. 2008)	Retail	Direct	7-9-66 Hakozaki Higashi-ku, Fukuoka City 812-8650	092-641-8591 www.ccwest.co.jp

Source: Tokei Geppou, Nikkei Keizai Tsushinsha

Food Manufactures Top 15 List, November 2011 p7-12

Net sales: unconsolidated

B. **Entry Strategy**

Before You Start:

1. Before considering export, please consider the following factors:
- If your company has the production capacity to commit to the export market.
- If your company has the financial and non-financial (staff, time, etc.) resources to actively support your exported product(s).
- If your company has the ability to tailor your product's packaging and ingredients to meet foreign import regulations, food safety standards, and cultural preferences.
- If your company has the necessary knowledge to ship overseas such as being able to identify and select international freight forwarders, temperature management, and other factors.
- If your company has the ability to navigate export payment mechanisms, such as developing and negotiating letters of credit.

Product and Market:

2. Determine whether import of your product is allowed by Japanese food regulation.

Because of strict Japanese regulations, there are many agricultural products that are prohibited for import from the U.S. to Japan.

- Contact an ATO Japan office for a list of prohibited items.
- For plant or animal health information, contact your local APHIS office at:
  http://www.aphis.usda.gov/animal_health/area_offices/
- If the product contains meat or meat products, please refer to the Food Safety Inspection Service Export Library:
  http://www.fsis.usda.gov/regulations/Japan_Requirements/index.asp
  http://www.fsis.usda.gov/regulations/Export_Checklist/index.asp

3. Perform Some Basic Market Research:
- The Market Assessment Checklist is an effective tool to organize and evaluate your market and product:
  http://www.fas.usda.gov/agx/market_research/Market_Assessment_Checklist.pdf
- Determine whether there is demand for your product and what your target market will be.
- Determine whether your product is price competitive against Japanese and other producers, keeping in mind transportation costs as well as modification costs.
- Determine the comparative advantage of your products. Potential customers need to be convinced of the merit of using your products. Some examples are price savings, higher quality, higher value-added, or more convenient packaging.
  - Agricultural Trade Office (ATO) Tokyo has services to assist you with market research and developing marketing strategies. You should also contact your regional trade group:
    a. Midwest: http://www.foodexport.org/

    b. West: http://www.wusata.org/
    c. Northeast: http://www.foodexportusa.org/
    d. South: http://www.susta.org/

- Review Japanese food regulations to determine if your product(s) comply with or need to be altered to fit local laws regarding additives, residue levels, and processing procedures. Also understand regulations in terms of weight, size, and labeling. JETRO's Handbook for Agricultural and Fishery Products Import Regulations is a helpful tool: http://www.jetro.go.jp/en/reports/regulations/pdf/agri2009e.pdf

Develop an Export Action Plan:

4. Once you have collected the general market, products, and regulatory information, begin the process of creating an export action plan. This plan will be instrumental in helping distributors and buyers see your vision. Keep in mind that many portions of this plan will change after personal interaction with the market or as more information is gathered.

This action plan should include:

- Objective
- Goals and benchmarks, short-term and long-term
- Product
- Market
- Product packaging and handling
- Product modifications, if applicable
- Financial resources to be committed
- Non-financial resources to be committed
- Additional financing
- Potential importers and buyers
- Schedule
- Marketing plan
- Evaluation

Get to Know the Market Personally:

5. Once you have determined that exportation is feasible and you have developed a basic strategy, either visit Japan to explore opportunities firsthand or find a representative to do so. When appointing agents, be sure your partner has a good reputation and track record in the market place.

- This face-to-face interaction is very important in business because Japan is unique in the respect that personal relationships are very important. Additionally, keep in mind that it takes time to form these relationships.

6. Understand how the Japanese distribution system works and begin the process of figuring out where you are to enter.

Finding a Buyer:

7. Begin looking for potential buyers and distributors. To find trade leads, participate in trade shows, use the trade leads service, and contact the ATO Japan through its website: http://www.us-ato.jp

- Foreign Buyers List: The Foreign Agricultural Service offers a foreign buyers list for many countries around the world. This list has information on prospective foreign buyers and these contacts can be acquired through the ATO Japan.
- Trade Leads service: The Trade Leads service is a way in which U.S. suppliers of food and agricultural products can receive targeted trade leads from foreign buyers seeking to import their products. In order to take advantage of these timely leads, a U.S. company must be registered on the U.S. Suppliers List (USL) database. The USL is managed through a cooperative agreement between the United States Department of Agriculture (USDA) Foreign Agricultural Service (FAS) and the National Association of State Departments of Agriculture (NASDA). Register at: http://www.fas.usda.gov/agx/partners_trade_leads/us_suppliers_list.asp
- Trade shows: There are a variety of trade shows, large and small, which act as great tools for market research as well as for finding potential distributors. A list of USDA endorsed trade shows can be found at: http://www.fas.usda.gov/agx/trade_events/2011_2012TSCalendar.pdf

The three recommended trade shows in Japan for the food processing sector are:

  - FOODEX JAPAN 2013: http://www3.jma.or.jp/foodex/en/ (March 5-8, 2013)
  - International Food Ingredients and Additives Exhibition (IFIA) Japan 2013: http://www.ifiajapan.com/2012/en/index.html (May 16-17, 2013)
  - Health Ingredients Japan 2012: http://www.hijapan.info/eng/ (October 3-5, 2012)

8. Meet with Japanese importers who distribute the types of agricultural products that you wish to export to learn more about the competitive environment.
9. Visit potential customers to determine if there is interest in your product and to determine how they normally source products.

- This is a good way to discover how products are normally reformulated and how packaging is tailored to the marketplace. Most packaging or labeling will have to be changed for the Japanese market, as American packaging is normally too large.

Documentation and Shipping:

10. After revising your export action plan and finding a distributor, begin the process of setting up a payment structure and meeting import documentation requirements. Information on this area can be found at: http://www.fas.usda.gov/agx/ship_doc_req/general_export_req.asp
11. When ready to ship, begin the process of finding a freight forward that often will handle many of the logistics of shipping for a fee. Refer to the Agricultural Export Transportation Handbook for more information: http://www.fas.usda.gov/agx/ship_doc_req/shipping.asp

Marketing:

12. When ready to market your product, use the ATO Tokyo or Osaka offices as resources for information

on promotion and marketing.

Additional Resources:

13. For any additional export information, refer to the USDA Foreign Agricultural Service's export assistance website: http://www.fas.usda.gov/agx/exporter_assistance.asp and
http://www.us-ato.jp

Helpful Tips:

1. Points to remember when doing business in Japan:

- Be clear with importers about the conditions under which price adjustments may occur.
- Be aware that Japan is a very service oriented culture and requires quick response to both product complaints and requests for information.
- Doing business for the first time in Japan requires patience. Orders normally start small to determine whether the product will meet market requirements.
- Arranging a credit check can be a good way to avoid issues in the future. There are a few Japanese companies that will conduct credit checks in English:

Teikoku Databank America, Inc.
780 Third Avenue, 22nd Floor
New York, NY 10017
Tel: 212-421-9805 | Fax: 212-421-9806
Email: tda-support@teikoku.com

The Dun and Bradstreet Corporation
Tel: 1-800-234-3867
Website: http://www.tsr-net.co.jp/english/profile/index.html