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Retail Foods

Japan Retail Industry

Approved By:

Rachel Nelson, ATO Director

Prepared By:

Sumio Thomas Aoki, Senior Marketing Specialist

Anne Oakley, Intern

Report Highlights:

The Japanese retail food industry in 2014 experienced growth in all of the three major categories: large-scale and conventional supermarkets, department stores, and convenience stores. Total retail sales including food, beverages, general merchandise, fabrics, apparel and accessories amounted to 69,911 billion yen in 2014 with food & beverage seeing a significant increase.

Post:

Tokyo ATO

Executive Summary:**SECTION I: JAPAN RETAIL FOOD SUMMARY****A. Overview**

The Japanese yen weakened in the year 2014, averaging 106.85 yen to the dollar. Consumer Confidence rose, leading to higher spending. On April 1st of 2014, the consumption tax increased from 5% to 8%. This caused an early shopping spike in February and March of 2014 before the new tax took effect and a sharp drop after its implementation. Some sectors struggled to maintain profits under the combination of the weak yen and the tax hike. A second tax hike scheduled for the latter half of the year would have raised the consumption tax to 10% but was postponed until 2017. The market stabilized during the latter half of 2014 as the yen continued to weaken (the rate in December 2014 was 119.58 yen to the dollar), leading to more spending among foreigners and tourists.

Japanese Yen to U.S. Dollar Average Exchange Rates

Yearly average	2011	2012	2013	2014
JPY per USD	80.84	80.82	98.65	106.85

Source: http://murc-kawasesouba.jp/fx/year_average.php

B. Market Breakdown

Total retail sales including food, beverages, general merchandise, fabrics, apparel and accessories amounted to 69,911 billion yen in 2014 with food & beverage seeing a significant increase.

Below are the total retail sales figures:

FIGURE 1: Total Retail Sales (Billion JPY)

Year	Total	Food & Beverage	General Merchandise	Fabrics, Apparel & Accessories
2012	67,649	44,026	12,681	10,942
2013	68,516	44,619	12,710	11,187
2014	69,911	45,590	12,821	11,500

Source: METI, Part I Commercial sales Monthly, Table 1, Report on the Current Survey of Commerce. http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

C. Food Sales in 2014

The Japanese retail food industry in 2014 experienced growth in all of the three major categories: large-scale and conventional supermarkets, department stores, and convenience stores.

Convenience stores are striving to develop online offerings in order to accommodate their young customers who are always on the go, create ready-to-eat meals for working mothers, and provide delivery services for the fast growing elderly population (60 and above) which will be referred to in this report as “Generation M.”

FIGURE 2: Food Retail Sales of Three Categories for 2012-2014 (Million JPY)

Year	Large-scale Supermarkets & Conventional Supermarkets	Convenience Stores	Department Stores
2012	8,535,260	5,817,844	1,916,244
2013	8,734,942	6,138,738	1,911,969
2014	9,071,134	6,581,894	1,928,884

Source: METI, Part 3 Large-scale retail sales trade, Table 1, Report on the Current Survey of Commerce.

Source: METI, Part 4 Convenience store, Table 1, Report on the Current Survey of Commerce.

D. Food and Beverage Sales by Region

FIGURE 3: Regional Sales and Population

Region	Year	Overall Food & Beverage Sales (JPY Mil)	Number of Establishments	2014 Population	Food Purchasing Power per Household (JPY)	Sales Growth '13-'14
Hokkaido	2012	576,949	319	5,463,045	681,430	2.84
	2013	585,642	319			
	2014	602,298	319			
Miyagi (Tohoku)	2012	264,811	143	2,329,439	747,818	4.00
	2013	266,699	149			
	2014	277,363	153			
Tokyo	2012	1,252,308	369	13,202,037	803,107	2.86
	2013	1,246,110	372			
	2014	1,282,803	372			
Aichi (Chubu)	2012	725,354	317	7,478,606	*	3.57
	2013	732,253	318			
	2014	759,346	329			
Osaka	2012	824,956	306	8,878,694	800,702	2.45
	2013	834,360	317			
	2014	854,775	323			
Hiroshima (Chugoku)	2012	212,074	100	2,876,300	709,465	4.96
	2013	217,672	111			
	2014	228,473	110			

Ehime (Shikoku)	2012	117,291	74	1,436,527	862,357	3.47
	2013	120,883	85			
	2014	125,080	86			
Fukuoka (Kyushu)	2012	289,843	176	5,118,813	793,021	2.11
	2013	299,599	177			
	2014	305,922	176			

Source: http://www.meti.go.jp/english/statistics/tyo/syoudou_nenpo/index.html (Part 3, Table 2)
 MIC http://www.soumu.go.jp/menu_news/s-news/01gyosei02_02000062.html

SECTION II: RETAIL MARKET INDUSTRY

A. Establishment Trends

In 2014, the tax hike resulted in an initial decrease in spending which stabilized by the fourth quarter. Convenience stores have continued to remain profitable. In order to compete with convenience stores, larger supermarket chains have launched smaller, neighborhood stores. These city-style stores provide convenient access within neighborhoods and offer an alternative to convenience stores. Online shopping continues to be a lucrative market for grocery stores with some offering home delivery for little to no charge. This option has become popular with the mature population (65 and above), called Generation M in this report. Many hard-to-find items can be delivered to the closest supermarket outlet near a customer's home.

FIGURE 4: Japan Retail Food Market Percentage for 2014

Year	Large-scale Supermarkets & Conventional Supermarkets	Convenience Stores	Department Stores
2012	52.5%	35.8%	11.8%
2013	52.0%	36.6%	11.4%
2014	51.6%	37.4%	11.0%

Source: METI, Part 3 Large-scale retail sales trade, Table 1 & Part 4 Convenience Store, Table 1

B. Large-scale and Conventional Supermarkets

1. Outlets

The supermarket business in Japan is mature and considered to be at full saturation levels for standard large-scale and conventional supermarkets. Many major supermarket chains are investing in city-center stores which allow easier access.

2. City-style Stores

City-style stores (smaller versions of supermarkets located in city centers) are becoming increasingly popular. Originally created by large retailers to better compete with convenience

stores, these stores offer a variety of goods and are generally twice the size of convenience stores but not as large as supermarkets. City-style stores are usually located in urban areas in order to provide convenient access to residents or workers in the area so that they will not have to travel far. These stores have been a hit with the elderly population, mothers, and value-conscious customers.

In June 2014, AEON announced that it was going to triple the number of its “Akore” city-style stores in Tokyo, Saitama, and Chiba from 90 to 250 by 2016. Overall, city-style stores have seen a 5% gain within the past year.

3. Target Market

As the Japanese market continues to mature, the two national brands AEON and Seven & I Holdings have strived to appeal to the aging population. AEON specifically is offering more flexible opening and closing hours while Ito-Yokado has introduced prepaid cards as well as a Senior Nanako point card which offers an additional 5% discount on the 15th of every month. In October 2014, AEON’s private brand TopValu expanded to include organic products. Consumers now have healthier alternatives at a reasonable price. This story was featured in AEON magazine which has been in publication since 2008. AEON has recently taken to promoting healthy food and local community activities in order to appeal to the rapidly evolving mature and health-conscious market.

4. Price Competition

Store brands, known in Japan as private brands (PB), have increased. AEON’s Top Valu PB, which is sold at Maruetsu and AEON stores, and Ito-Yokado’s PB have been very successful. According an article in the Nikkei Asian Review, sales increased 0.9% in 2014.

5. Company Highlights

On May 20, 2014, Aeon Co. consolidated three of its partners (Maruetsu, Kasumi, and their own subsidiary Maxvalu Kanto) under the trading house Marubeni. The new holding company became public, and both Maruetsu and Kasumi were delisted. This merger included approximately 470 supermarkets within Tokyo and surrounding prefectures.

In early October 2014, Aeon Co. announced its intention to fully acquire its main competitor, Daiei Inc., by December 26, 2014 after making the company a subsidiary in 2013. Aeon announced that it would buy out the chain and accelerate restructuring. Aeon has already taken major steps such as renovating aging structures and introducing new market strategies.

Below is a figure showing sales of the top supermarkets in 2014.

FIGURE 5: Top Supermarkets by Total Sales in 2014

Rank	Company Name	Total (JPY Mil)	Food (JPY Mil)	Ratio of Food Sales	Number of Outlets	Location of HQ & Stores
1	AEON Retail	2,117,231	1,088,100	51.3%	563	Chiba
2	Seven & I Holdings	1,285,942	592,913	46.1%	181	Tokyo
3	Uny	745,647	484,962	65.0%	226	Aichi

4	Daiei	*	*	*	468	Osaka-Kobe
5	Izumi	557,074	185,984	21.7%	103	Hiroshima
6	Life	585,770	476,927	81.4%	245	Tokyo
7	Arcs	470,310	421,565	89.6%	319	Hokkaido
8	York Benimaru	396,930	298,136	75.1%	200	Fukushima
9	Heiwado	347,835	231,722	66.6%	142	Shiga
10	Kasumi	250,098	232,231	92.9%	159	Tsukuba
11	Maruetsu	346,199	317,175	85.1%	276	Tokyo
12	Fuji	305,364	123,922	40.6%	98	Ehime
13	Aqua	269,029	197,940	73.6%	157	Wakayama
14	Max Valu	990,247	903,570	91.2%	737	Hiroshima
15	AEON Kyushu	242,164	110,152	45.5%	128	Fukuoka

Source: *Tokei Geppou* May 2015 pp 72, 76-77

*Daiei became a fully acquired subsidiary of AEON on January 1, 2015.

C. Specialty Supermarkets

Specialty supermarkets are important for imported food products because these stores carry products with higher prices. Here is a list of these stores with background information provided in the links.

Kinokuniya: First self-service super-market 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: Provides combination of specialty products and a general store model.

[http://www.seijoishii.co.jp_\(J\)](http://www.seijoishii.co.jp_(J))

Dean & DeLuca: Offers premium products and prices with an emphasis on delicatessen (“fine foods”).

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

Queens Isetan: Supermarket built inside train stations with a special shelf space for imported goods.

<http://www.queens.jp/pc.html>

Kaldi Coffee: Specializes in premium imported products, particularly coffee and chocolates.

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

National: A favorite of ex-pats due to its emphasis on and variety of imported products.

http://www.national-azabu.com/e_storeguide.html

D. Convenience Stores (CVS)

1. Outlets

Convenience stores continued to increase their market share due to the number of locations and wide variety of products being offered. A major contributing factor to the success of convenience stores is the proximity to consumers' homes, creating a sense of community since customers can get to know their neighborhood staff- a factor which is important to the elderly population. Some convenience stores offer home delivery such as Seven-Eleven's Seven Meal bento delivery service. Family Mart's delivery staff even checks up on its senior customers' well-being. Despite the growth of online shopping and the tax hike of 2014, convenience stores continue to be a major retail competitor.

2. Company Highlights

Seven & I Holdings acquired the majority of Nissen Holdings' shares (50.71%) through its subsidiary Seven & Net Media in January 2014. Nissen is known for their mail-order delivery of goods such as clothing and gift items. This acquisition allowed Seven & I to diversify their market opportunities and increase revenue by utilizing Nissen's experience in catalogues, mail-order, and internet shopping.

In July 2014, Seven & I Holdings struck a deal with the brand Coca-Cola to produce a limited-time, exclusive lemon-flavored soda for the chain with a designated run of about three months. Seven and I Holdings is Coca-Cola's biggest retail customer in Japan.

In August 2014, Lawson acquired Japan's 3rd largest operator of movie theatres- United Cinemas. Utilizing its 12,000 store locations, Lawson hoped to expand its exclusive movie-related merchandise and plans to offer ticket discount and free passes through the Ponta rewards program. Lawson acquired Seijo-Ishii Co., Ltd. in September 2014. With the slogan of "Quality food for a quality life," the Seijo-Ishii company had expanded to 120 stores, mostly within the Kanto area, by the time of the acquisition. Lawson expected that this acquisition would provide them with the means to compete with other convenience stores including their top competitor, Seven & I Holdings, by combining great quality with broad reach.

The following table (Figure 6) summarizes the top convenience stores in Japan 2014.

FIGURE 6: Top Convenience Stores in 2014

Rank	Company Name	Food Sales (JPY Mil)	Number of Outlets	Location
1	Seven & I Holdings	2,737,641	17,491	Nationwide
2	Lawson	1,581,100	11,900	Nationwide
3	Family Mart	1,093,790	10,514	Nationwide
4	Circle K Sunkus	517,936	5,990	Nationwide
5	Mini Stop	217,184	2,151	Nationwide
6	Three-F	50,643	558	Tokyo Area
7	Poplar	42,606	525	Nationwide

Source: Tokei Geppou May 2015 pp 81

E. Department Stores

The past three years have seen positive changes for department stores. Mitsukoshi-Isetan has participated in revitalizing an industry that had been on the decline since the 1980s. In September 2014, the Mitsukoshi-Isetan Group announced that it would expand its hospitality services targeted at foreigners who wish to purchase duty-free items by enlarging counters, installing currency exchange machines, and introducing new systems to expedite check-out. Other department stores have started to follow their example and generally offer a variety of shops and services with a basement level reserved for food-related shops and restaurants.

1. Outlets

With the dominating force of convenience stores, supermarkets, and online shopping, department stores have had to employ new techniques and strategies to stay on top. For example, in December 2014, Matsuya president Masaki Akita announced that stores would be hiring more foreign language speakers in order to draw in visitors from abroad.

Tourists make up a large percentage of department store customers, and department stores line up gifts and souvenirs for tourists. The number of foreign tourists visiting Japan doubled in each of the last two years, reaching record numbers due to favorable exchange rates and changes to the Japanese laws regarding visas and duty-free shopping. Mitsukoshi-Isetan announced in July 2014 that it would be offering duty-free shopping after partnering with the operators of Narita and Haneda airports. In June 2014, Nikkei Asian Review reported that Mitsukoshi-Isetan has been focusing their efforts on private-label goods, cutting production costs while increasing quality.

In April 2014, UNIQLO announced a decision to open a store in China by 2018. Takashimaya has been placing a considerable amount of effort into expanding into the Southeast Asian market with plans to open more department stores as early as 2017. This shows that expanding globally is not off the table for Japanese department stores.

2. Sales

Over the last decade, department stores have seen a significant drop in profits for non-food products. However, food products have actually seen a growth in department stores due to their premium nature and the presence of *depachika* (basement level with food stores). According to the Food Industry Newspaper, 2013 was the first time in sixteen years that department store total sales had increased. In 2014, their sales rose 11% for the first quarter but had decreased to 0.7% by October. This may be due to the tax hike. Stores such as Seiko Mart saw a 4% decrease in profits, and Aeon Retail saw an approximate 3% decrease in profits.

Because department stores often stock their stores with premium products, they have become a popular spot for gift purchasers and tourists.

3. Depachika

Depachika means basement floor of the department store where fresh food stalls are located.

Traditionally, a depachika was a quiet food retail location, but this changed when shops introduced high quality Home Meal Replacements (HMR), creating a new and very popular 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, bringing additional customers to department stores.

4. Pricing, Quantity and Premium

Department stores usually carry imported, branded food products though typically in small quantities. Many of the items are packaged as take-out products due to the proximity to train stations and the premium nature of the products means they are often used as gifts. Also, because these stores generally do not have tables and chairs, the food needs to be eaten off site.

5. Company Highlights

Listed below are the top 10 department store establishments and their total sales for Japan in 2014.

FIGURE 7: Top 10 Department Stores & Total Sales

Rank	Company Name	Location	Food Sales (Billion Yen)
1	Mitsukoshi-Isetan	Shinjuku-ku, Tokyo	13,215
2	J. Front Retailing (Daimaru)	Chuo-ku, Tokyo	11,463
3	Takashimaya Co.	Chuo-ku, Osaka	9,041
4	Seven&I (Sogo Seibu)	Chiyoda-ku, Tokyo	8,691
5	H2O Retailing (Hankyu Hanshin)	Kita-ku, Osaka	5,768
6	Tokyu Corp.	Shibuya, Tokyo	5,162
7	Marui Group	Nakano-ku, Tokyo	4,164
8	Kintetsu	Abeno-ku, Osaka	2,770
9	Parco	Shibuya-ku, Tokyo	2,643
10	Odakyu	Shinjuku-ku, Tokyo	2,223

Source: <http://gyokai-search.com/4-dept-uriage.htm>

SECTION III: CONSUMER TRENDS AND CHANGES

A. Historical

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

1. Demographics

An abundance of literature is available on the topic of Japanese demographics. Japan's Generation M is the fastest growing senior population (over 65) in the world. The roughly 35 million citizens in this generation are expanding the influence of the silver demographic. Recent demographic reports have claimed that Generation M represented 27% of the entire

Japanese population. It is predicted to reach 29% by the year 2020 and 36% by 2040. Consequently, the total population is estimated to decline from 127 million in 2014 to 105 million in 2040.

FIGURE 8: Population Breakdown & Projection

Year	Population (Thousands) by Age Group			
-	Total	0-14	15-64	65+
2015	126,597	15,827	76,818	33,952
2020	124,100	14,568	73,408	36,124
2025	120,659	13,240	70,845	36,573
2030	116,618	12,039	67,730	36,849
2035	112,124	11,287	63,430	37,407
2040	107,276	10,732	57,866	38,678
2045	102,210	10,116	53,531	38,564
2050	97,076	9,387	50,013	37,676
2055	91,933	8,614	47,063	36,257
2060	86,737	7,912	44,183	34,642

Source: National Institute of Population and Social Research

2. Seasons and Holidays

Japanese culture places a heavy emphasis on the four distinct seasons - 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:

FIGURE 9: Seasonal Holidays in Japan

Season	Month	Sales, Promotions, Events & Holidays
Spring	March	High School & University Graduation events White Day (Valentine's Day for women) Sakura (cherry blossoms) travel Fiscal Year begins – job rotation
	April	New school year begin events Entrance ceremonies for companies – sales, promotions
	May	Mother's Day Golden Week – holiday sales, travel, events
Summer	June – July	Father's Day Ochu-gen, summer gift giving
	August	Obon holiday promotions
Fall	September	Respect for the Aged day
	October - November	Oseibo, years' end gift giving
Winter	December	Christmas sales New Year's & end of year sales campaigns
	January	Coming of Age holiday

		Setsubun (end of winter) promotions
	February	Valentine's Day (for men) Fiscal Year ending promotions by companies

3. Preferences

Japanese consumers have some general historic preferences that should be considered. Japan is a nation that prefers convenience, quality, and single-serving sizes. An estimated 3.23 million people commute via a combination of train and walking into Tokyo every day according to the Tokyo Metropolitan government. Therefore, convenience and accessibility are highly valued by Japanese consumers who tend to drive less than many other developed country citizens.

B. Recent Trends

As mentioned already in this report, recent trends indicate a burgeoning growth of Private Brands, healthy foods, time-saving foods (i.e. frozen foods), market consolidation for greater efficiency and new retail ideas to meet new demands. Prepared foods (Home Meal Replacements - HMR) and desserts have seen strong growth in the past few years. Interest in healthy or functional foods has continued to increase.

1. Healthy or Functional Foods

There has been growing demand for healthy and balanced meals with demand led by women and adults over the age of fifty. This trend has been growing since the mid-1990's and continues to grow. This has led to healthy foods being split into two categories: Foods for Specific Health Use (FOSHU) and health-enhanced food. While there are several distinguishing factors between the two, the most important one is that products marketed as FOSHU require government approval before entering the market while health enhanced food does not.

2. Home Meal Replacement (HMR)

Home Meal Replacement (HMR) offerings have been increasing in every retail area. These foods are ready-to-eat such as *obento* boxes which are popular for school and office lunches. Since 2012, there has been a 13% increase in the consumption of HMR.

The growth in HMR is primarily driven by the increase of two distinct demographic sectors that eat at home. 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 adults who live alone or with roommates do not cook and almost exclusively eat out.

The expanding retail presence of delicatessens 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 out and ready to eat. Frozen noodle dishes, *okonomiyaki* (a Japanese-style pancake with meat and vegetables), and cooked rice dishes are examples of traditional Japanese 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 grow and gain more shelf space. A 2012 survey by Fuji-Keizai (Nihonbashi, Chuo-ku, Tokyo) found that the value of all PB had reached 2.638 trillion yen. This is 9.4% higher than the previous year. It was estimated that by the year 2017, the value of PB will increase to 3.209 trillion yen.

FIGURE 10: Private Brand Projection

Year	2012 (Billion Yen)	2017 (Billion Yen)	% Increase
General Merchandise Supermarket	445	569	127.87
Supermarket	779	931	119.51
Convenience Store	864	1,122	129.86
Co-op	453	462	101.99
Other	97	124	127.84

4. Frozen Foods

In response to an ever increasing desire for convenience and value-priced food, the sales of frozen food in Japan have continued to increase at approximately 3.3% annually. Many new varieties of HMR frozen foods continue to grow as well. As mentioned above, some examples of these foods include pre-cooked rice dishes, Asian & Western noodles, breads, and fish. Frozen vegetable imports have increased to reach a total of 142 billion yen in 2013.

5. Sweets

Sweets are critical to convenience stores, which market their own dessert brands through advertising campaigns with the goal of distinguishing themselves from the competition. Lawson's series called "Uchi Cafe Sweets" (Our Cafe Sweets) is famous for their roll cakes and cookies, Family Mart's "Sweets +" has shown strong sales since 2007, and Circle K Sunkus' brand "Cherie Dolce" cr me tiramisu has become extremely popular.

Ice cream also remains a popular treat. In June 2014, H agen-Dazs and Seven & I released "Japonais" a four-layer cup which contains "kinako kuromitsu" (soybean flour and brown sugar syrup), vanilla ice cream, sweet red bean paste, and condensed milk sorbet.

Doughnuts have also risen in popularity. Mr. Donut, Japan's national doughnut store, has seen an increase in profits. Krispy Kreme sells seasonal and regional items that are not available outside of Japan such as doughnuts topped with "sakura" (cherry blossom) and "matcha" (green tea) flavored icing. Seven & I announced in November 2014 that it would begin selling six flavors of heated donuts for the low price of 100 yen to complement their self-service coffee counters.

6. Consumption

Japan is a nation fueled by consumption— a key component towards economic growth. Approximately 23% of household expenditure goes toward food, according to the Japanese

Statistics Bureau. The two main consumer groups in Japan are Generation M and Youth.

Generation M, Age 60 and above, Consumption

Generation M is rapidly expanding. The retail response has come in the form of delivery services, mobile operations, expanded internet shopping, smart phone market integration, 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 from 800 million in 2010 to 2 billion in 2050. Researchers expect spending by seniors worldwide to double to \$15 trillion (the size of the U.S. GDP in 2011) and see Japan's rich aging consumers as a dynamic market.

Youth Consumption

With such a large senior market, the youth in Japan are often overlooked. But recent indicators show consumption spending increased among Japanese youth. Young people (age 20-30) have been delaying marriage and child-bearing in order to focus on their careers. Due to a busy lifestyle, these young people want to avoid the hassle of cooking at home. The rise of the working, single-person households is correlated to the rise in sales of ready-made, frozen, take-out, delivery, and restaurant-prepared meals.

7. Market Consolidation

Market consolidation highlights:

Suntory Holdings Ltd. acquired Beam Inc. on April 30, 2014. After being renamed Beam Suntory Inc., and as a result of the transaction, the company holds a strong position at number 3 in the Global Premium Alcohol Market. Beam Suntory Inc. will continue to operate in Deerfield, Illinois under its current CEO despite Suntory Holdings Ltd. headquarters being located in Osaka, Japan.

Mizkan Group entered an agreement with Conopco Inc., a subsidiary of Unilever, on May 22, 2014 in order to acquire Ragu and Bertolli pasta sauce brands. While both production facilities will be located in the U.S., Mizkan hopes to continue the expansion of the product locally as well as globally.

In May 2014, Aeon announced plans to consolidate three of its chains: alliance-partners Maruetsu, Kasumi, and subsidiary Maxvalu Kanto to become Japan's biggest supermarket chain. United under a joint holding company, the chains debuted their new image by March 2015.

On June 1, 2014, H2O Retailing, parent company of Hankyu Hanshin department stores, acquired supermarket operator Izumiya. Their projected sales totaled to 920 billion yen, ranking them number 8 in the Japanese retail industry.

SECTION IV: ROAD MAP FOR MARKET ENTRY

A. Food Distribution System in Japan

There are no magic formulas to guarantee success. Strategies will vary depending on the type

of product and the current competitive environment.

1. **Overall**, traditional entry points via importers are diversifying. For example, even within one retail chain organization (i.e., large-scale supermarket, regional supermarket chain, convenience store chain, etc.), there may be several routes for procurement – including importers, wholesalers, and more.
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 on wholesalers from which they usually procure 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 ones.

B. Supermarket Store Structure

The giant, nationwide supermarket chains such as Aeon and Ito-Yokado purchase their food primarily through three channels:

1. Directly from the importers
2. Directly 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 on more direct routes.

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 are 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.

D. Convenience Store Structure

Convenience store chains use trading companies or wholesalers, depending on the type of product. Due to limited shelf space, convenience stores can only hold a few brands per category. Because of this, product performance is continuously reviewed, and products which show little or declining progress are quickly replaced, ensuring the highest turnover possible. Their management systems present the most significant challenges for imported packaged processed foods because they require U.S. exporters to:

1. Modify product taste/specifications to Japanese consumer tastes
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, yet energetic group of stores ranging from co-ops and specialty shops to online marketplaces.

1. Co-ops and Voluntary Chains

Co-ops and voluntary chains use a variety of sources which include: direct importing, manufacturers, importers, and wholesalers. There are several major organizations serving voluntary chains including 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. Locally-Owned Stores

These are mom & pop or “one category” stores that typically source from wholesalers. Penetration of imported foods into these shops and stores is relatively low.

3. Specialty Shops

Specialty 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 present opportunities for some U.S. food exporters.

4. Online

Online sales, include TV mail order advertising, offer yet another possible channel which U.S. exporters can consider for food distribution. While the majority of sales are for non-food items, food and beverage sales are increasingly being purchased online. On March 25, 2014, the Osaka ATO released a report titled “E-Commerce Foods in Japan” stating that online sales are still relatively small yet are now growing at double digit rates. This growth has dwarfed the growth of the overall retail market. Large-scale retailers such as Ito-Yokado and AEON were among the first to see growth in sales from e-commerce. Many major supermarkets now offer online grocery services in most parts of Japan, including rural areas. The most successful has been Ito-Yokado, whose sales grew 14.3% in 2012 with the introduction of online groceries.

The e-commerce sales as a whole, according to Japan’s Ministry of Economy, Trade, and Industry (METI), grew from 3.5 trillion yen in 2005 to 9.5 trillion yen by 2012. The food & beverage sector makes up 13.7% of the market, but most sales are for non-food goods. According to corporate data, Amazon Japan is the leading e-commerce site, followed by Rakuten and Yahoo! Shopping. They are very competitive with each other, and use strategies such as low-cost delivery, loyalty points, and special offers to try to attract more customers. Many online vendors are offering m-commerce as a way to connect with mobile users, often by offering mobile-friendly versions of their site, phone apps, and special downloads for customers on-the-go. Rakuten is a big name in m-commerce, receiving as much as 52.2% of its total value of transactions via mobile devices in the fourth quarter of 2013, while PC driven

sales fell by 8%. It is worth mentioning that food & beverage sales make up 49.2% of Rakuten's total sales. Popular items include heavy, bulky items that are hard to transport and fresh produce. In 2013, one of Rakuten's most popular food items was 1-2kg bags of local crabs. E-commerce and m-commerce are both expected to grow in the coming years with same-day delivery services and social media awareness. Seniors are some of the most active online shoppers.

F. International Competition of Food Exports to Japan

FIGURE 11: Major Food Exporters to Japan

Rank	Partner Country	USD (millions)			% Share			% Change
		2012	2013	2014	2012	2013	2014	2013/2014
	World	61,569	57,779	55,570	100.00	100.00	100.00	-3.82
1	United States	15,756	13,740	14,618	25.59	23.78	26.31	6.39
2	China	7,919	7,286	7,194	12.86	12.61	12.95	-1.28
3	Australia	4,771	4,340	3,946	7.75	7.51	7.10	-9.10
4	Canada	4,653	4,223	3,782	7.56	7.31	6.81	-10.44
5	Thailand	4,401	4,009	3,777	7.15	6.94	6.80	-5.81
6	Brazil	3,428	3,993	2,761	5.57	6.91	4.97	-30.86
7	France	1,800	1,593	1,659	2.67	2.76	2.98	4.05
8	New Zealand	1,541	1,387	1,445	2.50	2.40	2.60	4.16
9	Indonesia	1,645	1,555	1,267	2.92	2.69	2.28	-18.53
10	Argentina	598	1,181	1,098	0.97	2.05	1.98	9.63

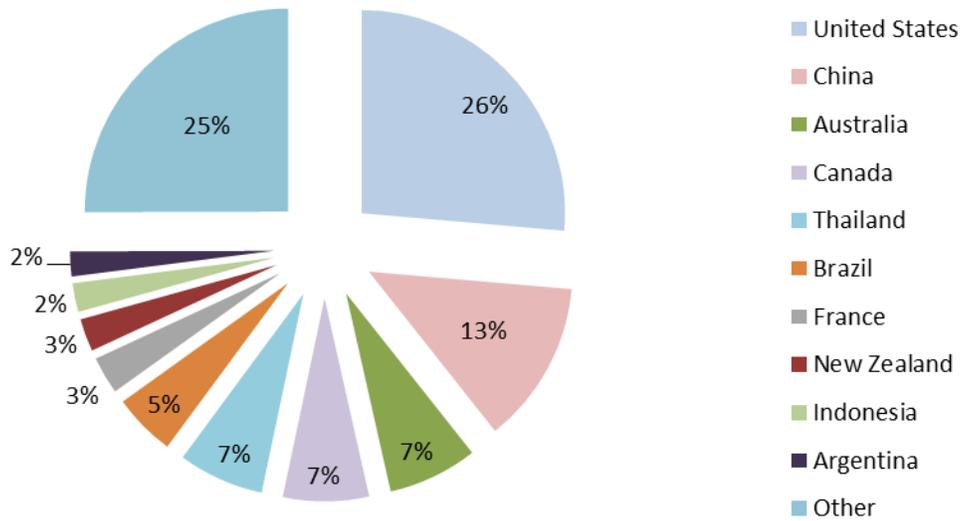
Source: Global Trade Atlas: Agricultural Total Group 2

Source: Global Trade Atlas

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 for U.S. goods by the Japanese consumer.

FIGURE 12: FOOD EXPORTERS TO JAPAN

Top Ten Major Food Exporters to Japan 2014



Source: *Global Trade Atlas*

Key factors affecting food exports to Japan are: On the positive side, imported food products are often less expensive than their domestic counterparts, and Japanese consumers now show increased acceptance of imported food after the Fukushima nuclear reactor incident cast doubt over the safety of some domestic products. On the negative side, the recent weak yen has driven up imported food prices.

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 often have a good story to tell.	Have a good story to educate customers about the quality of your product. Emphasize the 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	The health related food market in the U.S. is advanced. While your product may not be a specialty health product, make sure to emphasize any health benefits.	Address health related benefits but be careful not to make claims unless you have Japanese government approval.
Food Safety	U.S. agriculture can successfully differentiate itself from Japan and other countries with its food safety assurances such as HACCP, GAP, ISO, etc.	Educate your customer about safety issues in order to help facilitate communication and provide your customer with transferable knowledge.

Stable Supply	As a major supplier of food products around the world, the U.S. has a great opportunity to expand exports to Japan.	Japan's food self-sufficiency rate is only 39%. It has been declining due to the aging farm population.
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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:

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