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Retail Sector 2019

Report Categories:
Retail Foods

Approved By:
Therron Hagen, Deputy Director

Prepared By:
Sumio Thomas Aoki, Senior Marketing Specialist
Honoka Araki, Intern
Emi Tsuzukibashi, Intern

Report Highlights:
In 2018, the total value of all retail food and beverage sales in Japan was $479.29 billion (¥53,339 billion), an overall increase of 2.3 percent. Supermarkets represent the bulk of the retail food market, at 70.1 percent, but the fast-growing convenience store sector now represents 14 percent of sales. Ready-to-eat meals (REM) or take-home food items represent a very strong area of growth, and sales from this sector are key to increase retail food & beverage industry revenue.

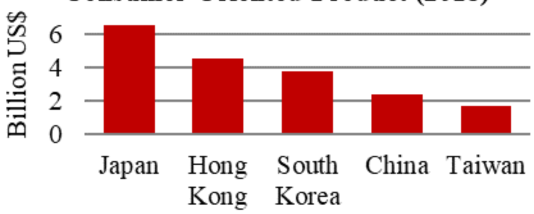
Market Fact Sheet: Japan

Executive Summary:

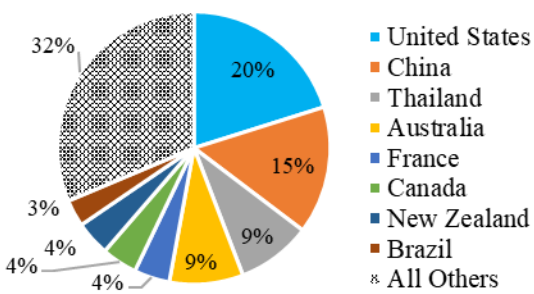
Japan relies heavily on imports -- accounting for over 60 percent of its caloric intake. The United States is the largest foreign supplier of food and agricultural products to Japan (25 percent of total import market share), and Japan is the third largest market for U.S. agricultural exports ($12.9 billion in 2018). Japan's food industries are well-developed and innovative in all sectors; including, retail, food service, food processing, and distribution.

Population: 126,168,156 (July 2018 est.)
GDP: $4.87 trillion (3rd)
GDP/Capita: $38,428

Top Five Asian Markets for U.S. Consumer-Oriented Product (2018)



Japan Consumer-Oriented Product Imports ($33.3 Billion, 2018)



Food Processing Industry:

The food processing industry produces a wide variety of foods, including traditional Japanese foods, Western foods, and health-oriented foods for infants and the elderly. Food producers focus on maintaining market share with traditional product lines while developing creative products to attract consumers who are always on the lookout for new and innovative foods. The food processing industry produced $217 billion in food and beverage products in 2018.

Food Retail Industry:

In 2018, the total value of all retail food and beverage sales was $479 billion. Supermarkets represent the bulk of the retail food sales, at 70 percent, but the fast-growing convenience store sector now represents 14 percent of sales. Ready-to-eat meals (REM) or take-home food items represent an area of growth.

Top Ten Growth Food Products

1) Beef & Beef Products
2) Fish Products
3) Processed Vegetables
4) Tree Nuts
5) Wine & Beer
6) Peanuts
7) Distilled Spirits
8) Dried Fruit
9) Preserved/Prepared Pork
10) Condiments & Sauces

Food Industry by Channels (US$)

Consumer-Oriented Exports	$3.8 billion
Consumer-Oriented Imports	$33.3 billion
Food Processing Industry	$217 billion
Retail (2018)	$479 billion
Food Service (2017)	$295 billion
Food Industry Gross Sales (2017)	$769 billion

Top Ten Retailers

AEON Retail	Ito Yokado
Seven Eleven Japan	Lawson Inc.
FamilyMart UNY Holdings	U.S.M. Holdings
Life Corporation	Izumi
Arcs	York Benimaru

Strength	Weakness
High demand for consumer-oriented products	Managing expectations is key (negotiating and decision-making processes can take time)
Opportunity	**Challenge**
U.S. products are in demand and remain trendy	Many other suppliers enjoy tariff concessions through FTAs

Data sources include: Global Agricultural Trade System, Global Trade Atlas, Japan Ministry of Finance, Japan Ministry of Economy, Trade and Industry, Japan Food Service Association, The World Factbook, The World Bank. For additional information, contact ATOTokyo@fas.usda.gov

SECTION I. MARKET SUMMARY

In 2018, the total value of all retail food and beverage sales in Japan was $479.29 billion (¥53,339 billion) an overall increase of 2.3 percent. In the previous year 2017, it was $468.36 billion dollars (¥52,453 billion). Supermarkets represent the bulk of the retail food market, at 70.1 percent, but the fast-growing convenience store sector now represents 14 percent of sales. Ready-to-eat meals (REM) or take-home food items represent a very strong area of growth, and sales from this sector are key to increase retail food & beverage industry revenue. According to the Japan Ready-Made Meal Association, total sales in 2017 were 10.155 trillion yen ($89.78 billion dollars) and in 2018, total sales were 10.351 trillion yen ($92.12 billion dollars) which was 1.9 percent higher than the previous year.

The Japanese Food and Beverage (F&B) retail industry includes supermarkets, general merchandise stores (GMS), department stores, convenience stores, drugstores, and the internet. See Figure 1.

GMS offer products such as apparel, shoes, sporting goods, bedding, kitchenware, etc., in addition to F&B products. The GMS sector's largest retailers are national chains, AEON Co., Ltd. and Seven & I, which operates Ito-Yokado. Regional GMS in western Japan include Uny, Izumi, Okuwa, and Izumiya.

Retail segments that are increasing sales include convenience stores, drugstores and eCommerce. Convenience stores are the second leading format for F&B sales, and drugstores are increasing offerings. Strong sales in areas where no supermarkets are located (e.g. rural locales and small towns) is supporting the growth of drugstore F&B sales. Meanwhile, internet F&B sales are experiencing double-digit annual growth.

Department stores generally carry premium food items and sales of REM are important to their bottom line, but their sales have been decreasing for the past ten years.

Figure 1: Food Retail Sales by Category for 2017 and 2018

2017 (Ex. Rate: 112 Yen/$)				**2018 (Ex. Rate: 111.28 Yen/$)**			
Year	**Billion Yen**	**Billion $**	**Share**	**Year**	**Billion Yen**	**Billion $**	**Share**
Supermarket	36,944	329.86	70.4%	**Supermarket**	37,411	336.2	70.1%
General Merchandise Store (GMS)	2,876	25.7	5.5%	**General Merchandise Store (GMS)**	2,849	25.6	5.3%
Department Store	1,862	16.62	3.5%	**Department Store**	1,812	16.3	3.4%
Convenience Store	7,592	67.8	14.5%	**Convenience Store**	7,769	69.8	14.6%
Drugstore	1,621	14.47	3.1%	**Drugstore**	1,806	16.2	3.4%
Internet	1,558	13.91	3.0%	**Internet**	1,692	15.2	3.2%
Total	52,453	468.36	100%	**Total**	53,339	479.29	100%

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

Key	**Advantages**	**Challenges**	**Advice**

Words			
Quality	U.S. specialty food products attract Japanese consumers. U.S. products often have a good story to tell.	Image of the U.S. as a large producer with corporate farms. It is difficult to import foods to Japan.	Have a good story to educate customers about the history and quality of your product. Also, emphasize the quality and source of ingredients.
Cultural Influences	Japanese consumers are strongly influenced by U.S. food culture and enjoy trying things seen as cool or trendy.	Many products common in the U.S. are uncommon to Japanese consumers.	Be able to explain how your product relates to American culture. Also explain how you use or prepare it.
Healthy	The health-related food market in the US is very advanced, and there are many new "healthy" products each year.	Some Japanese consumers believe American products (and imported cuisine in general) are unhealthy.	Make sure to emphasize health related benefits but be careful not to make claims unless provided approval by the Japanese government.
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.	Some Japanese consumers believe U.S. foods contain more pesticide residues, hormones or artificial chemicals than domestic products, and some consumers are averse to food additives. Many of Japan's residue tolerance levels are lower than the U.S.	Educate customers about safety issues in order to help facilitate communication and provide customers with transferable knowledge.
Stable Supply	The U.S. is a major supplier of food products all over the world, providing a very stable supply.	Japan's food self-sufficiency rate is only 38 percent. It has been declining due to the aging farm population. Therefore, Japan is dependent on imports, when there are trade disruptions, they may look elsewhere to maintain supplies.	Exporters should understand the demands of the Japanese consumer and avoid disruptions, ensure product complies with Japanese regulations.

SECTION II. ROAD MAP FOR MARKET ENTRY

Market Entry and Structure

Generally, the first step to market entry is to find an importer, which may take a considerable amount of time. Importers introduce new product to retailer buyers, and if interested, they will request their wholesaler/distributor and/or importer to consider purchasing. It can often be difficult to identify appropriate retailers and even more difficult to get an appointment with their buyer. Japanese retailers usually have large purchasing teams with dedicated buyers for different product lines such as meats, seafood, fresh produce, specialty foods, frozen ingredients, and frozen processed foods. In many cases, they have a person in charge of international trade. Japanese retailers usually do not import directly. In most cases, distribution will include at least one importer and one wholesaler. Determining the structure of product distribution is important for setting pricing so that each partner's margin is sufficient. Please feel free to contact the Agricultural Trade Office (ATO) or relevant Cooperator or State Regional Trade Group (SRTG) for assistance.

Entry Strategy

To get started, companies interested in exporting should:

a. Ensure production capacity to commit to the market,
b. Ensure sufficient financial and non-financial (staff, time, etc.) resources to actively support exported product(s),
c. Evaluate whether the ability exists to tailor product packaging and ingredients to meet foreign import regulations, food safety standards, and cultural preferences,
d. Ensure knowledge necessary to ship overseas, such as being able to identify and select international freight forwarders, manage climate controls, and navigate export payment mechanisms, such as letters of credit,
e. Research USDA cooperators or local State Regional Trade Groups (SRTG) by visiting the "Getting Started" FAS webpage). These groups work closely with USDA to help food and agricultural companies advance their exporting goals.

Once a company has established a foundation for exporting, they should:

1. Determine whether product is permissible under Japanese food regulations.

a. The Exporter Guide and the Food and Agricultural Export Regulations Report (FAIRS), published by the USDA Japan offices contains much of the necessary information.
b. For plant or animal health inquiries, local APHIS offices can provide information.
c. If the product contains meat or meat products, companies should reference the Food Safety Inspection Service Export Library.
d. JETRO's Handbook for Agricultural and Fishery Products Import Regulations is a helpful tool for reviewing Japanese food regulations to determine product compliance local laws regarding additives, residue levels, and processing procedures, as well as regulations in terms of weight, size, and labeling.

2. Perform basic market research by:

a. Determining the specific area of the market the company product is targeting,
b. Determining whether there is demand for the product by searching online websites, speaking with other companies that have experience in the market, visiting Japan to conduct market tours, or attending a trade show,
c. Determining the comparative advantages of product versus Japanese and other suppliers, keeping in mind transportation and modification costs. Potential customers need to be convinced of the product merits: price savings, higher quality, higher value, or more convenient packaging.

3. Develop an export action plan:

Once the general market, product, and regulatory information is collected, companies should begin the process of creating an export action plan. This can be a helpful tool for relaying product vision to distributors and buyers. The plan should have some flexibility as portions may change after personal interaction with the market or as more information is gathered. This action plan should include:

- The company's story
- Product
- Objective
- Market
- Marketing plan
- Schedule
- Evaluation
- Literature in Japanese
- Goals and benchmarks, short/long-term
- Product modifications, if applicable
- Product packaging and handling
- Financial resources to be committed
- Non-financial resources to be committed
- Additional financing
- Potential importers and buyers

4. Get to know the market personally:

Companies should visit Japan to explore opportunities first-hand or find a representative. Face-to-face interaction is very important in Japan, where personal relationships are highly valued. Companies should vet their partners to ensure they have a good reputation and record of accomplishment.

Finding a Buyer

Developing relationships with importers is important for success. Also important is to have a long-term plan and to manage expectations: the decision-making and negotiating process can be lengthy. Visiting Japan to meet importers and returning during the negotiating process can be beneficial. Buyers in the food and beverage industry often prefer to find new products at large trade shows, or specially targeted trade shows, where they can look at many products at once. Therefore, participating in one of Japan's many trade shows is highly recommended as a way to learn about the market and meet with potential business partners.

FAS updates the list of USDA endorsed trade shows annually; the two largest in Japan are FoodEx Japan and the Supermarket Trade Show. Companies should contact their appropriate SRTG or USDA Cooperator to inquire about upcoming activities such as trade missions or showcases. Japanese companies are not receptive to emails or 'cold calls', especially in English. The Agricultural Trade Office (ATO) is also available for consultation and assistance.

Company Profiles

The largest retail group in Japan is AEON Co. Ltd. The second largest is Ito-Yokado, part of the Seven and I group that also owns the top convenience store format, Seven-Eleven and well-known U.S. brand retailers Costco and Walmart are also successful in Japan. Costco opened its first warehouse in Japan in 1999 and is now operating 25 outlets. Walmart purchased Seiyu supermarket chain in 2005, and currently operates 334 retail stores in Japan, using the more familiar name, Seiyu.

Top Supermarkets

AEON Retail	https://www.aeon.info/en/
Ito Yokado	http://www.itoyokado.co.jp/special/global/en/
Familymart UNY Holdings	http://www.fu-hd.com/english/index.html

Specialty Supermarkets: Carrying premium import products.

Kinokuniya Co, Ltd. http://www.e-kinokuniya.com/kinokuniya2.pdf
Meidi-ya http://www.meidi-ya.co.jp/en/
Seijo Ishii http://www.seijoishii.co.jp/en/
Dean & Deluca http://deandeluca.co.jp
Queens Isetan http://www.queens.jp/pc.html
Kaldi Coffee http://kaldi.co.jp/english
National http://www.national-azabu.com/e_index2.php
Nissin World Delicatessen http://www.nissin-world-delicatessen.jp/
Costco https://www.costco.co.jp/
Walmart (Seiyu) https://corporate.walmart.com/

Convenience Stores
Seven Eleven Japan http://www.sej.co.jp/in/en.html
Lawson Inc. http://lawson.jp/en/
Ministop https://www.ministop.co.jp/in/en/

SECTION III. COMPETITION

The United States is Japan's number one agricultural trading partner and known as a reliable exporter that provides safe and high-quality foods. However, other suppliers recently reached free trade agreements with Japan that reduce or eliminate food and agricultural tariffs, including the European Union, Canada, Australia, Chile, and Mexico.

The United States is the leading supplier of fresh pork. However, the top three exporters of frozen pork, Spain, Denmark, and Mexico, comprise of 56 percent of the import market, while the U.S. market share has dropped to just ten percent. The United States has a strong association with beef and shares the market with Australia. U.S. wheat accounts for roughly half of the annual imports, with Canada and Australia making up the other half. Soybean imports are primarily from the United States on a value basis at approximately 70 percent, with Canada being the main competitor for food-grade soybeans. The EU, New Zealand, and Australia supply most cheeses, while the U.S. market share is just ten percent. The United States' main competition for fruits and vegetables come from regional producers, with China primarily supplying on proximity, price competitiveness, and varietal preferences.

Japan Imports of Agricultural Products in 2018

Partner Country	United States Dollars (Billions)			% Share			% Change
	2016	2017	2018	2016	2017	2018	2018/2017
World	48.9	51.9	53.8	100.0	100.0	100.0	3.7
United States	11.7	12.7	13.9	24.0	24.5	25.7	8.7
China	6.2	6.2	6.5	12.7	11.9	12.2	5.6
Australia	3.7	4.0	4.3	7.6	7.8	8.0	7.1
Thailand	3.6	3.9	4.0	7.4	7.6	7.4	1.3
Canada	3.3	3.5	3.7	6.7	6.7	6.8	5.0
Brazil	2.7	2.5	2.1	5.5	4.8	4.0	-13.7
France	1.5	1.6	1.7	3.0	3.1	3.2	6.1
New Zealand	1.3	1.4	1.5	2.7	2.7	2.7	3.7

Indonesia	1.1	1.5	1.4	2.3	2.9	2.7	-3.5
Philippines	1.0	1.0	1.0	2.1	1.9	2.0	4.9

Source: Global Trade Atlas: Agricultural Total

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

Products Present in the Market which have Good Sales Potential

Beef & Beef Products, Fish Products, Processed Fruits and Vegetables, Tree Nuts, Distilled Spirits, Condiments & Sauces

Top Consumer-Oriented Products Imported from the World

Pork and Pork Products, Chicken and Chicken Products, Beef and Beef Products, Wine

Top Consumer-Oriented Products Imported from the United States

Pork and Pork Products, Beef and Beef Products, Frozen Potatoes, Tree Nuts

Products Not Present in Significant Quantities which have Good Sales Potential

Japan imports a broad array of products representing the full spectrum of America's consumer-ready, intermediate and bulk food production. However, Japanese importers and consumers are always on the lookout for new, trendy and innovative products. For competitively-priced quality products, opportunities may be found at any time in Japan.

Products Not Present Because They Face Significant Barriers

Rice, Fresh Potatoes

A. Retail Trends Overview

Convenience Stores

Convenience stores are constantly inventing ways to appeal to customers of all ages. The working class, most of the time referred to as "salary men/women", are targeted throughout the day from morning breakfast items to ready-to eat dinners. Healthy food items are shelved to entice seniors (age 60 and above). Since 2000, the number of convenience stores has increased from 35,461 stores to 56,574 in 2018 and food sales grew 62 percent from 4,689 billion yen ($41 billion) to 7,769.4billion yen ($70billion).

Drugstores

Another retail store category that is spreading- especially in the countryside- is the drugstore format. These stores have the wherewithal to provide their services in remote areas and still be profitable. Many small towns with a low population are unable to support either supermarkets or convenience stores, however, drugstores are expanding food and beverage offerings to bolster sales.

Internet

The Internet sales of F&B are growing too, closing in on sales volumes of Department Stores and Drugstores. One of the reasons is the increase of users of smartphones. According to one supermarket source, it is increasingly common that customers visit their supermarkets to see, touch and evaluate a product that they may then order on the internet. According to a report published by the Ministry of Economy, Trade and Industry called "E-Commerce Market Survey for 2019," internet sales were 1,692 billion yen ($15.2 billion) compared to 1,558 billion yen ($13.8 billion) in 2017.

Ready to Eat Meals

A Ready-to-Eat Meal (REM) is defined as food that was prepared by an institution outside the home and sold through a retail outlet (e.g. Convenience Store) to be taken to a different location (such as the home, office, a bench in the park, etc.) and consumed. REM is a key element of the marketing strategy of most retailers to increase customers and revenue. REM offerings have been increasing in every retail area, including delicatessens in supermarkets, department stores, and convenience stores. Typical among these are *obento* boxes which are popular for school and office lunches. Frozen foods have also gained a large presence in this market; for instance, thaw and serve *bento* are lunches that are bought frozen in the morning and by lunchtime are thawed out and ready to eat.

C. Consumer Trends

Japanese consumers look for convenience, quality, and single-serving sizes. An estimated 13.5 million people commute via a combination of train and foot in Tokyo every day. Therefore, convenience and accessibility are highly valued by consumers who drive less than their counterparts from other developed countries.

1) Healthy or Functional Foods

There has been a growing demand for healthy and balanced meals led by women and the senior population. This trend has been growing since the mid-1990's and continues to grow.

2) Private Brands

The majority of the major food retailers now feature their own private brands. For example, in 2015, AEON added an organic product line called Topvalu Green Eye. According to AEON's financial report for 2015, sales were up 5.2 percent due to these new product lines.

3) Sweets

Convenience stores continuously develop and launch new products throughout the year and provide a variety of limited edition (e.g. seasonal) sweets and deserts.

4) Consumption Changes in Aging Population and Youth

In Japan, approximately 23 percent of household expenditure go toward food, according to the Japanese Statistic Bureau. The two main consumer groups in Japan are seniors (60 and older) and young adults in their 20s and 30s. Seniors tend to have high levels of saving and demand healthy foods but have limited mobility. 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 this cohort in mind. With such a large senior market, young adults in Japan are often overlooked. However, recent indicators show consumption increasing among young adults. The rise of working, single-person households directly affects the rise in sales of ready-made, frozen, take-out, delivery, and restaurant prepared meals, as many career-focused young adults, want to avoid the hassle of cooking at home.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Reports from USDA Japan, including the Agricultural Trade Offices and the Office of Agricultural Affairs, are frequently updated and can be found by searching the FAS Japan Reports website.

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

USDA Japan Webpages
http://www.usdajapan.org/ (FAS Japan, English)
https://twitter.com/usdajapan (FAS Japan, English)

Japan External Trade Organization (JETRO)
Japanese market and regulations: https://www.jetro.go.jp/en/reports/
Japan Food Sanitation Law: http://www.jetro.go.jp/en/reports/regulations/
Specifications and Standards for Foods, Food Additives, etc. under the Food Sanitation Law:
http://www.jetro.go.jp/en/reports/regulations/

Ministry of Agriculture, Food and Forestry:
U.S. laboratories approved by the Japanese Government, visit
http://www.mhlw.go.jp/topics/yunyu/5/dl/a3.pdf.
Statistics and articles http://www.maff.go.jp/e/index.html

Japan Customs
Tariff rates in Japan are calculated on a CIF basis and Japan adds an 8% consumption tax to all imports. Japan tariff rates are found here: http://www.customs.go.jp/english/tariff/

Sources for Retail Market Figures:
METI, Large-scale retail sales trade, Part 3- Table 1, Report on the Current Survey of Commerce.
METI, Convenience store, Part 4- Table 1, Report on the Current Survey of Commerce.
METI, Drug Store, Table Part 4-Table 1, Report on the Current Survey of Commerce.