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Market Brief

Japan : Food Processing Sector - Snack Foods

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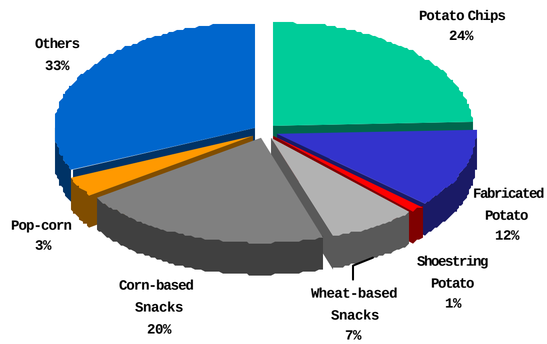
Tokyo[JA1], JA

SNACK FOODS

OVERALL TRENDS

The Japanese Snack Food market can be broadly divided into traditional snacks such as rice crackers (*sembei*) and *arare* (a small crunchy snack food made from sticky rice), and a second category comprised of all other Snack Foods, including potato, corn, wheat and rice-based snacks. Although the two categories are roughly equal in terms of the amount produced, this report focuses only on the second category since it provides more opportunities for ingredients suppliers.

Chart 1. Sales Value of Snack Foods in Japan (1997)



According to the Japan Confectionery Association, total sales of Snack Foods (potato, wheat and corn-based snacks) in 1997 reached over 378 billion yen (USD 3.05 billion), which was a decrease from 1996 of 1.7 percent. Sales of Snack Foods in Japan have been decreasing by around 1-2 percent annually since 1995 and are expected to continue to decrease in the coming five years.

Five Major Players in Snack Food Sector: 1. CALBEE 2. MEIJI SEIKA 3. KOIKEYA 4. TOHATO 5. YAMAZAKI NABISCO

Domestic production of Snack Foods was 240,000 metric tons in 1997 valued at around 265 billion yen (USD 2.14 billion), a slight decrease from the previous year. The decline in Snack Food consumption has been caused mainly by increased consumer consciousness toward healthy, low-calorie and functional food products and the general economic downturn which has resulted in less spending. In addition, there have not been many popular new products hitting the market recently. In 1997, snack manufacturers tried various marketing strategies to boost sales of Snack Foods, such as producing regional products with flavors available only in certain regions in Japan, using cartoon characters to target children and producing seasonally limited products.

POTATO-BASED SNACKS

Included in this category are sliced chips, fabricated chips and shoestring potatoes. Domestic sales of potato-based snacks in 1997 were 137,950 metric tons, valued at 144 billion yen. According to 1996 figures, approximately 95 percent of Japan's total production of potato-based snacks were sold at retail outlets with the remaining 5 percent going to the food service industry, such as *karaoke* shops, snack bars and fast food restaurants.

Sales of potato-based snacks have been relatively flat in the last three years. The forecast until the year 2002 is for sales to decrease by 1-2 percent annually. Approximately 78 percent of

Table 1. Sales Value and Quantity of Snack Food in Japan (1995 - 2002)

		Potato Chips	Fabricated Potato	Shoestring Potato	Wheat Products	Corn Products	Popcorn
1995	Qty	98,900	34,800	5,900	32,500	92,500	9,150
	Value	93,250	46,500	5,500	28,150	81,500	11,300
1996	Qty	98,400	36,200	5,550	32,400	90,500	8,800
	Value	92,750	48,250	5,600	27,950	79,600	10,850
1997	Qty	97,200	35,400	5,350	31,800	87,800	8,550
	Value	91,650	47,150	5,380	27,450	77,300	10,500
1998 (*estimated*)	Qty	96,100	35,300	5,100	31,800	86,500	8,550
	Value	90,600	46,950	5,100	27,400	76,000	10,500
2002 (*estimated*)	Qty	91,500	34,000	4,500	32,100	83,100	8,150
	Value	86,000	45,000	4,500	27,600	73,000	10,000

Note: Quantity (metric tons); Value (million yen) *Source: Food Marketing Series (Fuji Keizai, 1998)*

the potato-based
snack market is comprised of sliced chips, followed by fabricated potatoes (20 percent) and shoestring potatoes (1 percent).

Garlic and salt are dominant flavors used in slice chips. Some manufacturers also use Japanese-style flavors, such as dried seaweed (*nori*), soy sauce, octopus (*taco*) and wasabi. Calbee, a leader in the potato-based snack market, strengthened its market position by introducing brands such as "Lightly Salted Potato Chips," "Potato Chips with Consomme Flavor," "Potato Chips with Seaweed and Salt" and "A-La Potato." These were regarded as the four best selling products in 1997. Calbee has continued its new product development in 1998 by launching "Jagarico" and "Italian Salad and Black Pepper" chips which target young adults. Koikeya and Kameda Seika are other leaders in the market. Kameda's "Shrimp Flavor Potato Chips" brand is one of the most popular products on the market.

Fabricated potatoes have a healthier image than sliced chips because of the lower oil content. In line with the market demand for low-calorie products, some manufacturers have started using *saratorium*, a vegetable oil-based product which contains only five calories per gram or about half the calories of

typical oils. Pfizer Inc. is planning to test market saratorium in Japan as a margarine, butter or shortening substitute. Saratorium is also being targeted for use in cookies, chocolate and Snack Foods.

Procter and Gamble's "Pringles," Yamazaki Nabisco's "Chip Star," and House Food's "O'Zack" were the three top products in fabricated potato category in 1997 followed by Calbee's "Sapporo Potato" and Meiji Seika's "American Chips." The Pringles brand has several varieties such as original flavor, mild salt, sour cream and onion, barbeque and cheese. The O'Zack series includes tuna and mayonnaise flavors as well as beef and tomato sauce. Otsuka recently introduced a 'slender snack' named "Benimo Osatsu Chips," which is made from red sweet potatoes and *konyaku* and is marketed as a low-calorie and healthy alternative Snack Food.

The shoestring potato market is small with sales anticipated to decrease in 1998. Koikeya's "Stick Karamucho," Meiji Seika's "Potato Stick," and Yamazaki Nabisco's "Sono Mamma" are the leading brands in this category.

CORN-RELATED PRODUCTS

Included in this category are corn puffs, corn chips and popcorn. Domestic sales of corn-related products in 1997 were 96,350 metric tons, valued at 87 billion yen. Sales value in 1997 was lower than in 1996 and is forecasted to decrease by five percent by the year 2002.

Corn puffs occupy the largest proportion of the corn-related snack market. Similar to potato chips, there has been an increase in seasonal products and healthier products. The Corn Food Association is promoting the health advantages of corn as a marketing approach.

Corn chips were once a hot product which benefitted from the boom in ethnic foods in Japan. Tortilla chips were particularly popular because of their use in Mexican foods. However, in recent years, the popularity of corn chips is decreasing and puff type corn products, which are considered lighter, are growing. Both corn puffs and corn chips have a wide variety of flavors. However, recent history shows that the life cycle of each product is getting shorter.

Popcorn sales in 1997 were only 8 percent of the total sales volume of corn-related snacks. Butter and soy sauce are the most preferred tastes, while candy and other sweet flavors are not popular with Japanese consumers. Almost 35 percent of corn-related products, especially popcorn, goes to the food service industry, primarily to snack bars and fast food restaurants.

Meiji Seika's "Curl," Tohato's "Caramel Corn" and House Food's "Tongari Corn" are the leading brands in the corn-related product category. Koikeya, Japan Frito-Lay and House Foods are the major producers of popcorn. House Food's new product called "Magical Popcorn" has shown strong growth in 1998 and is expected to grow in 1999.

WHEAT AND RICE-BASED SNACKS

Wheat and rice-based snacks are the smallest segment in the Snack Food category. The total sales volume of wheat-based snacks in 1997 was 31,800 metric tons, valued at 27 billion yen. Wheat-based snacks are considered healthier compared to potato or corn-based snacks because they typically have less oil content. Therefore, wheat-based snacks attract more female consumers. In addition, these snacks tend to attract more elderly consumers because they are easier to eat and the flavors are milder.

Calbee is the leader in the wheat-based snack category with its "Katsupa Ebisem" snack, which holds a 50 percent market share. Oyatsu's "Baby Star Ramen" and Morinaga Seika's "Ototo" are the second and third largest brands in this category.

The production of rice-based snacks was 40.2 billion yen in 1996 (2.6 percent growth) and is expected to continue growing steadily. Kameda, as Japan largest manufacturer of traditional rice crackers (*sembei*), has a strong position in rice-based snacks. With considerable effort in new product development, Kameda recently launched its "Ebitsupuri" brand which is shrimp flavored and uses vegetable protein. Kameda also introduced its "Demi-Pack" series which features soy sauce and seafood curry flavors. Its "Khaki no Tane" (shape resembles persimmon seeds) has had a long-term niche following as a product to be eaten while drinking beer.

TABLE NUTS

The Japanese nut market is almost completely reliant on imports to cover its demand. With the exception of a few items like chestnuts and walnuts, Japan does not produce many nuts domestically. The greatest demand for table nuts in terms of volume is for almonds, cashews and mixed nuts.

Almost 90 percent of the table nuts sold are for retail use with approximately 10 percent of the supply being sold to the food service industry, particularly to pubs or snack bars. However, due to Japan's recent economic recession, the demand for table nuts from pubs and bars has decreased significantly of late.

In the past, walnuts were imported in their shells and efforts were made to promote sales of the product with the shell. However, since Japanese consumers are not used to cracking and eating walnuts on their own, the emphasis has switched to promoting sales of shelled walnuts for industrial use as ingredients for breads and cookies.

Cashew nuts enjoy diverse demand. The nuts are used mainly as salted snacks but are also popular materials in Chinese cooking. Large quantities are consumed along with beer. The industry estimates that 95 percent of cashew nuts are used as table nuts. Japanese consumers are very fond of the taste of cashew nuts.

Demand for pistachios began rising sharply in 1988 as the California Pistachio Nut Association put more and more effort into promoting the product in Japan. The taste and color of pistachio nuts are appealing to the Japanese consumer. The major use for pistachios is as a Snack Food, and the product is mainly sold lightly salted (with the exception of Sicilian pistachios).

In 1997, Blue Diamond Almonds, Rokko Butter's "Q.B.B." and Toyo Nut Food's "Ton" were the three most popular brands for table nuts.

DRIED FRUITS

Dried fruits are not usually distributed directly to consumers through retail stores. On the contrary, most dried fruits are sold to food processing industries for use in making confectionery, bread and pastries. Japanese consumers are unaccustomed to eating nuts and dried fruits. Nuts and dried fruits are relatively expensive compared to beans, an integral part of the Japanese diet, and have limited growth potential for direct consumer sales. The supply of dried fruits in Japan relies on imports.

Some dried fruits such as prunes and raisins have made substantial inroads into the Japanese market as snack products. However, further expansion of consumption will depend on the differentiation of products and efforts to promote more widespread consumption.

The main dried fruits consumed in Japan are raisins and prunes, mainly imported from California. Japan does not grow the types of grapes best suited for producing raisins. Thus, Japan's entire raisin supply is imported. This is the same case for prunes. Almost all Japanese imports of raisins and prunes come from the United States. About 90 percent of all raisins are used to make raisin bread and cookies, while the remaining 10 percent are sold directly to consumers. Prunes have become increasingly popular as health food with domestic demand remaining firm.

Dried apricots, apples, and tropical fruits, such as pineapples, papayas and mangos have gained popularity in recent years. Dried apricots are regarded as high quality products and are particularly popular in the eastern and northern regions of Japan where apricots are grown. Among tropical fruits, a market for dried mango and papaya is beginning to emerge. Mango has an advantage because of its appealing flavor while papaya is appealing because of its color. Papaya is likely to become popular as an addition to *hors d'oeuvre* platters. Banana chips have been accepted as a snack product in Japan. However, annual imports remain relatively small. Due to consumer preference for canned pineapple, dried pineapples have not gained much popularity.

Dried apples are being imported largely from China and are sold mainly in the regions where apples are grown, such as Nagano Prefecture, as souvenirs for tourists. Dried kumquats are imported from Taiwan and also sold as souvenirs. In Japan kumquats are believed to be an effective remedy for colds. For this purpose they are usually eaten after having been steamed for several hours.

IMPORT POTENTIAL

The strong presence of domestic Snack Food manufacturers has resulted in a limited opportunity for importing potato, corn, wheat and rice-based Snack Foods as final products. Therefore, the target for entering the Japanese market in this segment should be to focus on the ingredients used in manufacturing Snack Foods, including processed potatoes, wheat, corn and flavorings, such as spices, seaweed, onion, cheese, garlic, meat, seafood and various gourmet flavors.

Japan does not import many nuts and dried fruits as final products. Most of the nuts and dried fruits are imported as ingredients for bakery and confectionery products. Approaching suppliers for large baking companies and confectionery manufacturers is a good way to try to sell these products in Japan.

For tropical dried fruits imported as final products it is advisable to sell the product in bulk quantities to Japanese manufacturers for repackaging in Japan. This will help simplify compliance with import regulations as well as help to alleviate quality concerns many consumers have for this type of product.

INGREDIENTS

MAIN: potatoes, corn, wheat, vegetable oil, starch, salt, lecithin.

FLAVORS: regular salt, sea salt, beef and chicken consomme, seaweed, sour cream, onion, garlic, barbeque and pizza, horseradish, mayonnaise, bacon, cheese, carotene, calcium, soybean, barley, shrimp, octopus, *wasabi*, plum (*ume*), soy sauce.

DRIED FRUITS: grapes (raisins), plum (prunes), persimmon.

NUTS: almonds, chestnuts, macadamia, nuts, cashews, peanuts, pistachios.

Table 2. Import of Snacks and Ingredients used in Snacks (1995 - 1997)

	Value (yen million)			Volume (metric tons)			Tariff Rate
	1995	1996	1997	1995	1996	1997	
Uncooked potatoes	4,645	6,179	6,488	389	652	775	9.0%
Wheat	102,546	137,409	133,736	4,862,411	4,775,407	5,144,679	0 - 58.3‰/kg
Rice	1,953	15,183	40,018	28,971	444,992	567	Free
Dried Fruits (*total*)	9,746	11,412	13,475	52,902	52,638	55,265	2.7 - 34.7%
- Dried Grapes	4,245	5,327	5,581	29,243	30,819	27,970	1.50%
- Prunes	3,301	3,437	4,658	14,255	13,427	18,329	2.9%
Edible Nuts (*total*)	32,073	40,224	39,984	84,078	79,153	75,904	0 - 14.8%
- Walnut	3,483	5,432	5,784	8,805	9,451	8,763	13.3%
- Cashew Nuts	3,216	3,977	4,098	6,413	6,563	6,526	Free
- Pistachios	3,384	3,377	2,982	8,565	6,984	5,658	3%
Seaweed	12,896	13,669	16,381	41,644	42,392	48,743	0 - 10.5%

Note: Tariff Rate is WTO rate *Source: Japan Exports and Imports 1998*

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