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Market Brief

Japan : Food Processing Sector - Western Bakery Products

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Tokyo[JA1], JA

WESTERN BAKERY PRODUCTS

OVERALL TRENDS

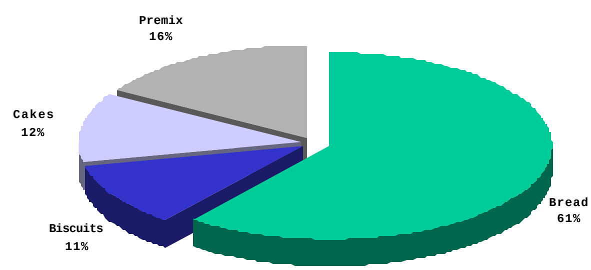
The market for Western Bakery Products has been generally stable in recent years, with annual production averaging around two million metric tons in the last five years with less than one percent growth year to year. With the declining number of children in Japan and growing health consciousness making sweets less popular, this sector is not expected to show significant growth in the immediate future.

While the Western Bakery Products sector as a whole has not shown significant growth in recent years, there is always change in the this sector as new products become popular and others decline. Recently, various international bakery products have appeared in Japan including, Indian "nan," Belgian "waffles," Mexican "churros," Brazilian "pao de quagio" and bagels.

The Western Bakery Products sector includes the following four categories: 1) breads; 2) cake and batter mixes; 3) biscuits and cookies; and 4) western cakes and pastries.

The market for wheat in Japan is tightly controlled by a system of price supports and Agriculture Ministry control. Most domestic and imported wheat is purchased by the government, which then sells the wheat to flour milling companies. The wheat sector was liberalized in 1995 to allow private companies to import foreign wheat. However, because the government sets the price for flour there is little incentive for private companies to import wheat, and most imports are still controlled by the government. As a result of this price support system, there is a large gap between foreign and domestic wheat prices.

Chart 1. Production of Western Bakery Products in Japan (1997)



BREAD

The bread market in Japan is generally stable, with production and sales averaging only a 1 percent gain or loss year to year. Production grew by over 3 percent in 1994 due to rice production shortfalls in that year.

In 1997, 4.6 million metric tons of bread were produced in Japan. The largest bread producers in Japan are Yamazaki Baking Co., Shikishima Baking Co., Fuji Bread Co. and First Baking Company. New players in the bread market include Itochu and Ajinomoto, which are both supplying Seven-Eleven stores in Japan with freshly baked bread. Another new player is Nichirei Corporation which started a new company called "Ina Bakery" to provide McDonald's with hamburger buns.

White bread maintains the largest share of the bread market. However, sales have declined for the last five years. Sales of bread made specifically for school lunches are also declining as the number of school age children drops and schools begin to use more rice rather than

Table 1. Production of Western Bakery Products in Japan						
	1992	**1993**	**1994**	**1995**	**1996**	**1997**
Flour	4,363	4,478	4,646	4,659	4,676	4,655
Bread	1,180	1,182	1,221	1,220	1,230	1,222
Biscuits	250	250	231	225	228	226
Cakes	237	239	236	241	244	242
Pre-mix	262	274	287	298	320	329
Production in 1000 metric tons						

Source: Food Agency Survey on Production of Rice and Wheat, Ministry of Agriculture, Forestry and Fisheries

bread. Since these two markets are not expanding, producers are introducing specialty bread products to spur growth.

Following the trend toward health consciousness, bakeries are producing such items as calcium enriched breads, organic breads and additive-free breads. Bakeries are also producing bread in smaller portions to respond to the growing number of people living alone in Japan. European style breads (baguettes, rye bread) are also gaining in popularity as are breads with added ingredients such as vegetables (spinach bread), cheese, sausage, walnuts, raisins, and almonds. There are also a wide variety of sweet breads on the market with added chocolate, sweet bean paste (*anko*) or jelly filling.

Bagels have become a popular product recently in Japan, sold in both bakeries and convenience stores. In 1998 Family Mart, a large convenience store chain, introduced a line of pre-made bagel sandwiches which can be heated up in the store. Most bagels are made from imported frozen bagel dough.

Canada is the largest supplier of bagel dough to Japan, followed by the United States. The use of frozen dough in bread production has grown rapidly in the last ten years, due to the growth of in-store bakeries. In-store bakeries became popular during the bubble years of the 1980's. Their numbers declined in the early 1990's, but have begun to come back during the recession as supermarkets increasingly offer in-store bakeries to lure customers away from competitors. The use of frozen dough has mirrored the popularity of in-store bakeries. Using frozen dough, small shops can produce fresh bread in a short time without large kitchens or staff. Today, roughly 5 percent of the bread on the market is baked using frozen dough.

Specialty bakeries such as Anderson, St. Germain and Kobeya are trend setters which have been successful introducing variety breads such as wheats and ryes which use dried fruits and nuts. They sell these breads independently or use them in delicatessen sandwiches for take out use.

BISCUITS, COOKIES and CRACKERS

Facing tough competition from other sectors, the market for biscuits has declined in recent years with production falling by more than 9 percent between 1992 and 1997, from 250,000 metric tons to 226,000 metric tons. Biscuit makers have had few products to spur market growth. Sales of biscuits with added nutritional supplements, such as Otsuka

Seiyaku's "Calorie Mate" and Pola Food's "Balance Up" have been falling due to the introduction of new nutritional products in other sectors. Further, cost reduction in the fast food industry is hurting sales of biscuits and other low priced snacks with which they compete. Imports in this sector have been very sensitive to currency fluctuations. Imports of biscuits grew by more than 60 percent in 1995 when the yen was strong, but have fallen off since the yen has weakened.

Popular types of biscuits and cookies in Japan include butter cookies, sandwich type cookies with chocolate, vanilla or strawberry filling, cookies with added raisins or dried fruit and chocolate chip cookies. Best selling products in the biscuit market include "Harvest" apple and raisin flavored cookies by Tohato, "Country Ma'am" chocolate chip cookies by Fujiya, "Oreo" by Yamazaki Nabisco, "All Raisin" by "Tohato" and "Coconut Sable Biscuits" by Nisshin Cisco. Popular new products include Tohato's "Naturot," a chocolate chip cookie made from organic ingredients, "Shortbread Sunao" by Ezaki Glico and "Biscottino" by Fujiya, an Italian biscotti type cookie.

The top five biscuit makers in Japan are Bourbon, Yamazaki Nabisco, Tohato, Meiji Confectionery and Morinaga Confectionery. Yamazaki Nabisco dominates the cracker market with over 90 percent of sales. The company's three best selling products are "Ritz," "Ritz Bitz" and "Premium Saltines."

PRE-MIX

The market for pre-mix in Japan is divided between pre-mix for commercial usage, which makes up roughly 80 percent of sales, and pre-mix for home usage, roughly 20 percent of sales. In 1997 pre-mix production equaled 329,000 metric tons, up 20 percent in the last five years.

The pre-mix sector includes mixes for tempura, bread, pancakes, doughnuts, dumplings and cake mixes. Tempura mix and pancake mix are the most popular products in the home use market.

In the commercial sector tempura, pancake mix and doughnut mix are the biggest sellers. Recent popular commercial products include Belgian waffles, which have become popular in coffee shops, and crepes, which are popular among young people.

The home usage market has become more active recently due to improvements in kitchen technology, including bread machines and microwave ovens with baking ability. Sales of bread machines were introduced to Japan in 1987 and boomed with 760,000 units sold that year. Sales soon declined however as this product gained a reputation as something that took up space but was rarely used. However, with the rice shortages of 1994, home baking began to regain popularity. National Electronics and other companies introduced new types of bread making machines in 1994 with sales reaching 90,000 units. Home baking has also benefitted from the recent health trend in Japan, since consumers know and trust the ingredients of the bread they bake themselves and can choose to add supplements, such as wheat germ. To respond to this trend, electronics makers are working to simplify bread making machines while pre-mix manufacturers are introducing new products adapting to this new technology such as quick rising flour.

Large pre-mix producers in Japan include Nisshin, Morinaga Confectionery and Nagatanien. In addition, Ajinomoto General Foods has recently entered this market with new and easy to make small portion pancake and muffin mixes.

Table 2. Imports of Bakery Products

	Quantity (metric tons)				Value (Yen millions)				Tariff (%)
	1994	1995	1996	1997	1994	1995	1996	1997	
Bread	2,403	3,218	4,875	4,367	396	472	902	987	11
Biscuits	9,847	15,823	11,010	10,421	4,725	6,490	5,579	5,623	21.3-24.9
Pastry, cakes, etc.	4,627	7,898	10,590	12,943	1,925	3,159	4,584	5,466	22.9-27
Pre-mix and dough	36,950	35,658	37,887	43,379	3,833	4,266	6,148	7,433	14.4-25.2

Tariff rate is WTO rate *Source: Ministry of Finance Trade Statistics*

CAKES and OTHER BAKERY PRODUCTS

Cake shops are having a difficult time during the current recession as consumers become more frugal. Annual household expenditures for cakes decreased to 8,384 yen in 1997 from a peak of 10,130 yen in 1993. In the retail sector there are two types of cake shops in Japan, large chains and small neighborhood shops. Large chains have stores located in train stations and department stores. These chains are able to offer cakes at low prices due to efficient production and sourcing methods. Examples of large chains include Cozy Corner, Fujiya Co., Takarabune and Chatrese.

Small neighborhood cake shops emphasize selection and service. Shops which can bake on-site are the most popular. Cake shops in Japan sell a wide variety of products for take-out or in-house consumption with coffee or tea. Cake shops are increasingly using imported frozen fruit as both a topping and ingredient for their products. Frozen fruit is cheaper and less labor intensive than fresh fruit, and its supply is more stable.

In the commercial sector, coffee shops, family restaurants and small "pensions" (*ryokan)* have begun using frozen cake to differentiate their menus from competitors. This has created new opportunities for

imports. Because of lower procurement costs overseas, imported frozen cakes offer a price advantage over domestic products. While imports of other bakery products have been tied to the strength of the yen, imported cakes have risen steadily in recent years despite the weakening yen.

IMPORT POTENTIAL

Imports in this sector are divided into finished products and ingredients. Imports of most finished goods rise and fall depending on the strength of the yen. Imports of frozen cakes have increased rapidly in recent years, despite the weakening yen, as restaurants have found these products to be an inexpensive way to diversify their menus.

Frozen dough is another area with promising import potential as the percentage of bread sold in the market baked from frozen dough increases. Currently, most bagels sold in Japan are made from imported frozen dough. Canadian companies have been much more aggressive than American companies in entering this market according to the Japanese Baking Industry Association.

Warehouse and transportation costs are major obstacles to imports of both frozen cakes and dough since they contribute to higher prices. It is important for importers of frozen bakery products to make distribution as direct as possible to keep costs down.

Ingredients with import potential in Japan include various nuts, dried, canned and frozen fruit, extracts and essences and functional additives used in breads, biscuits and cakes. In recent years frozen fruits have been used by cake makers in Japan to add variety to their products. Most strawberries used in cakes are domestically produced, however raspberries, loganberries, blueberries, black currants and cranberries are all imported for use in cakes. These products are either imported whole and used as a topping, or in puree and crushed form to be used as an ingredient. Most blueberries imported to Japan come from North America. Raspberries imported from France are popular due to the country's reputation for confectionery. However, many of these raspberries are actually grown in Romania and are only washed and packed in France.

FINISHED PRODUCTS
Biscuits
Frozen Cakes and Pastries
Frozen Bread
Bagels, croissants, baguettes, etc.

SEMI-FINISHED PRODUCTS
Pre-mix
For pancakes, donuts, bread, muffins.
Frozen Dough
For bread, bagels, rolls, croissants, cookies, muffins.

INGREDIENTS
Canned and Frozen Fruit
Raspberries, loganberries, cranberries (whole or crushed), blueberries (whole or pureed), banana puree, sliced apples.
Fresh Fruit
Strawberries, bananas, peaches, bing cherries, kiwis, plums.
Dried Fruit
Raisins, prunes, dates, figs, apples, orange peel, lemon peel.
Fresh, Dried and Pureed Vegetables
Spinach, carrots, pumpkin, tomatoes, potatoes.
Nuts
Walnuts, pecans, almonds.
Flavorings and extracts
Natural and artificial flavorings.
Dairy Products
Cheese, cheese powders, butter, butter flavoring, whey protein concentrates.
Functional Additives
Emulsifiers, conditioners, lecithin, fat replacers.

This report is in the series as follows:

JA9044 Food Processing Sector - Overview
JA9045 Food Processing Sector - Dairy Products
JA9046 Food Processing Sector - Frozen Food
JA9047 Food Processing Sector - Health and Functional Foods
JA9048 Food Processing Sector - New Age Beverages
JA9049 Food Processing Sector - Retort Pouch Food
JA9050 Food Processing Sector - Snack Foods
JA9051 Food Processing Sector - Western Bakery Products
JA9052 Food Processing Sector - Western Confectionery Products