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# Market Brief

# Japan : Food Processing Sector - Overview



Tokyo[JA1], JA

# JAPANESE FOOD PROCESSING SECTOR

**OVERVIEW**

The Food Processing Sector is a mature industry in Japan showing little fluctuation in production or employment year to year. In 1997 the food, beverage and alcohol industries in Japan produced 24 trillion yen worth of products and employed 1.2 million workers in over 43,000 companies.

Products which have shown steady growth during the recent recession include health foods, retort foods, frozen foods and soft drinks (including new age beverages). Declining sectors include sugar and sugar products, canned goods and fruit and vegetable juices.

**FOOD CONSUMPTION TRENDS**

There have been three significant trends affecting Japanese food consumption patterns in recent years. The first is the growing consumption of processed food. Second, is the westernization of the Japanese diet. Finally, in response to the effects of the first two trends, Japan is also experiencing a health food boom.

In recent years Japanese consumers have come to rely more and more on processed foods as a substitute for preparing meals from scratch. Between 1993 and 1997 production of retort foods increased almost 19 percent while sales of frozen prepared foods increased 17 percent.

The popularity of these foods is explained by changes in the Japanese lifestyle. These changes include more people living alone, more working women in the population and busier schedules for working people. The number of one person households rose 21 percent between 1990 and 1996 and the number persons over 65 living alone increased by 46 percent. The number of female employees in the Japanese workforce has risen more than 16 percent in the last ten years. With more singles living in Japan with less time to prepare meals, consumers are looking for faster and more convenient ways to eat. This has resulted in higher sales of processed foods such as microwave dinners and retort packages. These products are especially popular among the rising numbers of elderly people living alone in Japan who are looking for ways to ease their daily burden.

The popularity of processed foods has been fostered by the rise in convenience stores in Japan which sell various ready to heat and ready to eat meals. The number of convenience stores increased by 67 percent between 1987 and 1997. Sales of take out foods at convenience stores reached 947 billion yen in 1997, an increase of 5.3 percent over the previous year. Supermarkets are also stocking more ready to eat meals, as well as packaged combination foods known as “meal solutions.”

The Japanese diet has become more westernized in recent years. Evidence includes the increase in western style fast food chains and the wide availability of well known western brands of crackers, cookies and potato chips on convenience store shelves. Today Japanese households consume 14 percent more beef and 20 percent less rice than they did in 1990.

The most prominent sign of the popularity of western foods is the current Italian food boom in Japan. Pasta has become a popular meal for Japanese people with annual per capita consumption of pasta rising from 1.31 kg in 1990 to 1.83 kg in 1997. Some industry experts expect annual pasta consumption to eventually reach the U.S. level of 5 kg per capita. Both domestic production and imports of pasta have risen in recent years. The Italian food boom has also supported smaller booms in both cheese and wine consumption.

Cheese consumption has risen in recent years as new uses are found for this product. Besides use by restaraunts in pizza and gratin, new home uses are being found for cheese. Processed cheese and cheese spreads have become popular breakfast foods and quick snacks. Supermarkets have increased the shelf space devoted to both processed cheese and imported natural cheese.

The Japanese wine boom, which began in 1993, was sparked by medical reports that anti-oxidants in wine help prevent the build-up of cholesterol in blood. In 1997 wine consumption jumped by almost 32 percent over the previous year. The increase in wine sales was accompanied by the introduction of high-quality, low-priced imports from Chile, Argentina and South Africa.

As a result of the changing Japanese diet, fat intake has increased pushing up the average weight of Japanese. This trend has sparked a growing interest among Japanese to maintain a more healthy diet. Further, due to the country's rapid aging rate, Japanese people are encouraged to take greater responsibity for their health to ensure that the country is not overwhelmed by the social security burden of a greying population. This has led to a rising interest in health care and health maintenance. Indications of this growing health consciousness include an increase in the number of health clubs and an increased knowledge of nutrition and dietetics, according to surveys.

This interest in health maintenance has affected not only the health food market, which has grown rapidly, but the entire food processing industry. Instead of soft drinks, ice cream and cakes, consumers are selecting sugar-free canned teas and mineral water, breads with added bran or wheat germ and yogurt with lactic bacteria to aid digestion. Organic foods have also grown in popularity and are estimated to be a 150 billion yen market. Processed foods such as microwave dinners, retort pouch and snacks are emphasizing such attributes as "fewer calories," "less salt," and "organically grown."

**FOOD SERVICE**

The Japanese food service industry is broken down into two sub-sectors, restaurant (*gaishoku*) and take-out from convenience stores and supermarkets (*chushoku*). Because of the recession in Japan, the restaurant sector has been experiencing little growth in recent years because consumers have been going out less and because pressure on prices has reduced operating margins.

From 1991 to 1997 total Japanese restaurant sales grew by 10.6 percent, an average of 1.8 percent per year. Total sales in 1997 (estimated) reached almost 40 trillion yen up from 36 trillion in 1991. While total sales show this modest growth, Japanese style food restaurant sales have grown by a mere 0.5 percent since 1991 while sales at cafes and pubs have dropped by 7-8 percent during the same period. On the other hand, fast food sales have grown by 14.7 percent since 1991 while food sales at hotels and traditional Japanese inns grew by 20 percent in the same period. The fastest growing segment in the restaurant industry since 1991 has been home delivery, growing by 47 percent to approximately 500 billion yen in 1997. Home delivery pizza continues to be a strong seller in this market.

**PRODUCTION TRENDS**

Recent production trends in the processed food industry include the following: 1) a streamlining of the distribution system; 2) increasing overseas production; 3) stricter food safety procedures; and 4) new rules on the use of foods produced with recombinant DNA.

Consumers have become much more price conscious in the 1990's because of the recession and the increase in low priced imports. Consumers are no longer willing to accept retail price maintenance by manufacturers and wholesalers. In order to cut costs and remain competitive, producers and retailers have had to streamline Japan's notoriously complex distribution system. Retailers are bypassing wholesalers by sourcing directly from manufacturers. This trend includes the increased sale of private brand products manufactured specially for individual retailers.

Another change is the collapse of the Recommended Retail Selling Price (*Tatene*) system in Japan. Under the old system, manufacturers were able to dictate prices to retailers. Today, using Point of Sales (POS) on-line systems, retailers are able to accurately determine the best price for a product. Using this data they are able to negotiate a purchasing price with producers. Due to these changes, Japanese wholesalers have been going bankrupt at record levels.

Growing numbers of Japanese food processors have begun producing overseas for import into Japan. Since 1994 there have been an average of 75 new cases of foreign direct investment by Japanese firms in the food processing industry. The value of this investment averaged 945 billion yen a year. Investing abroad allows food processors to take advantage of both the strong yen and access to inexpensive fresh ingredients. Foreign direct investment in the production of frozen foods in Asia is especially strong.

Food safety has been an increasing concern in Japan due to the out-break of the e-Coli (O-157) bacillus in 1996, which caused the death of several children. Reports of Mad Cow disease abroad have also increased concerns. In May 1995 the Ministry of Health and Welfare overhauled its approval system to
introduce the Hazard Analysis and Critical Control Point (HACCP) system to Japan. HACCP is a comprehensive hygiene program first developed in the United States. This process involves monitoring for harmful organisms throughout the production process. The HACCP system was first implemented in May 1996 in the milk and milk products industry.

Food processing industries and restaurants have also become more concerned with food quality due to the new Product Liabilty Law enacted in 1995. According to this new law, consumers no longer need to prove intent or negligence by manufacturers to win a lawsuit against food producers. Based on these legal concerns Japanese importers of foreign food products are likely to require more information from foreign manufacturers about their quality assurance programs.

One of the most significant changes in the agriculture and food processing industry in recent years has been the advances made in bioengineered foods. Increasingly, genetically modified foods (referred to as Genetically Modified Organisms [GMOs]), including tomatoes, soybeans and corn, are being introduced to world markets. Japan has been working steadily to approve these products for import and sale in Japan.

Using standards devised in 1992, the Ministry of Health and Welfare (MHW) first allowed GMOs to be imported only if the organism itself was not eaten and the product was similiar to an existing product. Using this definition, the MHW allowed the sale of

**Production of Processed Foods in Japan** (In Million Yen)

| | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| **Alcohol** | 4,533,509 | 4,698,838 | 4,645,155 | 4,814,050 | 4,759,106 |
| **Milk & Dairy** | 2,051,282 | 2,105,773 | 2,003,500 | 2,089,101 | 2,100,830 |
| **Canned Goods** | 479,258 | 442,490 | 410,318 | 394,936 | 388,689 |
| **Fruit & Vegetable Juice** | 669,374 | 677,274 | 620,423 | 620,020 | 613,389 |
| **Soft Drinks & Beverages** | 2,827,084 | 3,062,743 | 2,987,200 | 3,057,575 | 3,136,210 |
| **Coffee & Tea** | 942,800 | 936,250 | 961,300 | 958,300 | 981,100 |
| **Oils & Seasonings** | 1,895,778 | 1,914,148 | 1,895,545 | 1,930,029 | 1,948,177 |
| **Processed Meat & Seafood** | 1,227,593 | 1,222,606 | 1,213,000 | 1,185,860 | 1,207,200 |
| **Retort Foods** | 198,661 | 211,557 | 223,190 | 222,215 | 230,740 |
| **Bread, Noodles & Pasta** | 2,440,280 | 2,381,730 | 2,385,300 | 2,389,800 | 2,383,300 |
| **Confectionery** | 2,573,600 | 2,500,500 | 2,500,000 | 2,522,300 | 2,527,000 |
| **Sugar & Sugar Products** | 462,364 | 453,557 | 423,957 | 442,315 | 426,351 |
| **Frozen Food** | 958,663 | 983,956 | 1,010,555 | 1,014,280 | 1,049,740 |
| **Health Food** | 253,000 | 310,000 | 340,000 | 277,000 | 290,000 |
| **Other Agricultural Products** | 1,769,200 | 1,742,894 | 1,758,350 | 1,767,176 | 1,771,646 |
| **Other Seafood Products** | 1,409,970 | 1,412,040 | 1,369,520 | 1,376,140 | 1,350,260 |
| **Total** | 24,023,042 | 24,379,082 | 24,126,890 | 24,441,077 | 24,550,349 |

*Source: Nikkan Keizai Tsuhinsha*

cheese produced with "chymosin," a genetically altered enzyme. In 1996 the MHW revised its guidelines to allow whole plants that have been genetically altered to be imported into Japan. Today, 20 GMO food products have been approved by the MHW for sale in Japan.

**IMPORT POTENTIAL**

The growing popularity of processed foods in Japan combined with the appreciation of the yen has created a growing market for suppliers of both processed foods and ingredients for processed foods.

Facing the need to cut costs processed food producers and the food services industry are not only sourcing more raw materials abroad but also having a greater percentage of food processing and production done overseas where production costs are lower. Increasingly, food is washed, cut, seasoned, frozen and packaged abroad. Examples include frozen mixed vegetables for retail sales, pre-cut and seasoned frozen chicken used by Japanese *yakitori* restaurants, and frozen bread dough used by bakeries.

Supermarkets and convenience stores are also cutting costs by importing processed foods directly, rather than relying on large trading houses (*Sogo Shosha*). Retailers such as Daiei and Seiyu are relying on the concept of "develop-and-import" (*kaihatsu yunyu*), in which products are processed overseas according to their specifications and then sold as private brands. Retailers go as far as to provide the seeds for Japanese varieties of vegetables. Examples of develop-and-import products include soft drinks, frozen vegetables and chilled sliced beef. Potential suppliers should consider this sort of arrangement when approaching the Japanese market.

The food service industry is also looking to cut costs and has increased procurement of highly processed foods. Using processed foods such as pre-cut vegetables and retort sauces reduces both preparation time and waste. Companies interested in supplying restaurants and other food service companies should consider approaching large chains of family restaurants such as Skylark, Jonathan's and Royal Host, as well as fast-food restaurants such as Yoshinoya and izakaya chains, such as Tengu and Tsubohachi. These restaurants often have strict specifications of how foods should be prepared and served. Potential suppliers should be prepared to modify their products to meet these specifications.

The recent changes in the Japanese diet offer new opportunities for suppliers of finished products to Japan. With Japanese tastes becoming more westernized and internationalized, supermarkets and convenience stores are carrying more products such as pasta, pasta sauce, taco shells, salsa and imported premium ice cream. The current health boom offers opportunities not just for makers of vitamins and nutritional supplements but other processed foods which claim health benefits, such as high fiber cereals and health drinks. Suppliers should keep these trends in mind when approaching the Japanese market.

This report is in the series as follows:

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