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Report Highlights:

In 1999, total national supermarket food sales declined 3%. Results remain to be seen from the large-scale supermarket, convenience, and home meal replacement (HMR) subsectors in which U.S. Agriculture enjoys comparative advantages. These subsectors demonstrated substantial growth in 1998 despite stagnation of the overall supermarket sector and general recession. 1998 retail sales in Japan's retail food sector reached nearly \$380 billion. Large-scale supermarket food sales rose 5.4% nationwide in 1998, with key regions registering as high as 17% growth. HMR sales gained 3.5%, with some national retailers registering as high as 7% growth in HMR. ATO Tokyo expects an eventual slowdown in these subsectors, as new store openings taper due to the official one-year moratorium on new stores which commenced June 2000. Large-scale supermarket chains are streamlining distribution, while seeking direct overseas private label sources. Processors with entrenched domestic and third-country sources are tying in closely with top retailers, applying "efficient consumer response" systems, potentially locking U.S. suppliers out long-term, absent an aggressive and immediate marketing response.

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PREFACE: A CALL FOR ACTION

Japan remains U.S. Agriculture's largest and single most lucrative consumer foods market worldwide with dynamic, underestimated opportunities for innovative producers. Preliminary reports indicate that in 1999, total national supermarket food sales declined 3%, with supermarket foods comprising a preponderance of total Japanese retail food sales of \$378.6 billion in 1998. Detailed analysis of 1998 results reveals substantial market strength. Market segmentation analysis reveals that Japan remains a lucrative growth market for high value and value-added food exports. Results remain to be seen from the large-scale supermarket, convenience, and HMR subsectors in which U.S. Agriculture enjoys potential comparative advantages.

Despite overall 1998 growth being flat due to Japan's prolonged economic recession, the retail food sector produced dramatic growth in these huge subsectors. In the trough of the recession, food and beverage sales registered 4.6% growth to \$39 billion in the convenience store sector and 5.4% growth to \$55.4 billion in the large-scale supermarket nationwide, with key virtually untapped provincial regions registering from 9% to 17% annual growth among large-scale supermarkets. ATO Tokyo expects an eventual slowdown in these subsectors as new store openings taper due to the official one-year moratorium on new store openings which commenced June 2000. Yet, real results point to huge opportunity and exemplify the need to dispel unfounded negative visceral misperceptions regarding the impact of the general economy on retail food sales. Moreover, buoyed by improved consumer confidence and signs of recovery of other Asian economies, as of the fourth quarter of 1999, OECD and IMF analysts are optimistic for a notable rebound in the Japanese economy in the year 2000. New store sales drove retail food sales growth in 1998 through mid-1999, pointing to aggressive infrastructural expansion among the leading chains, at the direct expense of traditional and department store sectors.

Against this upbeat backdrop, the largest challenge in the Japan market is not demand, but supply...the insufficient availability of U.S. food products attractive to the discerning Japanese consumer, and the commensurate insufficient awareness of U.S. export-ready producers regarding what it takes to access demonstrably outstanding growth opportunities in Japan. For the first time in history reflecting the recent U.S. foodservice revolution, high quality U.S. products match Japanese consumers needs, due to an increasing convergence of food cultures, quality expectations, and retail motifs. The U.S.-Japan HMR booms present an unprecedented chance to bridge the need for developing retail-oriented high value and value-added export-ready products, targeting the retail sector. Total HMR sales in Japan reached ¥6.8 trillion (\$60.96 billion) in 1998, up 3.5% from 1997. A unique, temporary window has opened to deep, long-term market penetration, an opportunity not lost on aggressively funded third-country competitors.

Large-scale supermarket chains are streamlining distribution, eliminating intermediaries, while seeking direct overseas private label sources. Processors with entrenched domestic and third-country sources are tying in closely with top retailers, applying "efficient consumer response" systems, potentially locking out U.S. suppliers long-term, absent a commensurately aggressive and immediate marketing response. The competition is lining up to take advantage...hence the ATO Japan call for action. This is not the time to "coast". Accordingly, the following report highlights the size, structure, key trends, entry strategies, and competitive environment characterizing the Japanese retail sector to guide current and prospective U.S. food exporters towards market opportunities.

Terrence Barber
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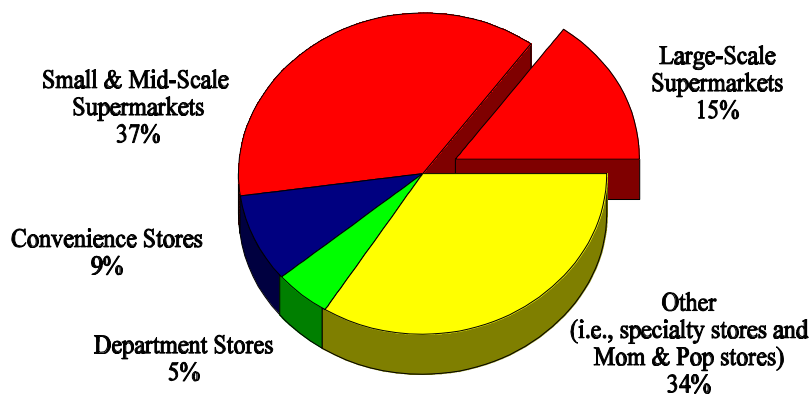
I. MARKET SUMMARY

Large-Scale Supermarkets Lead Growth

Supermarkets are the primary retail distribution channel for food in Japan. Total supermarket food sales of \$196.9 billion in 1998 (more than the entire GDP of Sweden) accounted for more than half of total Japanese retail food sales. Within key strategic supermarket segments, growth is strong. Sales in one such segment alone, large-scale supermarkets¹, grew at 5.4% in 1998 to ¥6.2 trillion (\$55.37 billion)² (nearly the entire GDP of New Zealand). Moreover, large-scale supermarkets in key provincial, "regional", markets registered as high as 18% growth, as detailed below. This growth phenomenon reflects the current flurry of market rationalization, occurring at the direct expense of traditional, specialty, and otherwise, "mom and pop" sectors, which tend to use domestic sources predominantly. In contrast, large-scale supermarkets tend to be favorably predisposed towards western food imports.

Supermarkets Lead Japan Retail Food Sales

Total Retail Food Sales \$378.6 Billion (1998)



Source: Sub-sector shares based on MITI Commercial Census (1997); Total retail food sales and large-scale supermarkets' share based on MITI Yearbook of the Current Survey of Commerce (1998).

Some salient points warrant attention:

- C Clearly, large-scale supermarkets comprise one of the fastest-growing sub-sectors of the retail food market. Out of total 1998 retail food sales in Japan of over ¥42 trillion (\$378.6 billion) nationwide, large-scale supermarket food and beverage sales, accounted for nearly 15% of total retail food sales in 1998. The top five national supermarket companies (Daiei, Ito-Yokado, Jusco, Mycal, and Seiyu) together accounted for nearly 7% of total retail food sales at \$24.8 billion nearly half of total sales for large-scale supermarket food sales nationwide.

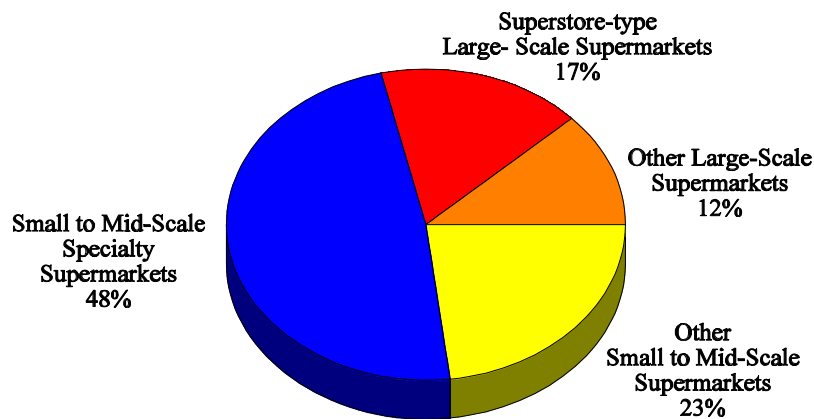
¹ Defined as stores with a floor space greater than 1500 m², hence, stores falling under the purview of the Large-scale Retail Store Act.

² All currency conversions in this report were done using a 5-year weighted average of ¥112/\$1.

- C Supermarkets have also been the fastest growing subsector in terms of the number of outlets. While far outnumbered by the more than 1 million small traditional specialty shops across Japan, supermarkets totaled more than 140,000 in 1997, compared to 36,631 convenience stores and 476 department stores.
- C The growth in supermarkets has also been accelerated by a boom in neighborhood strip malls and large-scale shopping mall development throughout Japan in which large-scale supermarkets and department stores serve as anchor stores promoting western lifestyles and western food purchases. Rushing to open outlets before the new Large-Scale Retail Store Location Law goes into effect in June 2000, the six leading national supermarket chains (Daiei, Ito Yokado, Jusco, Mycal, Seiyu and Uny) have been executing plans to open a record number of new stores in 1999 (66 outlets) and 2000 (87 outlets).

Supermarket Food Sales by Store Type

Sector Totals \$196.9 Billion in 1998

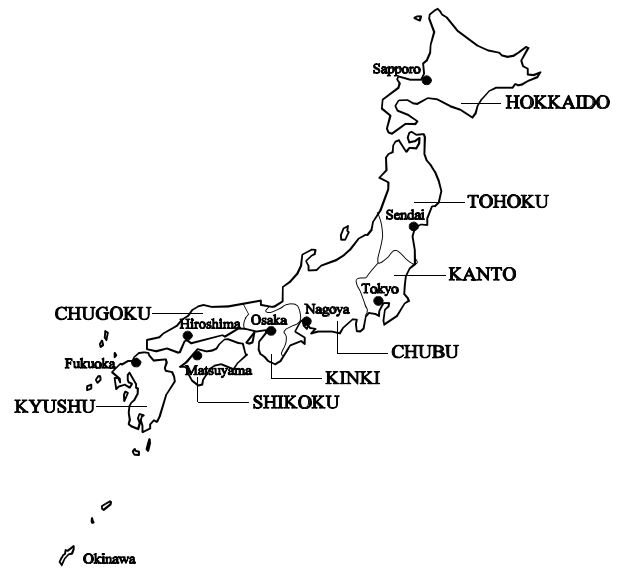


Source: MITI Commercial Census (1997) and MITI Yearbook of the Current Survey of Commerce (1998); Superstores defined as >3000 m²; Large-scale stores defined as >1500 m².

Regional Supermarket Sales Show Strong Growth Despite Recession

Positive trends in the large-scale supermarket segment serve to illustrate regional market dynamics which point to opportunities for U.S. exporters. Tokyo and the Kanto region, where nearly one-third of Japan's population resides and the traditional entry point for new-to-market imports, accounts for 40% of Japan's large-scale supermarket food sales which grew at a healthy rate of 4.8 percent in 1998. Among large-scale supermarkets, sales in the Kinki (led by Osaka) in Western Japan, Japan's second largest, yet less penetrated regional market, also increased 4.8 percent during the same period. Although the smallest in terms of population, the island of Shikoku was the fastest growing of all of the regional markets, with an 18% increase in sales. The Hokkaido and Kyushu markets posted large-scale supermarket food sales growth rates of 9.2% and 3%, respectively, in the trough of the recession. Notably, Kyushu alone possesses a GDP which exceeds South Korea, Australia, and the Netherlands, individually, while boasting a population the size of the Netherlands. With a population double that of Kyushu, Chubu large-scale supermarket food sales (led by Nagoya) registered 10 percent growth. Culturally, Chubu is only now beginning to internationalize, pointing to a great untapped market opportunity. If these regions were seen as separate country markets, as they tend to have regarded themselves historically, there would be no question of the market opportunity, as the competition is already well aware.

| Region | Population (Million) ¹ | Large-Scale Supermarket Food Sales (\$ Billion) ² | Regional Share of Sales (%) | Growth Rate '98/'97 (%) |
|----------|--------------------------------------|---|--------------------------------------|----------------------------------|
| Hokkaido | 5.7 | 2.8 | 5 | 9.2 |
| Tohoku | 9.9 | 4.2 | 7 | 0.4 |
| Kanto | 39.5 | 22.2 | 40 | 4.8 |
| Chubu | 23.2 | 5.5 | 10 | 10 |
| Kinki | 20.5 | 11.9 | 22 | 4.8 |
| Chugoku | 7.8 | 3.2 | 6 | 3.3 |
| Shikoku | 4.2 | 1.6 | 3 | 17.9 |
| Kyushu | 14.8 | 3.7 | 7 | 3.0 |
| TOTAL | 125.6 | 55.22 | 100 | 5.4 |



Source: ¹ The Japan Food Journal, Food Distribution Map 1999
² MITI Yearbook of the Current Survey of Commerce 1998

Home Meal Replacements (HMR) Take Off and Sustain Growth

The take-out market segment represents the fastest growth opportunity in the Japanese food sector as a whole, dramatically affecting supermarket competitive strategies, hence, market penetration opportunities. HMR foods (ready-to-cook, ready-to-heat, or ready-to-eat meals) are a hit. HMR sales continue to outpace other food categories in both retail and food service, forcing an increasing blurring of the lines between the two channels. Total HMR sales reached ¥6.8 trillion (\$60.96 billion) in 1998, up 3.5% from 1997. In the overall market, while 1999 performance figures are not yet available, 1998 reflects a persistent ongoing trend.

Convenience Stores Flourish

Convenience store food sales rose 10% in 1997, settling to 4.6% growth in 1998 at \$39 billion. Total convenience store HMR sales reached close to ¥2.2 trillion (\$19.5 billion) in 1998.

U.S. Competitive Position Remains Firm

Despite a shrinking import market in recent years and a renewed focus on self-sufficiency, the U.S. has managed to maintain its competitive positioning in overall high value products. Japan's imports of consumer-oriented food products totaled slightly more than \$19 billion in 1998, with the U.S. capturing a 29-percent share, followed by China and Australia with 13-percent and 8-percent shares, respectively.

Demographic Trends Point to Opportunity

Fundamental demographic shifts are rapidly changing consumer behavior in Japan. Most notable, Japan has the fastest growing elderly population in the world, expected to reach 25 percent of the total population by the year 2015 and creating significant new opportunities for sales of health-oriented food products and services.

Efficient Consumer Response (ECR) Systems Innovations Call for Strategic Alliances and E-Commerce

Although the rationalization of Japan's traditional distribution system over the past decade has eliminated many layers of inefficient and unnecessary intermediaries, inland transportation costs continue to be one of the most inhibiting aspects of retailing in Japan, inflating the prices of both domestic and imported products. Who will absorb this burden has become a significant issue for large-scale retailers and their relationship with wholesalers and manufacturers as they look for ways to increase their margin and/or lower prices *vis-a-vis* competitors. Therefore, major retailers and suppliers including manufacturers and their distributors, are currently negotiating "efficient consumer response systems" which optimize costs and deliverable quality through long-term value chain relationships. To avoid being left in the dust, now is precisely the time for the U.S. exporters to focus on generating marketing systems innovations such as cross-border electronic commerce, strategic alliances with freight forwarding consolidators and distribution companies, and private-label alliances with Japanese retailers.

Wary Consumers Demand Healthy, Natural Food

Japan continues to be a growing market for organic and natural foods, fueled in recent years by consumers' awareness of an increasing number of controversial food safety issues such as *e-coli*, dioxin and pesticide contamination, cloned beef and now biotech foods. To further promote this trend, the Japanese government recently developed a national organic standard which will go into effect next year. While less strict than the still pending U.S. national standard, it better positions domestic Japanese agriculture to compete against both organic and non-organic imports, while also positively positioning the Japanese government as responsive to consumers' needs.

Advantages and Challenges Facing American Agriculture in Japan

| Advantages | Challenges |
|---|---|
| Japan is the largest U.S. export market globally, giving U.S. suppliers a comparative advantage through economies of scale. | The diversity and regionality of food needs in Japan requires specialized product development according to exacting quality standards and in the face of intense competition from both domestic and foreign competitors . |
| Japanese food industry understands that the U.S. has advanced food quality control systems and employs lower agricultural chemical usage. | Japanese consumers believe that domestic products are safer than U.S. products and that the United States uses more agricultural chemicals. This is due largely to mass media misinformation. |
| Japan seeks the world's best and highest quality food products. | Competing Japanese manufacturers ensure zero-defect service and can provide portion-controlled supply and shelf-space management adjusting for consumer preferences. |
| Japanese consumers are extremely value-conscious, demanding high quality at lower prices which larger-scale U.S. products can deliver. | There is poor infrastructure for mass distribution and higher import duties on processed food versus bulk commodities; protectionist government policies and institutions exist for domestic agricultural products. |

| | |
|--|--|
| The U.S. is the world leader in biotechnology for food production. | Japanese consumers, food processors, and retailers are avoiding purchases of genetically modified (GM) food products. |
| The U.S. is at the head of the pack in introducing organic food products to Japan, which is increasingly a hot market segment. | The Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF) recently developed a Japan national organic standard which may not accept organic products privately certified in the United States in lieu of passage of the U.S. national organic standard. |
| The younger generation of Japan loves American food and culture. | The increasing number of Japanese people over age 65 prefer traditional food and culture. |
| Japan has the fastest growing elderly population in the world, expected to reach 25 percent of the total population by the year 2015. U.S. market similarities position U.S. firms now serving this market with health-oriented products to enter Japan. | Japan's elderly population is extremely conservative. Moreover, food marketers in Japan expect that with aging comes a corresponding predisposition to "return" to indigenous quality expectations, to which U.S. food exporters are capable of adapting. |
| Japanese consumer trends, now more than ever before, fit the current product portfolio of U.S. high value, value-added producers, particularly in the healthy and natural niches. | Processors with entrenched domestic and third-country sources are tying in closely with top retailers, applying "efficient consumer response" market systems, potentially locking out U.S. suppliers long-term, absent a commensurately aggressive and immediate marketing response. |

II. A ROAD MAP FOR MARKET ENTRY

A. Cross-Sectoral Entry Strategy:

The HRI Market Development Cascade Splashes Down into Retail Shelf Space

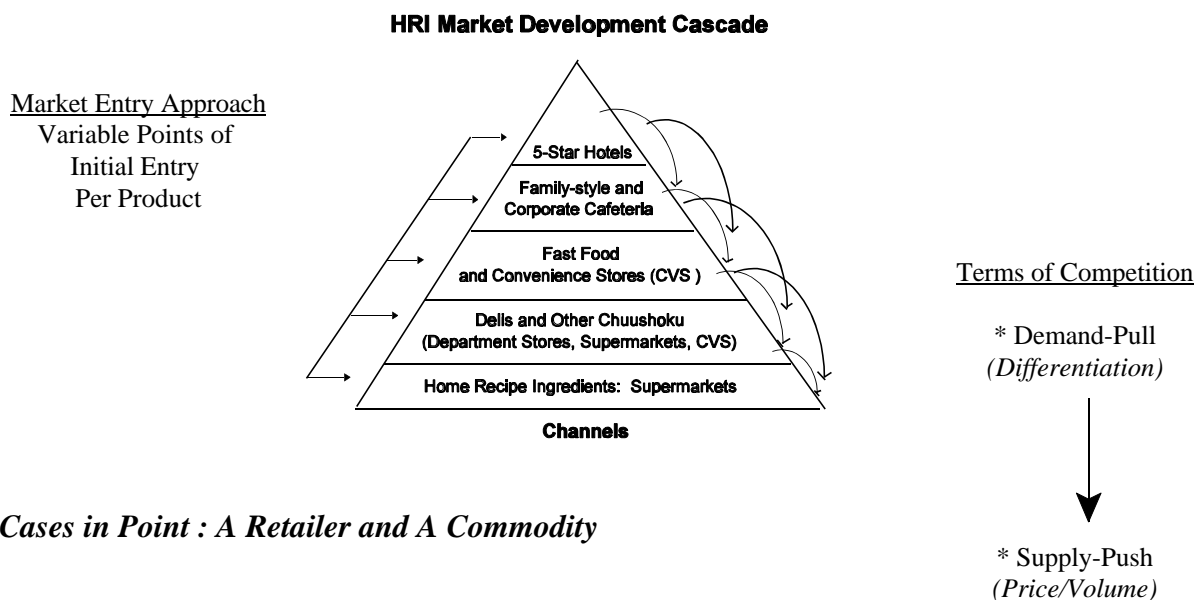
In Japan, the HRI sector can be viewed as an initial point of entry in a sequential market penetration strategy that serves to position complementary U.S. value-added, processed products, including frozen prepared foods, wines, juices, soups, sauces, condiments, and desserts to benefit from the fast-growing takeout, HMR segment of the supermarket retail sector. Dining out is the primary source of entertainment for most Japanese consumers. As a consequence, a number of retail products now considered household staples (pasta, frozen vegetables, beefsteak) were first introduced through the food service sector. The process characterized as the "Cascade Splashdown" has already begun to stimulate Home Meal Replacement (HMR) and related grocery and dry goods shelf-space innovations with key retail players, "pulling through" ready meal products ranging from meats to tomatoes to cruciferous vegetables to rice, and related wines, juices, sauces, condiments, and desserts, among other products.

The Cascade approach offers "experience curve" benefits to market entrants. U.S. small and mid-sized food enterprises can use the cascade approach to move along the experience curve in producing for Japanese standards in subjective quality (taste and appearance) and material quality (safety and packaging). The HRI Cascade approach to market development provides an avenue for continuous improvement and sequential market penetration across

sectors, ultimately meeting quality, safety, and value attributes necessary to compete profitably in lucrative growth segments of the high volume, high value retail sector.

Ironically, for the first time in history, given pervasive curiosity among Japanese retail decision makers regarding U.S. HRI and HMR innovations, American exporters of retail foods are positioned well for penetrating a now aggressively competitive and adventurous Japanese retail food sector.

Accordingly, over the past three years, ATO Japan has built substantial marketing critical mass and momentum focusing on the HRI foodservice applications of the Market Development Cascade approach. Generating demand momentum through "free public relations" nationwide, leveraging media, five-star executive chefs, and high visibility U.S. restaurant franchise openings, ATO utilized the HRI sector as a "Trojan Horse" by which high-value, branded, and otherwise differentiated U.S. retail foods can be introduced into a stream of demand momentum. The publicity influenced family-style restaurant and pub dining chains, which in turn influence the Home Meal Replacement movement within supermarkets, convenience stores, and department stores, translating into retail purchase decisions for daily food needs as well. In the next three year strategic marketing cycle, ATO Japan will leverage high value foodservice sector demand to "pull through" high value, value-added retail supply into the National and Regional Retail sectors, focusing on cultivating cross-border strategic alliances as highlighted in Section C below addressing the HMR movement in the convenience store sector.



Two Cases in Point : A Retailer and A Commodity

As one case in point, the November 11, 1999 edition of The Japan Times characterizes the retail takeout (ready to heat, ready to eat) market as "sizzling", citing Daiei's top Tokyo-based "Himonya" supermarket site, the AM/PM convenience store chain, department store chains, and booming home meal delivery demand, as anecdotal indicators of this salient market opportunity. Daiei, in cooperation with ATO Tokyo, kicked off its "Daiei Chef Station" concept at its Himonya store, now being copied rapidly by competitors, whereby high quality chefs showcase cuisines, together with complementary retail accouterments, including frozen cheesecakes, wines, berries, specialty meats, fish, and other mainstays of American retail food exports.

Secondly, USA Tomatoes achieved "Cascade Splashdown" in October 1999 with the unprecedented acceptance of American tomatoes in Japan's national supermarket community, sequentially leveraging the preceding foodservice

market momentum. U.S. tomato exports to Japan grew five fold in October 1999 with sustaining success. A boom is born. The demand for "cuisine" tomatoes had been fully proven by the HRI sector, in preceding seasons of focused market development and public relations. ATO and USA Tomatoes proved instrumental in generating pent-up demand during 1998 and 1999 for "cuisine" tomato varieties. The only remaining barrier to the retail sector adopting "cuisine" tomatoes was the availability of true retail-oriented "cuisine" varieties...Roma in particular. Yielding Japanese market regulatory reform as of October 1, 1999, FAS/USDA market liberalization successes released that pent-up demand and the marketing frenzy continues now unabated.

Take-out/HMR: Head-to-Head Competition among Supermarkets, Convenience Stores, and Restaurants

The take-out segment represents the fastest growth opportunity in the Japanese retail sector, dramatically affecting supermarket competitive strategies, hence, market penetration opportunities. Home Meal Replacements (HMR), defined as ready-to-cook, ready-to-heat, or ready-to-eat take-out meals, have caught Japanese consumers' attention. HMR sales continue to outpace other food categories in both retail and food service. Some national supermarket chains report upwards of 7% per annum growth in the takeout area. In the overall market, while 1999 performance figures are not yet available, 1998 reflects a persistent ongoing trend.

Single and elderly household numbers are increasing, and HMR is becoming a popular alternative to traditionally prepared meals. In fact, the HMR market is predominantly supported by single households, with increasing demand from consumers over 55. In response to this demand, several key food service and retail entities are simultaneously developing HMR/take-out concepts and menus, thus blurring channels. Yet retailers are struggling to make it profitable, always seeking alternative sources...a key opportunity.

B. SUPERMARKETS, SUPERSTORES, HYPERMARKETS, AND DEPARTMENT STORES, ETC.

Entry Strategy

Large-Scale Supermarkets Lead the Way

Why are large-scale supermarkets significant for American food exporters? Large-scale supermarkets tend to favor the comparative advantages of American Agriculture, including economies of scale, standardization of quality, and commensurate value-pricing. In response, Japanese food processing and agricultural suppliers are now aggressively seeking to bolster customer service linkages, with tight "efficient consumer response systems" including shelf-space and inventory management, seeking to create market-based barriers to entry for exporting nations, such as the United States. Consequently, now is the time for American Agriculture to aggressively compete to maintain market share with innovative marketing programming, or risk long-term, if not permanent, share loss.

Moreover, Japanese consumer and retailer perceptions of a "natural" and "healthy" food boom in the U.S. present unique opportunities to introduce U.S. value-added products which fully fit Japanese consumer trends. The current explosion of new national chain supermarkets and malls evidences a decided shift towards Western-style "entertainment zones", mixing restaurant and Western-lifestyle themes to attract consumers, at key transportation junctions and cities. Marketing themes in which the U.S. enjoys comparative advantages pervade the retail scene, including "Great Outdoors", natural, organic, pub dining, and high quality convenience, specifically HMR. Thus, a unique window of opportunity now exists for American agriculture to capture and retain, or otherwise to substantially lose, long-term market positioning, hence sales, in Japan, American Agriculture's top market.

Facing persistent recessionary conditions, the national supermarkets aim at taking share away from the "regionals" to ensure growth. Competitive pressure on regional supermarkets is intensifying acutely as national supermarket chains frenetically build new stores and shopping malls throughout regional Japan in advance of expected dampening effects of upcoming regulatory changes in national retail store site approval regulations. According to the Nihon Keizai, the six leading national supermarket companies (Daiei, Ito Yokado, Jusco, Mycal, Uny, and Seiyu) plan to open a record number of new stores in 1999 (66 outlets) and 2000 (87 outlets) before the new Large-Scale Retail Store Location Law goes into effect in June 2000. In an unprecedented move, no large-scale store openings will be permitted in Japan for at least one year after this date during the transition to the new law. With the prospective sunset of the national Large-scale Retail Store Act in early 2000, and the expected increase of local and regional constraints over expansion, coupled with market-based trends towards distribution sector rationalization and the consequent advent of large shopping mall development throughout Japan, large-scale supermarkets are aggressively taking share from smaller food retailers.

Aggressive Large-Scale Retail Store Expansion in 1999 Spells Opportunity

New stores opened in fiscal 1999 accounted for all sales growth, compensating for a 2.7% decline among previously established (base) stores. Mid-year fiscal 1999 results point to a flattening of sales among the top 25 large-scale supermarket chains, with only a 0.6% increase. However, some key players showed highly aggressive new store expansion, primarily in order to beat the clock on the sunset of the national Large-scale Retail Store Act. This trend points to an immediate, significant market penetration opportunity.

It is a fair presumption to make that large-scale chains will continue to expend a disproportionate amount of public relations and advertising efforts, including marketing innovations, towards new stores. Hence, a significant window of opportunity exists presently for U.S. exporters to target new stores to carry innovative value-added products that suit the market, such as "natural" and "healthy" products and commodities. Moreover, the receptivity of expanding chains to utilize the public relations services and media "cachet" of the U.S. Agricultural Trade Offices in Japan should translate into marketing platforms for U.S. exporters, to the extent that public sector marketing resources are available. This crucial window of opportunity is not lost on competing domestic and third-country suppliers, who are stepping up their marketing presence in key large-scale retail stores.

The Tokyo/Kanto Market as an Initial Market Entry Platform

Tokyo persists as Japan's foremost consumer test market, influencing adoption throughout regional Japan. Again, 40% of total 1998 large-scale retail store sales occurred in the Kanto (Tokyo and surrounding) region. The Tokyo Metropolitan area has traditionally served as the key point of entry into Japan of new products, which upon demonstrating profitability and demand were rolled out sequentially into regional markets. Shizuoka near Tokyo and Fukuoka in Kyushu are considered key regional test markets, which Japanese competitors also use to define consumer strategies. National supermarket chains generally maintain headquarters in or near Tokyo, with the exception of Mycal of Kansai.

Our recommended long-term strategy for penetrating the national supermarket chain sector is for the U.S. food export community to penetrate key national accounts with innovative marketing initiatives, including private branding, e-commerce, and HMR (applying foodservice marketing themes such as GARC). Generally, large national chains already possess significant buyer networks worldwide, hence also possess strong predispositions to source products through longstanding sourcing relationships and strategic alliances with 3rd country processing

facilities and proven, closely integrated suppliers. During the past two years, several key national chains have begun seeking ATO market development advice responding to ATO Tokyo's strategic marketing communications initiative and in view of intensifying competition, raising the potential opportunity for broad spectrum sustained systematic relationship-building. Accordingly, private label development and e-commerce, leveraging Japanese national retail brand recognition, should be explored as potential avenues for initiating or strengthening long-term strategic relationships between U.S. distributor/consolidators and market leaders in the National Retail Sector.

Regional Markets as Sequential Targets

Regional markets remain under served by U.S. food exporters and which do not possess the resources for targeted overseas procurement. Contrary to expectations, the market has been steady and growing strong. Sales growth by region are equally, if not more, impressive, reflecting widespread momentum. In 1998, large-scale supermarket food and beverage sales in Kanto (Tokyo and surrounding region) grew 4.8% to ¥3.665 trillion (\$32.73 billion), with three consecutive years of increased rates of growth. Large-scale supermarket food sales in Kinki (Osaka/Kobe and surrounding region) grew 4.8% to ¥1.9 trillion (\$17 billion), Kyushu grew 4.1 % to ¥590 billion (\$5.3 billion); Hokkaido grew 9.2% to ¥430 billion (\$3.8 billion); and Shikoku grew 18% to ¥67 billion (\$1.6 billion).

While Metropolitan Tokyo remains a reasonable initial point of entry, due to its dense population, more western lifestyle, and receptivity to new products, over 90 percent of Japan's population still lives outside of the Tokyo market. Even though US food products do find their way to the regional markets by way of Tokyo, direct development of the regional markets plays a key role in maintaining American comparative advantage in food production and supply and remains key for increasing the total market for US agricultural and food products in Japan. Regional supermarkets carry a smaller number of imported food items compared to the five national supermarkets and local supermarkets in metropolitan areas, due to tradition, remoteness, and conservativeness of the regional markets. Therefore, ATO advocates using the Tokyo metropolitan market as an initial springboard for sequentially entering lucrative regional markets. In some cases, preceding market development initiatives have enabled direct entry into regional markets, particularly for "natural" and "healthy" foods.

Facing intensifying competitive pressure from national supermarket and convenience store chains, in a bid to remain competitive, regional supermarkets are now more receptive than ever to new marketing ideas, themes, programs, and products, proven and tested in Japan's main metropolitan markets. Thus, regional supermarkets represent significant market expansion opportunities for U.S. food companies who have established track records in the traditional market entry point, Tokyo.

Hypermarkets and Discount Warehouses Make Their Mark

The major GMS retail chains are also aggressively developing superstores and discount warehouses. For example, in addition to its core general merchandise stores, which include supermarkets, JUSCO opened 21 Maxvalu "super" supermarkets in new regional malls throughout Japan in 1998. Other examples abound, like KOUS by Daiei, which has high visibility in the Tokyo market.

Finally, the entry into the market this year of major international retail giants such as Carrefour and Costco present a unique opportunity for American exporters to establish a beachhead in Japan through familiar U.S.-based procurement channels, which may in turn stimulate "follow the leader" mimicry throughout the national market. Nonetheless, the heightened consumer demand for products differentiated on the basis of health and safety will persist. Carrefour already promises "non-GMO" foods, potentially engendering corresponding competitive responses among Japanese retailers.

The need to access, link up, and move innovative products emerging in the U.S. in the area of natural, organic, healthy, nutraceutically differentiated, and otherwise identity-preserved will grow unabated, presenting opportunities for developing new channels, which eliminate intermediaries and enhance the reliability of the "known" producer in the eyes of the consumer including electronic commerce and mail order. National chains and the emerging hypermarkets offer potential logistical and distribution infrastructure to support e-commerce and direct consumer access trends. The consumer wants to know the farmer and the farmer needs to know the customer. U.S. Agriculture, hence ATO Japan, must take an aggressive, informed lead in defending market share, and accessing substantial growth niches at this moment of dramatic change and opportunity.

Biotech Foods and Competitive Behavior

Competitive intensity is rising fiercely from throughout the world, from Australia, Brazil, and Chile to New Zealand, with a heavy focus on food quality, safety, and strategic alliances, revolving in large measure around food safety, particularly, official and trade reactions to the genetically modified foods question. This key issue is dramatically redefining the competitive ground rules.

Moreover, the recent move by a top national chain leader, JUSCO, to require labeling of products, portions, ingredients, and derivative history which may in turn contain GMO begins to dramatically shift the playing field further fueling the imperative for strategic alliance formation. The JUSCO move exceeds requirements of the Government of Japan and requires verification of non-GMO sources (for all supplier/processors). Other strong national retailers are expected to follow if the "non-GMO" market proves profitable and international sourcing can be identified. Therefore, in order to avoid having value-added and high value products labeled as potentially containing GMO, large-scale retailers must aggressively develop strategic alliances emphasizing what ATO terms, "integrated food quality management systems". This will invariably lead to private label tie-ups, "identity-preserved" overseas procurement and investments, and other strategic alliance opportunities or competitive threats.

Department Stores Provide Public Relations Benefits to HMR and Gift Market Entrants

Food sales at department stores make up 5% of total retail food sales in Japan. Department stores in Japan maintain diverse inventories, roughly 10% of which is food. Food items are sold by tenant merchants rather than the department stores themselves, so there is no centralized organization in terms of procurement or marketing of these food items. Supermarket merchandise directors often observe trends in the food sections of department stores as sources of creativity, particularly given the upscale nature of department store tenants specializing in HMR. Therefore, department stores can serve a public relations and market positioning function for entry into the supermarkets sector. Typically, food items are displayed for sale on the department stores' basement floors, and can include grocery items and bento lunch boxes.

Department stores are significant players in mail-order and gift foods. A large portion of the food items, therefore, are pre-packaged for use as gifts. Food products at department stores are thought to be of higher quality. While

some consumers shop at department stores for groceries or bento, by and large, department stores are the outlet for gift food items. As part of the gift giving tradition in Japan, Japanese consumers send food items at specific times of the year to friends and associates to whom they feel obliged or thankful. Details concerning the mail order and gift markets will be covered under a separate specialized brief.

An Opportunity for U.S.-Japan Partnership throughout the Pacific Rim: The JUSCO Case

Eight of the top ten retail enterprises in Asia ranked by sales are Japanese (see chart below). Japanese GMS/supermarket chains topped the list with the top four chains, sales of which comprise an average of nearly 40% food products. Moreover, these rankings are understated to the extent that they exclude the diversified convenience store chain, food service, and shopping center holdings that Japanese retailers control throughout Asia.

Top 10 Retailers in the Asia/Pacific Region

| Company Name ¹ | Global Headquarters | Total Sales (\$ Million) | Profit (\$ Million) | Location and Type of Asia/Pacific Operations ² | |
|---------------------------|---------------------|--------------------------|---------------------|---|--|
| Ito-Yokado | Japan | 24,956.40 | 508.9 | China Asia-wide | Chain Store, Shopping Mall Convenience Store (Seven-Eleven) |
| Daiei | Japan | 21,370.60 | -315.4 | China | Supermarket |
| Jusco | Japan | 18,854.50 | 24.9 | China, Taiwan, Hong Kong, Thailand, Malaysia | GMS |
| Mycal | Japan | 14,150.40 | -271.8 | Hong Kong | Food Service |
| Coles Myer | Australia | 12,958.00 | 231.7 | N/A | N/A |
| Woolworth's | Australia | 11,911.80 | 161.8 | N/A | N/A |
| Takashimaya | Japan | 9,085.20 | 35.9 | Australia Hong Kong, Taiwan, Singapore | Boutique Department Store |
| Seiyu | Japan | 8,554.70 | 13.9 | China Thailand Singapore | GMS Supermarket Department Store |
| Uny | Japan | 8,432.90 | 95.3 | Hong Kong | GMS |
| Mitsukoshi | Japan | 7,439.70 | -87.3 | Hong Kong, Taiwan | Boutique |

Source: ¹ "Asiaweek 1000 Top Enterprises by Industry - Retailing", Asiaweek, Nov. 19, 1999, p. 160;

² Toyo Keizai General Listing of Japanese Enterprises with Overseas Operations, 1999.

JUSCO, as one case among others, may prove insightful. JUSCO, like Japan's other leading large-scale retailers, maintains a wide range of retail holdings including JUSCO-brand GMSs, Maxvalu "super" supermarkets, Megamart discount (warehouse) stores, Mini-stop convenience stores, among other successful boutique chains (Laura Ashley and The Body Shop) and category killer chains (Sports Authority and OfficeMax). JUSCO's Japanese competitors control brands aimed at the nature and outdoors market such as Seiyu's L.L.Bean. A unique opportunity exists for what ATO terms, "brand transference", leveraging established non-food brands to carry differentiated, complementary high value and value-added foods.

Since 1998, reflecting the competitive intensity of the current market, JUSCO adjusts merchandising (promotions and ordering) on a weekly basis, tightened from a previous monthly cycle. Therefore, information regarding successful sales promotions are disseminated quickly throughout all JUSCO-related stores to engender systemwide replication.

This innovation presents an important opportunity to U.S. exporters for Asia-wide penetration, depending on the product. In coordination with the U.S. ATO system, new-to-market and other U.S. exporters can successfully cultivate and target promotions at key marketing opportunities, particularly new store openings, with potential implications for Asia-wide market penetration. Promotional coordination throughout the Pacific Rim, using Japan as an initial point of entry, may yield significant improvements to U.S. competitive positioning both in terms of price and quality, reflecting economies of scale and other efficiencies in merchandising procurement and distribution.

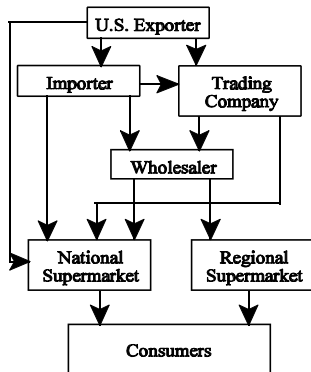
As denoted in the chart below, JUSCO possesses retail operations throughout the Pacific Rim. Common themes include "ready-to-eat" meal solutions and corresponding deli/bakery trends. One key opportunity lies in the area of private branding, whereby JUSCO-related companies enter into strategic alliances with preferred suppliers meeting exacting, pre-agreed specifications. ATO Japan, for example, initiated and continues to coordinate the development of private branding initiatives in gourmet pet food and wine with the Aeon Group, comprising JUSCO-related companies, with a view towards creating a marketing platform onto which new-to-market and other U.S. producers can board. ATO Japan is exploring Pacific Rim wide market penetration opportunities to help U.S. exporters achieve competitive supply efficiencies.

Investments in e-commerce, information systems innovations, and national distribution center development, tied in with regional shopping center development initiatives, point to JUSCO's pervasive commitment to "efficient consumer response" systems development. Accordingly, JUSCO established a regional headquarters in Hong Kong in 1998 to coordinate activities in China, Thailand, Malaysia, and other Asian nations. Moreover, JUSCO affiliates are listed in the three top Japanese stock exchanges, the Hong Kong Stock Exchange, and the Kuala Lumpur Stock Exchange.

U.S. Agriculture faces a need to join hands with U.S. freight forwarding consolidators and distribution companies to forge coordinated linkages with the JUSCOs, Ito-Yokados, and Seiyus of Japan and Asia to satisfy the need to serve our customers and consumers efficiently and competitively. Third-country supply linkages are now being forged and solidified. Absent a commensurate competitive commitment from U.S. Agriculture, the competition plans to feast at the table that U.S. trade negotiators have ably set.

Market Structure

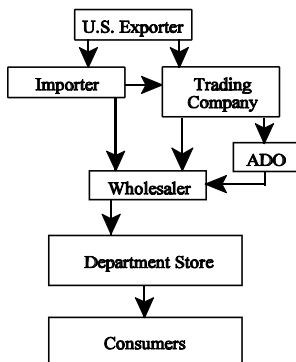
Supermarkets



An overview of the retail/wholesale distribution structure in Japan may further elucidate the market opportunity described above. The top 5 "national" supermarket chains accounting for nearly 7% of the total Japanese retail food market, purchase products using trading houses as intermediaries for higher risk products whose prices are subject to market fluctuations such as fresh seafood and frozen or chilled meats. Wholesalers are used for seasonal high-value-added groceries and processed foods. The national supermarket chains directly import basic food items, fresh produce and frozen or chilled meats, and have their own distribution centers, however they are working toward using this means of procurement less. These chains may also manufacture traditional perishable Japanese foods and develop new products themselves.

Regional supermarkets depend more on wholesalers than do national supermarkets. They usually procure from 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 volume products, not speciality products. Major Japanese food processors directly promote their products to individual regional supermarkets with the assistance of wholesalers. U.S. food exporters who are interested in developing the regional markets, should concentrate efforts on targeting key regional retail players and directly promoting products through Japanese agents and importers. There are several major joint procurement organizations that regional supermarkets utilize: CGC Japan, All Japan Supermarket Association (AJS), consumer cooperatives (coops), and Nichiryu. 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 food products when such products are non-brand and volume products like canned corn, peaches, frozen vegetables, or processed chicken products.

Department Stores



Food items at department stores are procured almost entirely through wholesalers. Imported products reaching the department store tenant merchants shelves is dependant upon the wholesaler purchasing these products from importers or trading companies. Tenant merchant companies may purchase the ingredients for their products from wholesalers and then manufacture the products to be sold. Department stores may also procure liquor from the All Japan Department Stores Development Organization (ADO), sponsored by the department store, Isetan.

Company Profiles**Top 10 Supermarkets (1998)**

| Rank | Company Name | Food Sales (\$ Billion) | Number of Outlets | Location | Type of Purchasing Agent |
|------|--------------|-------------------------|-------------------|------------|--|
| 1 | Daiei | 7.8 | 346 | Nationwide | Direct from Manufacturers, Wholesalers, Direct Import, Trading Houses |
| 2 | Ito-Yokado | 5.4 | 169 | Nationwide | Direct from Manufacturers, Wholesalers, Direct Import, Trading Houses, Procurement Alliances with Wal-Mart (U.S.) and Metro Group (Europe) |
| 3 | Jusco | 5.0 | 281 | Nationwide | Direct from Manufacturers, Wholesalers, Direct Import, Trading Houses |
| 4 | Seiyu | 3.7 | 189 | Nationwide | Direct from Manufacturers, Wholesalers, Direct Import, Trading Houses |
| 5 | Uny | 3.5 | 142 | Nationwide | Wholesalers |
| 6 | Mycal | 3.0 | 131 | Nationwide | Direct from Manufacturers, Wholesalers, Direct Import, Trading Houses |
| 7 | Maruetsu | 2.4 | 186 | Kanto | Wholesalers, Daiei |
| 8 | Life | 2.3 | 171 | Kanto | Wholesalers |
| 9 | Izumiya | 1.7 | 71 | Kinki | Wholesalers |
| 10 | Tokyu Store | 1.5 | 90 | Kanto | Wholesalers |

Source: "Top 41 Supermarket Companies in 1999", Food Industry News, April 29, 1991, p.1.

Top 5 Supermarkets by Region (1998)

| Hokkaido | | |
|---------------------|--------------------------|---------------|
| Name | Food Sales (\$ Millions) | No. of Stores |
| Co-op Sapporo | 700.4 | 98 |
| Ralse | 472.4 | 39 |
| Sapporo Tokyu Store | 384.0 | 21 |
| Mycal Hokkaido | 378.6 | 18 |
| Ito-Yokado | 367.0 | 14 |

| Tohoku | | |
|---------------|--------------------------|---------------|
| Name | Food Sales (\$ Millions) | No. of Stores |
| York Benimaru | 1,781.6 | 73 |
| Jusco | 806.4 | 44 |
| Mycal Tohoku | 448.3 | 12 |
| Yamazawa | 424.2 | 41 |
| Miyagi Co-op | 419.7 | 43 |

| Kanto | | |
|--------------|--------------------------|---------------|
| Name | Food Sales (\$ Millions) | No. of Stores |
| Ito-Yokado | 6,766.4 | 238 |
| Seiyu | 4,349.0 | 229 |
| Maruetsu | 3,630.1 | 300 |
| Tokyu Store | 2,064.7 | 117 |
| Inageya | 1,762.8 | 150 |

| Chubu | | |
|--------------|--------------------------|---------------|
| Name | Food Sales (\$ Millions) | No. of Stores |
| Uny | 4,276.7 | 186 |
| Jusco | 1,202.9 | 65 |
| U Store | 979.6 | 59 |
| Yamanaka | 834.1 | 61 |
| Nafuko Kanie | 572.4 | 31 |

| Kinki | | |
|--------------|--|--|
|--------------|--|--|

| Chugoku | | |
|----------------|--|--|
|----------------|--|--|

| Name | Food Sales (\$ Millions) | No. of Stores |
|-----------------|-----------------------------|---------------|
| Co-op Kobe | 1,969.2 | 179 |
| Daiei | 1,884.4 | 108 |
| Izumiyu | 1,342.8 | 58 |
| Jusco | 1,188.0 | 57 |
| Daimaru Peacock | 915.7 | 60 |

| Name | Food Sales (\$ Millions) | No. of Stores |
|----------------|-----------------------------|---------------|
| Izumiyu | 877.2 | 71 |
| Tenmaya | 468.3 | 59 |
| Yours | 316.3 | 41 |
| Sanyo Marunaka | 295.1 | 4 |
| Flesta | 280.1 | 28 |

| Shikoku | | |
|--------------------|-----------------------------|---------------|
| Name | Food Sales (\$ Millions) | No. of Stores |
| Marunaka | 662.0 | 65 |
| Fuji | 534.7 | 41 |
| Kyoei | 252.2 | 35 |
| Maruyoshi Center | 239.0 | 35 |
| Kochi Super Market | 188.7 | 13 |

| Kyushu | | |
|---------------------|-----------------------------|---------------|
| Name | Food Sales (\$ Millions) | No. of Stores |
| Daiei | 1,274.4 | 150 |
| Kotobukiya | 665.7 | 124 |
| Sunny/Sun Value | 477.5 | 61 |
| Marushoku | 467.6 | 76 |
| Town Plaza Kanehide | 393.2 | 49 |

Source: The Japan Food Journal, Food Distribution Map 1999.

Top 10 Department Stores (1998)

| Company Name | Total Sales (\$ Billion) | Food Sales (\$ Million) | Number of Outlets | Location | Type of Purchasing Agent |
|--------------|-----------------------------|----------------------------|----------------------|-----------------|-----------------------------|
| Takashimaya | 9.41 | 1,966.69 | 19 | Nationwide | Wholesalers |
| Mitsukoshi | 6.12 | 1,462.68 | 14 | Nationwide | Wholesalers |
| Seibu | 5.24 | 1,048.00* | 21 | Nationwide | Wholesalers |
| Daimaru | 4.21 | 783.06 | 7 | Nationwide | Wholesalers |
| Matsuzakaya | 3.49 | 725.92 | 10 | Nationwide | Wholesalers |
| Isetan | 3.74 | 714.34 | 7 | Kanto | Wholesalers |
| Hankyu | 2.71 | 674.79 | 7 | Chubu, Kinki | Wholesalers |
| Kintetsu | 2.66 | 651.70* | 9 | Kinki | Wholesalers |
| Tokyu | 2.64 | 641.52 | 5 | Kanto, Hokkaido | Wholesalers |
| Marui | 4.55 | 232.05 | 31 | Kanto | Wholesalers |

Sources: Shokuhin Sangyo Shimbun; The Japan Food Journal, Food Distribution Map 1999. * ATO estimate

C. CONVENIENCE STORES

Entry Strategy

Convenience Stores and the HMR Phenomenon

Accounting for over 10% or \$39 billion of Japan's retail food sales, convenience stores are the second fastest-growing sub-sector of the retail food market, having grown 4.6% in 1998 year-on-year in spite of the fact that the number of outlets has actually decreased since 1994. The growth is predicated primarily on HMR and beverage sales growth. The top three convenience store chains, Seven Eleven, Family Mart, and Lawson -- with a total of 19,146 outlets throughout Japan -- have become major HMR providers. Total convenience store HMR sales reached close to ¥2.2 trillion (\$19.53 billion) in 1998.

Major players such as Seven Eleven Japan already source HMR ingredients directly from the United States. ATO Japan has led highly visible, model strategic alliances which will lead to frozen HMR products manufactured in the U.S., particularly high quality, frozen rice bentos (lunchboxes) with "natural" meats and vegetables, being exported to Japan, with expectations of stimulating significant "copycat" efforts aiming at hot take-out meals. U.S. HMR suppliers can look at this segment of the Japan market for innovative entry based on strategic alliances.

The geographic expansion of Japan's convenience-store market is rapidly approaching saturation. Therefore, growth will be sought in same-store sales and competition will take the form of product innovation, making room for the introduction of marketing programs catering to U.S. exporter strengths. Already U.S. tomatoes have penetrated the HMR section, growing at 4.5%, with sandwiches. Typically, the product range at convenience stores is focused on ready-to-eat foods and daily necessities, although some handle a small amount of fresh vegetables and meats.

Despite a recessionary environment, combined food sales at the nation's 67 convenience store chains rose roughly 10% in 1997, to ¥4.2 trillion and continued to grow 4.6% in 1998 to ¥4.4 trillion (\$39.3 billion). Same-store sales, however, rose 2% following four years of nearly flat growth, demonstrating fundamental strength in store performance and demand. According to a leading financial source, after a period of rapid expansion, Japan's convenience-store sector is losing some steam. While the number of convenience stores rose in 1997, an increase of 7.9%, it was the slowest store opening growth since 1974.

Market Structure

Convenience store chains utilize trading houses, wholesalers and direct import depending on the type of product. Due to limited space, convenience stores can only handle a few brands per item. Product performance is reviewed continuously, and slow moving products are replaced quickly, ensuring the highest turnover possible. Therefore, market systems (value-chain management systems), hence distribution systems, comprise the most significant challenges facing U.S. exporters looking to supply packaged processed foods to convenience stores including the need to: 1) modify product taste/specifications to fit the tastes of Japanese consumers; 2) shorten delivery time to ensure freshness; and 3) update and introduce new products frequently.

Company Profiles**Top 10 Convenience Stores (1998)**

| Company Name | Parent/Affiliate Company Name | Total Sales (\$ Billion) | Number of Outlets | Location | Type of Purchasing Agent |
|-----------------|---|--------------------------|-------------------|-------------------------------|---|
| Seven-Eleven | Seven Eleven Japan (Ito-Yokado Co., Ltd.) | 16.50 | 7,732 | Nationwide | Wholesalers, Trading Houses, Ito-Yokado |
| Lawson | Lawson (Daiei, Inc.) | 10.33 | 7,016 | Nationwide | Wholesalers, Trading Houses, Daiei |
| Family Mart | Family Mart (Itochu Group) | 6.77 | 4,398 | Nationwide | Wholesalers, Trading Houses, Itochu Group |
| Circle-K | Circle-K Japan (Uny) | 3.63 | 2,289 | Kanto, Chubu, Kinki | Wholesalers, Trading Houses, Uny |
| Daily Yamazaki | Daily Yamazaki (Yamazaki Pan) | 3.40 | 2,782 | Nationwide | Wholesalers, Trading Houses |
| Sunkus | Sunkus & Anschies (Uny) | 2.77 | 1,739 | Nationwide | Wholesalers, Trading Houses, Uny |
| AM/PM | AM/PM Japan (Japan Enaji) | 1.68 | 942 | Nationwide | Wholesalers, Trading Houses |
| Mini-Stop | Mini-Stop (Jusco) | 1.54 | 1,104 | Kanto, Chubu | Wholesalers, Trading Houses, Aeon Group |
| Seiko Mart | Seiko Mart (independent) | 1.27 | 843 | Hokkaido | Wholesalers, Trading Houses |
| Community Store | Kokubun Grocers Chain (Kokubun) | 0.95 | 656 | Hokkaido, Kanto, Chubu, Kinki | Wholesalers, Trading Houses |

Source: "1998 All-Stores Sales Ranking", Japan Economic Distribution News (Nikkei), July 22, 1999, p.1.

D. TRADITIONAL AND SPECIALTY MARKETS**Entry Strategy**

Traditional and specialty shops hold 37.3% of the food retail market, reporting sales of \$141.1 billion. Inventories can range from 50 to 90% food, but specialty shops are defined as shops where more than 90% of sales are of one type of food item like bread or *senbei* (rice crackers) with 1-4 employees. Traditional "mom and pop" stores have a more diverse inventory. Small local stores are still dominant in the specialty store sub-sector, but are rapidly decreasing in number especially in the case of mom & pop shops.

Small scale stores will continue to decrease because of intense competition from large stores, heavy inheritance taxes and problems with finding a successor. At the same time, the number of large specialty stores is increasing. In order to meet diverse consumer needs and tastes, large stores are making efforts to combine an array of product choices into one product category, and they are opening outlets in large-scale supermarkets, department stores and shopping centers. In the case of foods, these "category-killer" chain stores have been emerging with increased sales, especially in the fields of meat and fish products. Natural food stores with a focus on organic foods have been

operating in major cities with steady number of outlets and sales. Coffee shop chains, selling food and ingredients, have become more visible in most major cities.

Therefore, specialized importer/agents exist who seek highly differentiated, high quality products to introduce into specialty outlets affiliated with large-scale supermarkets and department stores. The selective focus of some of these emerging specialty shop chains can provide an opportunity to achieve parity in terms of mutual interest and relative strategic strength for U.S. small and mid-sized specialty brands and private-label processors. The key question is the ability of the retailer to survive competition from the large-scale retailers.

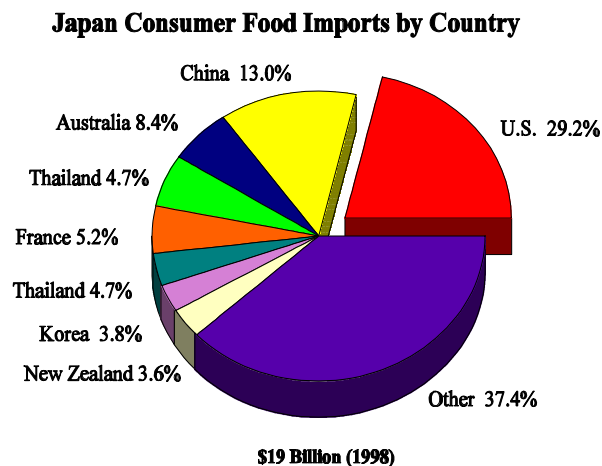
Market Structure

Most traditional and specialty stores depend on wholesalers. Penetration of imported foods into these shops and stores is relatively low. Selected category-killer chain stores, coffee shop chains, discount stores and natural food specialty stores with chain operations may be worth development for U.S. food exporters. However, regional supermarkets, targeting contacts, getting close assistance from wholesalers and importers are important.

III. COMPETITION

Despite a shrinking import market in recent years and a renewed focus on self-sufficiency, the U.S. has managed to maintain its competitive positioning in overall high value products:

- C Japan's imports of consumer-oriented food products totaled slightly more than \$19 billion in 1998.
- C The U.S. capturing a 29% share, followed by China and Australia with 13% and 8%, respectively.
- C The only two countries in the top 10 to gain share were South Korea and France, gaining 25.7% and 46.75% respectively. By and large, these increases came at the expense of Taiwan which lost 58% share over 1997.
- C Recent increases in imports from the U.S. reflect growth in markets for red meats and poultry, fruits and vegetables, alcoholic and non-alcoholic beverages, and pet foods. Australia is a strong competitor for the U.S. in Japanese imports of red meats and dairy products.



Source: The World Trade Atlas 1998, Global Trade Information Services.

IV. BEST PRODUCT PROSPECTS

A. *Products Present in the Market Which Have Good Sales Potential*

- C boiled rice in anti-bacterial packaging
- C *happoshu* (beer brewed using a smaller percentage of hops) - however, see barriers below
- C near water, water containing free ions or fortified with vitamins
- C extra virgin olive oil and oils rich in unsaturated fats such as canola oil which are healthy
- C wine
- C breakfast cereals fortified with vitamins
- C vegetable juice (tomato, carrot and mixed)
- C small portion packaged confectionery items
- C frozen or ready-to-eat desserts
- C small-portioned salty snacks

B. *Products Not Present in Significant Quantities but Which Have Good Sales Potential*

- C restaurant-quality frozen, ready-to-heat Japanese-style HMR foods (i.e. *bento* rice lunch boxes)
- C natural and health foods
- C nutritional supplements
- C ready-to-eat foods for health care patients and the elderly
- C new varieties of fresh produce with differentiated nutritional and health attributes
- C reasonably-priced dairy products including natural cheese, milk, fresh cream and butter
- C regional and ethnic foods (i.e., Chinese, Thai, Korean, Indian, Italian/Mediterranean, French, Mexican, Latin American/Caribbean, African, and American Regionals)
- C retort packaged corned beef or pork
- C dried fruit
- C flavored coffee
- C pre-cut vegetables
- C bulk salad dressings for private label
- C gourmet, branded frozen beef steaks
- C gourmet pet food

C. *Products Which Face Significant Barriers*

- C fresh yogurt - the shelf life is too short for imports to be cost-effective
- C fresh produce - imports face strict fumigation regulations
- C *happoshu* (beer brewed using a lower percentage of hops) - there is no break on taxes or tariffs for imports as is allowed for domestic producers
- C baked products containing sugar (i.e., cookies, bagels) - imports face high tariffs
- C butter, fresh cream - imports face shelf life and freshness problems

IV. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting to Japan, please contact the U.S. Agricultural Trade Offices in Tokyo or Osaka at the following addresses:

| Tokyo | Osaka |
|--|--|
| U.S. Agricultural Trade Office Tokyu Tameike Building 8F 1-1-14 Akasaka Minato-ku, Tokyo 107-0052 Tel: 81-3-3505-6050 Fax: 81-3-3582-6429 e-mail: atotokyo@fas.usda.gov | U.S. Agricultural Trade Office 2-11-5, Nishi-tenma Kita-ku, Osaka 530-0047 Tel: 81-6-6315-5904 Fax: 81-6-6315-5906 e-mail: atoosaka@ppp.bekkoame.ne.jp |

For further information, please access the U.S. Agricultural Trade Offices, Japan web site at:
<http://www.atojapan.org/> .