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Retail Foods

Retail Sector 2012

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Report Highlights:
In 2012, convenience stores experienced the greatest growth, more than both supermarkets and department stores. E-commerce and TV shopping are becoming ever more popular and the traditional retail stores are searching for ways to entice shoppers to continue to visit their stores. Convenience stores now compete to identify potential property before their competitors find them. Supermarkets continued to expand with AEON and Ito Yokado developing smaller city-style stores. Overall market consolidation, mergers, and alliances continued in 2012.

Post:
Tokyo ATO

Executive Summary:

SECTION I: JAPAN RETAIL FOOD SUMMARY

A. Overview

The post March 11 consumer adapted to new preferences in reaction to the events, changing retail market demands significantly. First, Japanese consumers began eating out less, while having more meals at home. This has led to an increase in the Home Meal Replacement (HMR) sector, as well as the frozen food sector. Second, Japanese consumers are more attentive to products with longer shelf life, in case of future emergency situations.

The Japanese retail market is dominated by two demographics: Young career seeking individuals in single person households, and the fast growing elderly population referred to in this report as Generation M.

Due to the large variations of exchange rate fluctuations in the past few years the value data is reported in Japanese Yen. A table of average annual exchange rates is provided for the readers' reference.

Yearly Average	2010	2011	2012
JPY¥ per USD$	88.81	80.84	80.82

B. Market Breakdown

Total retail sales including food, beverages, general merchandise, fabrics, apparel, and accessories in Japan amounted to Yen 67.649 trillion in 2012. Of this figure the total food and beverage retail sales amount was Yen 44.026 trillion. Total retail sales have increased each year since 2008. Below are the total sales figures:

Figure 1: Total Retail Sales (Billion Yen)

Year	Total	Food & Beverage	General Merchandise	Fabrics, Apparel, & Accessories
2010	66,436	42,794	13,080	10,562
2011	67,076	43,607	12,783	10,686
2012	67,649	44,026	12,681	10,942

Source: http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

C. Food Sales by Retail Category

The Japanese retail food industry in 2012 experienced growth in the two categories of large and conventional supermarkets and convenience stores. Department stores fell short of 2011 sales (FIGURE 2). The resilience of the industry and its ability to quickly adapt to the market changes spur on retail food industry growth, especially in the convenience store sector which successfully modified their product lines for men from cigarettes and alcoholic beverages to desserts. Convenience stores also increased stocks of healthier, ready-to-eat items for their female customers and Generation M.

Overall food sales increased from 2010 to 2012, according to the Current Survey of Commerce conducted by The Ministry of Economic, Trade and Industry (METI).

Figure 2: Food Retail Sales of 3 Categories 2010-2012 (Million Yen)

Year	Large-scale Supermarkets & Conventional Supermarkets	Department stores	Convenience Store
2010	8,220,866	1,969,304	5,161,505
2011	8,457,926	1,935,730	5,353,719
2012	8,535,260	1,916,244	5,817,844

Source: METI Part 3-1, 4-1
http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

D. Food and Beverage Sales by Region

While Japan’s food and beverage sales grew in 2012, some regions experienced negative growth. The largest market, Tokyo, was slightly up but still did not exceed 2010 levels. The second largest market, Osaka, dropped slightly and Chubu (Nagoya), the third largest region and located in the central part of Japan dropped a full percentage point. However, this could be interpreted as a return to normal sales level compared to 2010. Hokkaido, the fourth largest market, also experienced a slight decrease, which similar to the other negative areas could be an indication of returning back to normal levels. It is interesting to note that the earthquake stricken Tohoku (Northeastern Japan) increased.

It is also important to keep in mind that geographic markets in Japan are quite sizable - often exceeding that of entire countries. For example, the Kyushu Fukuoka region alone has a GDP that exceeds that of Norway or Taiwan (Kyushu Bureau of Economy, Trade and Industry, 2011).

Figure 4: Regional Sales and Population

	Year	Overall food and Beverage Sales	Number of Establish-ments	2012 Population	Food Purchasing Power per Household (Yen)	Sales Growth '11-'12 (%)
Hokkaido	2010	563,309	313	5,506,419	681,430	-0.17

	2011	577,914	316			
	2012	576,949	319			
Miyagi (Tohoku)	2010	241,704	139	2,348,165	747,818	7.59
	2011	246,119	138			
	2012	264,811	143			
Tokyo (Kanto)	2010	1,260,243	360	13,159,388	803,107	0.17
	2011	1,250,190	368			
	2012	1,252,308	369			
Aichi (Chubu)	2010	726,741	313	7,410,719	*	-1.00
	2011	732,697	318			
	2012	725,354	317			
Osaka (Kinki)	2010	817,535	297	8,865,245	800,702	-0.20
	2011	826,593	305			
	2012	824,956	306			
Hiroshima (Chugoku)	2010	208,919	100	2,860,750	709,465	-0.87
	2011	213,940	101			
	2012	212,074	100			
Ehime (Shikoku)	2010	112,734	72	1,431,493	862,357	0.89
	2011	116,254	73			
	2012	117,291	74			
Fukouka (Kyushu)	2010	269,333	161	5,071,968	793,021	0.63
	2011	288,035	170			
	2012	289,843	176			

Source: http://www.meti.go.jp/english/statistics/tyo/syoudou_nenpo/index.html Part 3-Table 2

SECTION II: RETAIL MARKET INDUSTRY

A. Establishment Trends

In 2012, supermarkets and convenience stores continued to be the primary distribution channels for food in Japan. The market has been relatively stable over the last 3 years with only department stores losing ground slightly, but this corresponds with the decline of department store sales in general. Regional and national supermarkets are vying for market share, and in order to compete against national chains AEON and Ito Yokado, regional supermarkets such as ARCS in Hokkaido and Universe in Northern Japan are merging. The breakdown of Japan Retail Food market data for 2012 is:

Figure 5: Food Market Percentages

Year	Large-scale Supermarkets & Conventional Supermarkets	Department Stores	Convenience Stores

2010	53.6%	12.8%	33.6%
2011	53.7%	12.3%	34.0%
2012	52.0%	12.0%	36.0%

SOURCE: Figure 2.1 & METI Part 3-1, 4-1
http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

B. Large Scale and Conventional Supermarkets

Supermarkets in Japan represent the largest provider of food and within the supermarket sector the top 5 companies (AEON, Ito Yokado, Uny, Daiei, and Life Corp.) represent 62% of all sales. The two main players, AEON & Ito Yokado, account for 40% of all supermarket sales. These companies are the driving force behind innovation and expansion.

1. **Outlets**

   The supermarket business in Japan is a mature market which is at full saturation levels for standard large-scale and conventional supermarkets. As in 2010, the status quo changed very little. A few supermarkets closed, but others emerged in Western Japan. The greatest change to how supermarket retailers perceived their business model was in response to the disaster in Northeast Japan and how best to provide the support. This can be seen in the development of city-style stores.

2. **City-style Stores**

   One key finding from March 11 was that convenience stores were better suited to quickly re-establish their stores and support the local consumers in an emergency situation. Convenience stores were the first ones to deliver products using small vans to open their stores in affected areas. Taking the lessons learned to compete with convenience stores, large supermarkets are developing small "City-style stores". Store sizes measure about 1800 square yards of floor space. Tokyo and other cities are major targets for these city-style stores.

3 . **Target Market**

   As the Japanese market continues to mature, supermarket giants AEON and Ito Yokado have strengthened their networks to reach single adults and Generation M. The older generation especially has wealth to spend and AEON is targeting this group by changing store hours to open 2 hours early. In addition to opening early, AEON has special promotions related to these early bird specials – resulting in more foot traffic especially among the elderly population.

4. **Price Competition**

   Price competition has become more intense and is a major feature of the supermarket business in Japan. Supermarkets are reducing costs and improving their infrastructures through restructuring and closing unprofitable stores in an effort to improve efficiency. The companies which have succeeded to reduce management cost and to prevent losses have regained their profit. One strategy has been the creation of Private Brands (PB), such as AEON TopValu or Ito Yokado store brands. Seiyu, acquired in full by Wal-Mart in 2008, has finally leveraged their 10 years of experience and vast global network to more efficiently bring products to the Japanese market, such as U.S. beef for 30% less than standard outlets.

5. **Company Highlights**

The following table highlights the Japanese supermarket industry food sales, and the percentage component those sales represent. Consolidation continued in 2012 as Uny acquired convenience store Circle KS.

Figure 6: Top Supermarkets by Total Sales in 2012

Rank*	Company Name	Total (Mil. Yen)	Food (Mil. Yen)	Ratio of Food Sales	Number of Outlets	Location of HQ & Stores
1	AEON Retail	2,153,608	1,085,300	50%	491	Chiba
2	Ito-Yokado	1,332,292	623,571	47%	174	Tokyo
3	Uny	768,941	488,149	63%	227	Nagoya
4	Daiei	668,120	388,198	58%	205	Osaka-Kobe
5	Life Corp.	520,385	416,247	80%	231	Tokyo
6	Izumi	514,105	160,144	31%	92	Hiroshima

7	Arcs	433,992	386,091	89%	291	Sapporo
8	York Benemaru	363,862	269,794	74%	184	Fukushima
9	Heiwado	329,908	211,731	64%	134	Shiga
10	Maruetsu	315,432	216,494	69%	271	Tokyo
11	Fuji	312,580	123,451	39%	96	Ehime
12	Izumiya	299,930	172,179	57%	89	Osaka
13	Okuwa	295,018	216,494	73%	173	Wakayama
14	MV West	264,243	236,981	90%	171	Hiroshima
15	AEON Kyushu	252,196	111,778	44%	116	Fukuoka

Source: FY2011 Annual Statements (various) & Tokei Geppou May 2013 pp 85-96
**Original rankings based on Total Operating Revenue*

6. **Specialty**

Specialty supermarkets are important for export products because these stores carry products with higher prices. Here is a list and some background information for these specialty supermarkets.

Kinokuniya: First self-service supermarket in Japan.
http://www.e-kinokuniya.com/kinokuniya2.pdf

Meidi-ya: First supermarket to specialize in imported products.
http://www.meidi-ya.co.jp/en/

Seijo Ishii: Combination of specialty products and convenience store.
http://www.seijoishii.co.jp/ (J)

Dean & Deluca: Premium product and prices. Emphasis on delicatessen.
http://www.deandeluca.co.jp/

Queens Isetan: Special shelf space for imported products.
http://www.queens.jp/pc.html (J)

Kaldi Coffee: Specializes in premium imported products.
http://www.kaldi.co.jp/english/

National: One of the favorites for expats.
http://www.national-azabu.com/e_storeguide.html

C. Convenience Stores (CVS)

1. **Outlets**

   Convenience stores in 2012 continued their strategies to develop and maintain efficient networks. Convenience stores are vying for the best potential properties to open new outlets before competitors get a hold of them and competition is fierce. According to The Beverage & Food Statistics Monthly (Nikkan Keizai Tsushinsha, Tokyo), Seven and i opened 1,354 new outlets. Lawson opened 860. Family Mart opened 900, Circle KS 365, Mini Stop 148 in 2012. Of course numerous inefficient outlets are constantly closed but it's the new outlets that will increase revenue for these convenient store companies. Seven and I is the first convenience store company that reached the 15,000 mark.

   Many outlets are opening in residential areas and with close proximity to other convenience stores. This strategy is directly related to the two most powerful customer bases, young singles and Generation M. Young singles have begun to eschew cars and now require shopping to be close to home. Generation M has huge purchasing power and they aren't very mobile, making convenience stores more attractive..

2. **Company Highlights**

   The following table (Figure 7) summarizes the top convenience stores in Japan 2012. Profits were boosted by female and elderly customers buying fresh food, desserts, and ready to eat meals. Seven & i* became the first Japanese retailer to achieve more than ¥3 trillion ($37.1 billion) in annual sales in 2011.

   The top three convenience stores focused on women and Generation M. They had a successful year because they increased private brand items as well. In order to add new private brand items these companies built in-house product development centers for research and manufacturing.

   Seven and i also started offering premium coffee (capsules) called Seven Café in all of their stores. This service helps bring customers into the store.
   Lawson has successfully opened stores called "Hospital Lawson" in health related institutions such as hospitals catering to patients and hospital staff. As of February 2013, Lawson operated 160 stores.

*Note: Seven & i is the parent company of Ito Yokado, Seven Eleven Japan, and others.

Figure 7: Top Convenient Stores in 2012 (Sales & Outlets)

Rank	Company Name	Total (Mil. Yen)	Number of Outlets	Location

1	Seven Eleven	617,559	15,072	Nationwide
2	Lawson	282,752	9,752	Nationwide
3	Family Mart	270,919	8,772	Nationwide
4	Circle K Sunkus	154,422	5,329	Nationwide
5	Mini Stop	63,033	2,168	Tokyo/Nagoya
6	Three F	24,397	604	Tokyo Area
7	Poplar	55,182	713	Nationwide

Source: Tokei Geppou May 2013 p 73

D. Department Stores

Since the 1980s Japanese department stores have faced steeper competition from the growth of supermarkets, malls, and convenience stores. Department stores generally have a variety of shops and services, with the basement level having grocery or eatery shops.

1. **Outlets**

   Various retailers renovated and reopened stores; Isetan Mitsukoshi updated their stores and targeting consumers with better promotions; H2O Retailing has renovated their flagship store and attracts more customers.

2. **Sales**

   In 2012 department store food sales amounted to Yen 1,738,651 million, representing 10.7% of the Retail Food market in Japan. Over the last decade total department store sales of non-food products have declined. However, food sales at department stores have grown because of premium products, location, and the use of the *depachika* (see below).

   According to the Food Industry Newspaper the first time in 16 years had the Department Store total sales increased above the previous year.

3. **Depachika**

   Depachika means the basement floor of the department store where fresh food halls are traditionally located. Traditionally, *depachika* was a quiet retail food location. This changed when shops introduced high-quality HMR, creating a new niche food market in Japan. In addition, famous restaurants became tenants and lent their brand names to popularize *depachika*. The d*epachika* phenomenon turned the basement floor into an attractive place and a means of bringing customers to department stores.

   Department stores are often attached to large train stations (such as the newly opened Shibuya Hikarie owned and operated by Tokyu Corp). Because of the proximity to the stations, pedestrians can easily access *depachika* eateries; Tokyu Corp's Hikarie location is estimated to attract 14 million visitors a year, with 200 shops, and many of the eateries staying open until 4am on weekends.

4. **Pricing, Quality and Premium**

Department stores usually carry imported branded products, but they are typically in small quantities. Many of the items are packaged as take-and-go products due to the proximity to stations and the premium nature of the products for use as gifts.

5. **Company Highlights**

Listed below are the top 10 department stores and their food sales for Japan in 2011. (2012 figures were not available)

Figure 8: Top Department Stores by Total Sales in 2011

Rank*	Company Name	Total (USD Mil.)	Food (USD Mil.)	Ratio of Food Sales	Number of Outlets
1	Takashimaya	9,436	2,793	30%	20
2	Sogo & Seibu	10,118	2,112	21%	26

3	J Front	9,116	2,035	22%	22
4	Mitsukoshi	7,890	1,831	23%	15
5	Marui	4,118	653	16%	26
6	H2O Retailing	4,643	1,545	33%	15
7	Kintetsu	3,332	1,140	34%	12
8	Tokyu	2,425	* *		11
9	Tobu	2,499	* *		4
10	Odakyu	1,838	* *		3

Source: 2011年食品マーケティング便覧 (2011 Shokuhin Marketing), FY2011 Annual Statements (various)

**Original rankings based on Total Operating Revenue*

***Note: not all department stores list food as separate sales figures*

Section III: Consumer Trends and Changes

A. Historical

Japanese consumers are a sophisticated clientele with tastes and preferences instilled via cultural, societal, and environmental drivers. If you are considering developing products or searching for products to export to Japan, please consider these following historical characteristics of the Japanese market that still have relevance today.

1. **Demographics**

   An abundance of literature abounds on the topic of Japanese demographics and rightly so – Japan's baby boom generation of 1947-1949 is now retiring. The roughly 6.6 million citizens are expanding the silver demographic market. Japan has the fastest growing elderly population (over 65) or Generation M, in the world. In 2010, Generation M represents 23% of the entire population in Japan. By the year 2020, it is estimated to increase to 29% and then 36% by the year 2040. Of course the total population is estimated to decline from 127 million in 2010 to approximately 105 million in 2040. The Japanese National Institute of Population and Social Security Research estimate the demographic change as:

FIGURE 9: Forecast for Japanese Demographics

Year	**Population (Thousand) by Age Group**			
	Total	**0-14**	**15-64**	**65+**
2005	127,768	17,585	84,422	25,761
2010	127,176	16,479	81,285	29,412
2015	125,430	14,841	76,807	33,781
2020	122,735	13,201	73,635	35,899
2025	119,270	11,956	70,960	36,354

2030	115,224	11,150	67,404	36,670
2035	110,679	10,512	62,919	37,249
2040	105,695	9,833	57,335	38,527
2045	100,443	9,036	53,000	38,407
2050	95,152	8,214	49,297	37,641
2055	89,930	7,516	45,951	36,463

Source: National Institute of Population and Social Security Research
http://www.ipss.go.jp/webj-ad/WebJournal.files/population/2008_4/05population.pdf

2. **Seasons and Holidays**
Japan prides itself for the four distinct seasons that they experience – and this is reflected in the changes in consumer purchasing habits and patterns of gift giving throughout the year. A quick breakdown for reference is:

Month	**Sales, Promotions, Events, and Holidays**
***Spring* – March**	High School & University Graduation events White Day (another Valentine's Day) Sakura (cherry blossom) travel Fiscal Year begins – job rotation
April	New school year begin events Entrance ceremony for companies – sales, promotions
May	Mother's Day Golden Week – holiday sales, travel, events
***Summer* – June/July**	Father's Day Ochu-gen, summer gift giving
August	Obon holiday promotions
***Fall* – September**	Respect for the Aged day
October/November	Oseibo, gift giving
***Winter* – December**	Christmas sales New Years & end of year sales campaigns
January	Coming of Age holiday Setsubun promotions
February	Valentine's Day Fiscal Year ending promotions by companies

Christmas, New Years, and winter sales are very common. For Valentine's Day, Japan has embraced the purchasing of gifts and notably chocolate, but only women give presents to men. Men then give presents to women on White Day in March. As reported by The Japan Times, Bloomberg, and by Isetan Mitsukoshi Holdings Ltd. in Tokyo, Valentine's Day accounts for over 20% of total annual chocolate sales in Japan. For exporting to Japan or bringing a product to the retail market, please keep in mind the Japanese holidays, promotions, and seasonal factors.

3. **Preferences**

   Japanese consumers have some general historic preferences that one should consider. Japan is a nation that prefers convenience, quality, and single-serving sizes. Returning to the latter item, an estimated 3.23 million people commute into Tokyo every day according to Tokyo Metropolitan government. The commute is mostly done via train and then on foot. Therefore convenience and accessibility are highly valued by Japanese consumers.

B. Recent Trends

There are recent trends of burgeoning growth for Private Brands, Healthy Foods, Eco-friendly or Energy saving foods (typically as frozen foods), market consolidation for greater efficiency, and new retail ideas to meet new demands. Energy efficient foods (frozen foods - *bento dashi*), prepared foods (Home Meal Replacements – HMR), and desserts have all seen a strong market growth. Healthy or Functional foods continue to be important.

1. **Healthy or Functional Foods**

   The demand for healthy and nutritionally balanced foods has increased with interest strongest among those aged 50 and above and adult women.
   The healthy food category (or functional foods) has been growing steadily since the mid 1990's. In Japan, functional food can be divided into "Foods for Specific Health Use," or FOSHU, and health enhanced food. Among the numerous attributes that serve to distinguish one from the other, the most important is that FOSHU products require government approval, while health-enhanced food products do not.

2. **Home Meal Replacements (HMR)**

   "Prepared Meals Sold at Retail Stores" are increasing in sales in every retail area. The foods are ready-to eat, Home Meal Replacement (HMR) type products (*obento* lunch boxes at the office are one example). It is estimated that 35% of all meals in Japan are HMR.

   The growth in HMR is driven by the increase of Japanese households eating at home and two demographic sectors. Japan's population is aging faster than any in the world, and many elderly do not have the ability to drive or travel far to buy groceries. As a result, many get their daily meals from the local convenience stores. Likewise, young professionals who live alone or with roommates often don't cook and almost exclusively eat out.

The expanding retail presence of "delicatessen" in supermarkets, department stores, and convenience stores attests to the popularity of the HMR market. Frozen foods have also gained a large presence in the HMR market. "Thaw and Serve *Bento*" are lunches that are bought frozen in the morning, and by lunchtime are thawed and ready to eat. At home frozen noodle dishes, *okonomiyaki* (a savory Japanese style pancake or pizza), and cooked rice dishes are meals that can be brought home frozen, reheated, and consumed.

3. **Private Brands (PB)**

The majority of major food retailers now feature their own private brands. Studies conclude that PB products will continue to gain more shelf space. A 2012 survey by Fuji-Keizai (Nihonbashi, Chuo-ku,Tokyo) found that PB value was Yen 2.638 trillion, which was 9.4% higher than the previous year. It was estimated that by year 2017 the value PB will increase to 3.209 trillion yen.

Figure 10: Private Brand Amounts (Billion Yen)

Year	2012	2017	% Increase
General Merchandise Supermarket	445	569	127.87
Supermarket	779	931	119.51
Convenience Store	864	1,122	129.86
COOP	453	462	101.99
Other	97	124	127.84

https://www.fuji-keizai.co.jp/market/13006.html

4. **Frozen Foods**

Frozen food sales in Japan have steadily increased since 2010. This rise drastically increased in 2011 after March 11, because Japanese consumers are dining in and valuing products with longer shelf-lives which can be stored in case of future disasters. Many versions of home meal replacement frozen foods continue to grow. Some examples of these foods include cooked rice dishes, Asian and Western noodles, breads, and fish.

Overall, Japanese frozen food imports have experienced a large increase in 2012. Pre-cooked frozen food imports to Japan rose 13.8% from the previous year. Frozen vegetable imports increased 10.8% to reach ¥133 billion.

5. **Sweets**

Sweets are an important section of convenience stores. Recently they have been marketing their dessert brands through advertising campaigns with the goal of distinguishing themselves from the competition. Lawson's series' called "Uchi Café Sweets" (Our Café Sweets) is famous for their roll cakes and cookies. Family Mart's "Sweets +" has shown positive sales since 2007. Finally, Circle K Sunkus' brand "Cherie Dolce" released a crème tiramisu that is very popular.

Male consumers are increasingly consuming more sweets. To prepare for this, new sweets products targeted at men are being released. In 2010 Family Mart introduced "Ore no suitsu" or "Manly sweets" with the emphasis on being a masculine product. These sweets are labeled with blue text instead of pink, and are larger than the female targeted products.

6. **Consumption**

Japan is a nation fueled by consumption, a key component to economic recovery. In 2010 the World Bank reported consumption in Japan as 58.58% of GDP and 23% of household expenditures in Japan go towards food according to Japanese Ministry of Internal Affairs and Communications 2009 Survey. There are two main consumer groups in Japan: Generation M and Youth.

Generation M Consumption

Just like in the United States with the Baby Boom Generation retiring, Japanese of Generation M (roughly 6.6 million citizens currently) are expanding the silver demographic market.

The retail response has come in the form of delivery services, mobile operations, expanded internet shopping, smart phone market integration, specific oriented promotions, and products developed with Generation M in mind. Seniors will continue to play an integral role in the Japanese market and projections show the 60+ age category will expand worldwide from 800 million in 2010 to 2 billion in 2050. Researchers expect spending by seniors worldwide to double to $15 trillion (the 2011 size of the U.S. GDP) and see Japan's rich aging consumers as a dynamic testing ground. Another example is Seven & i's new ready-to-eat delivery service called "Seven Meal".

Youth Consumption

With such a large senior market, the youth in Japan are often overlooked. But recent indicators show consumption spending increases among Japanese youth. There is a growing trend in groups –youth (20s-30s) whom prefer going out as a group of three; restaurants, movies, events.

7. **Market Consolidation**

Market consolidation highlights from 2012 were:

On February 21, Uny announced it will make Circle K Sankus a wholly owned subsidiary of Uny. According to Uny supermarkets and convenience stores have more similarities. The consolidation is hoped to make Uny's private brand product development and manufacturing, and distribution more efficient.

On March 4, 2013, AEON purchased Peacock supermarket from J. Front Retailing. Peacock's 2012 sales were Yen 126 billion. Peacock is a metropolitan value added supermarket, which fits AEON's strategy to provide smaller supermarkets in areas where Generation M and the youth groups reside. Peacock locations will join AEON's small-medium size supermarket network that include MaxValue Express and My Basket stores.

Section IV: Road Map for Market Entry

A. Food Distribution System in Japan

There are no magic formulas for new–to market exporters to enter the Japanese retail food market. Strategies will vary depending on the type of food product being introduced and the current competitive environment. However, looking into the differences in distribution systems and structure can also help you formulate a feasible market entry into Japan, for example:

Overall, traditional entry points via importers are beginning to make way for other more diverse avenues. For example, even within one food retail organization (i.e., large-scale supermarket, regional supermarket chain, convenience store chain, etc.), there may be several routes for procurement – including importers, wholesalers, etc.

Large-scale supermarkets still rely primarily on importers and wholesalers. Most are engaged to some degree in developing and maintaining private labels, which they tend to outsource to food processors.

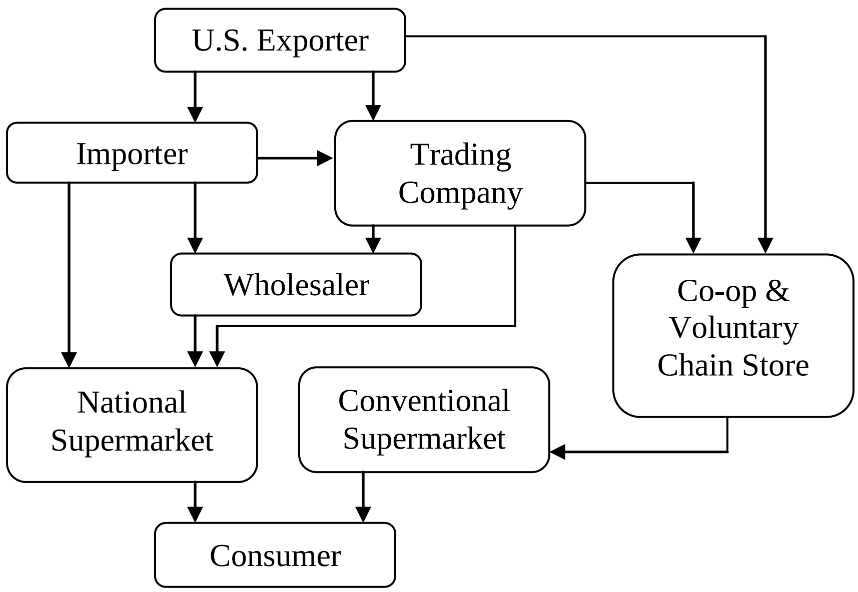
Conventional supermarkets tend to depend more on wholesalers. They usually procure from a number of regional/local and national wholesalers who buy imported food products from trading houses and importers. Wholesalers and big trading houses are generally interested in handling high volume products, not niche-oriented products.

B. Supermarket Store Structure

Giant nationwide supermarket chains including AEON and Ito Yokado mainly purchase their foods through three channels:

1. Direct from the importers
2. Direct from the manufacturers and processors
3.Wholesalers and distributors

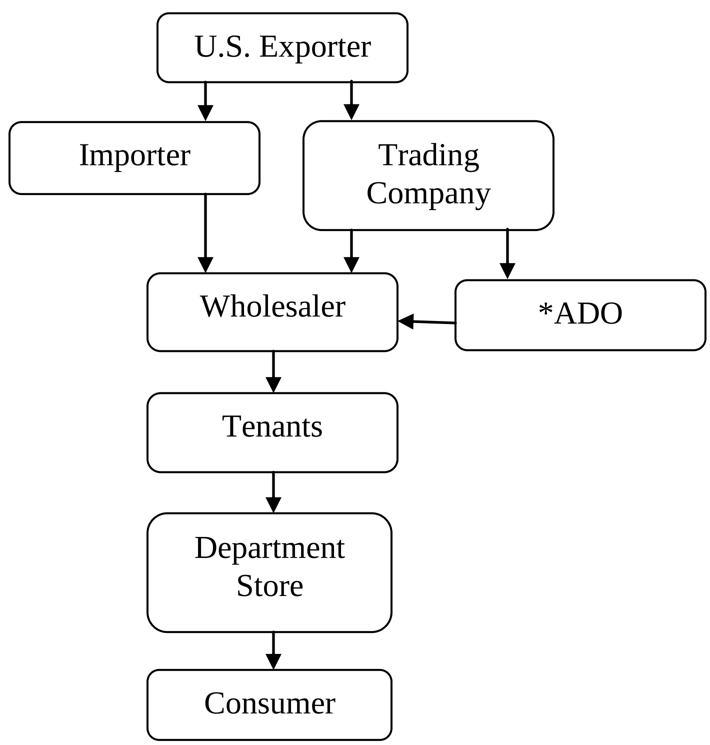
Conventional supermarkets purchase through similar distribution channels, although they mainly purchase from wholesalers, whereas the major national chains rely more on direct routes.



Source: ATO

C. Department Store Structure

Food items at department stores are procured almost entirely through wholesalers and tenant merchants. Imported products reaching department store “tenant merchant” shelves is dependent upon the wholesaler purchasing these products from importers or trading companies. Tenant merchant companies mainly purchase the ingredients for their products from wholesalers and then manufacture the products to be sold.



*ADO - All Nippon Department Stores Development Organization

Source: ATO

D. Convenience Store Structure

Convenience store chains utilize trading companies and wholesalers, depending on the type of product. Due to limited space, convenience stores can only handle a few brands per category. Product performance is reviewed continuously, and slow moving products are replaced quickly, ensuring the highest turnover possible. Their management systems present the most significant challenges for imported packaged processed foods, since they require that U.S. exporters:

1. Modify product taste/specifications to fit the tastes of Japanese consumers
2. Shorten delivery time to ensure freshness
3. Update and introduce new products frequently

E. Specialty and Other Stores

The remainder of the Japanese Retail Food industry is made up of a small, but energetic group of stores ranging the gamut of co-ops, traditional shops, specialty shops, and the online marketplace.

1. **Co-Ops and Voluntary Chains**

   These use a variety of sources, including importers, wholesalers and direct importing. Serving voluntary chains, there are several major joint procurement organizations: CGC Japan, Nichiryu, All Japan Supermarket Association (AJS) and Consumer Cooperatives (Co-ops). 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 non-branded food products that are "volume" oriented in nature.

2. **Traditional Stores**

   These are Mom & Pop or "one category" stores that typically depend on wholesalers. Penetration of imported foods into these shops and stores is relatively low.

3. **Specialty Shops**

   These shops (i.e., foreign foods, discount foods, etc.) also primarily depend on wholesalers. Selected coffee shop chains, discount stores and natural food specialty stores with chain operations may be worth development for U.S. food exporters.

4. **Online**

   Online sales including TV, mail order offers yet another possible channel that U.S. exporters can consider for retail food distribution. Majority of the sales are still non-foods, but food and beverage sales are increasingly being purchased online.

Japan’s EC market grew 12.5% to 9.5 trillion yen, according to a September 2013 white paper released by the METI. The value accounts for 3.1% of the total retail/service market, up 0.3% compared with the previous year.

In a July 2012 White Paper released by the Communications Ministry, smartphones will play a huge role in the future market. Smartphones are expected to generate ¥7.2 trillion ($89.1 billion) in economic revenue and currently represent 10% of the domestic e-market.

It is worth noting that as Japan continues to embrace e-money, point cards, smart phone technology (NFC payment systems, store apps, and web based purchasing), and discount or promotions accessed via the web – this market will continue to grow. AEON Shop is an online store that continues to expand; KFC has launched an online only store with 20-30 internet only products, and Dominos Japan smart phone app allows you to deliver to a specific GPS location (such as a gathering at a park). Seven & i plans on consolidating its subsidiaries (Ito Yokado, Seven-Eleven Japan, etc) into a joint online store called Seven Net Shopping in 2012 and expand grocery operations.

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

Key Words	Advantages	Current Position
Quality	U.S. specialty food products attract Japanese consumers. U.S. products usually have a good story to tell.	Have a good story to educate customers about the quality of your product. Emphasize quality.
Cultural Influences	Japanese consumers are strongly influenced by U.S. food culture.	Be able to explain how your product relates to American culture.
Health Consciousness	Health related food market in the U.S. is advanced. Even though your product may not be a health product, make sure to emphasize any health benefits.	Address health related benefits but be careful you don’t make claims unless you have Japanese government approval.
Food Safety	U.S. agriculture can successfully differentiate itself from Japan and third countries on food safety issues by HACCP, GAP, ISO, etc.	Educating your customer about safety issues helps to facilitate communication and provides your customer transferable knowledge.
Stable Supply	The U.S. is the largest exporter of	Japan’s food self sufficiency rate

	food products to Japan. As a largest supplier of food products in the world, the U.S. has a great opportunity to expand exports to Japan.	is only 39% by calorie basis, and it has been declining due to aging population and the declining farm population.

SECTION V: CONTACT AND FURTHER INFORMATION

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

Tokyo
U.S. Agricultural Trade Office
U.S. Embassy, Tokyo
1-10-5 Akasaka, Minato-ku
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Tel: 81-3-3224-5115
Fax: 81-3-3582-6429
E-mail: atotokyo@fas.usda.gov

Osaka
U.S. Agricultural Trade Office
U.S. Consulate General, Osaka-Kobe
2-11-5, Nishi-tenma, Kita-ku,
Osaka 530-8543
Tel: 81-6-6315-5904
Fax: 81-6-6315-5906
E-mail: atoosaka@fas.usda.gov

ATO Japan has begun a series of regional reports to provide specific information on major regions in Japan. Please go to http://www.usdajapan.org/ and click on "Regional Briefs". To date, the ATO has reports on the Kansai region (Osaka/Kobe), and the Chugoku region (Hiroshima). Reports on Hokkaido (Sapporo), and Kyushu (Fukuoka/Kagoshima) will be available soon.
Other websites: http://www.myfood.jp http://www.us-ato.jp

Additional Reports:

Reports from Japan's ATOs, in addition to those from the Agricultural Affairs Office in Japan, can be found using the links provided or by searching from the FAS Japan

Reports website at:
http://www.fas.usda.gov/scriptsw/attacherep/default.asp

If you are looking to import a new product into Japan, we highly recommend you read the latest Food and Agriculture Import Regulations and Standards Report (FAIRS) which can be found at the above website. The FAIRS report describes the import requirements for all foods and ag products.

Click on the above link, and select reports found after July 2, 2009. Then click on custom date, and in the categories box, open the Exporter Assistance group. In that group you will find the FAIRS reports. On the right, select Japan.