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Regional Report - Hiroshima-Chugoku Retail Market

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Report Highlights:

Hiroshima represents the biggest economy in the Western Honshu Chugoku region, where scores of regional retailers are based. The region's retail industry is bracing for an intensified competition among a greater number of players. Faced with the challenge, regional retailers are vying for differentiation and searching for new ideas. The region presents a great opportunity for U.S. suppliers who can offer unique values and meet the demand of Japanese customers.

Table of Contents

I. Introduction: Why Hiroshima?

II. Hiroshima Overview

III. Retail Food Sector Summary in Hiroshima/Chugoku
1.Food Sales
2.Retail Industry Restructuring

IV. Trends in Retail Food Sector in Hiroshima/Chugoku

1. Large-Scale Retailers
Food Sales of Large-Scale Retailers Continuing to Grow
Intensifying Competition
The Expansion of Discount Store Chains
Retail Company profiles

2. Consumer Purchasing Behavior
Price, Value, and Safety
On Imported Products
Bright Spots

3. Promotional Trends
Locally-grown Products
Promotion of Recipes
In-Store Promotion
Food Education

V. Implications for U.S. exporters

I. Introduction: Why Hiroshima?

Hiroshima represents the biggest economy in the Chugoku region. Until recently, Hiroshima-based supermarkets have dominated the prefecture's retail market, but that is beginning to change as more regional retailers and regional discount stores based outside of Hiroshima expand in Chugoku. Japan's overall macro economy may be growing slowly, but on a micro level, a series of interesting changes are taking place, which creates opportunities for U.S. exporters.

Map of Japan

Chugoku region is located in the south-western end of Honshu Island, consisting of five prefectures: Hiroshima, Okayama, Yamaguchi, Shimane and Tottori.

II. Hiroshima Overview

Hiroshima is located in the middle of the region, about 300 kilometers west of Osaka. With a population of 2.86 million, it is the biggest prefecture in Chugoku and Japan's 12th largest prefecture by population.

Map of Hiroshima

The Chugoku region represents 4.6 percent of the nation's economy. The nominal GDP is 12.0 trillion yen, the 10th biggest in Japan. Per capita income is also Japan's 10th highest. With a population of 1.1 million, Hiroshima city, its capital, alone accounts for more than 40 percent of the prefecture's economy (Table 1).

Retail activities are also concentrated in the capital. Over 40 percent of the prefecture's total retail sales, estimated to be nearly 2.9 trillion yen ($35.4 billion), are registered in the city. Fukuyama city, Kure city and Higashi Hiroshima city combine for about 30 percent. As for the wholesale sales, Hiroshima city accounts for as much as 70 percent.

Agriculture

The agricultural sector in Hiroshima is relatively small, employing just 63,000 people and earning 103 billion yen as of 2007, according to the local government. The self-sufficiency ratio is 24 percent, much lower than the national average of 40 percent due partly to a limited availability of farmland in mountainous Hiroshima. Hiroshima is known for citrus (mandarins and lemons), and is Japan's top lemon production area. The area is also Japan's top producer of oysters.

Table 1. Chugoku Economy

Chugoku	**Nominal GDP 2007 (US$ million)**	**Population 2010**	**Per Capita Income 2007 (US$)**
Hiroshima	146,115.9	2,860,769	37,305
Okayama	91,859.8	1,944,986	34,293
Yamaguchi	71,223.8	1,451,372	36,366
Shimane	30,562.9	716,354	29,707
Tottori	24,380.0	588,418	28,829
Total	364,142.3	7,561,899	N.A.

Source: Nominal GDP: Cabinet Office, Per Capita Income: Cabinet Office,
Population: National Census 2010

III. Retail Food Sector Summary in Hiroshima/Chugoku

1.Food Sales

Hiroshima prefecture is by far the biggest market for food and beverages in the Chugoku region, followed by Okayama and Yamaguchi. According to Commerce Statistics, the wholesale sales of food and beverage in Hiroshima are 1.1 trillion yen, the 10th biggest prefecture in Japan and that of retailers is 893 billion yen, Japan's 12th (Table 2).

Household spending in Hiroshima is also relatively high. Among the nation's capitals, household spending on food in Hiroshima city is higher than Osaka, though lagging behind big cities such as Tokyo and Nagoya (Table 3).

Table 2. Food Sales in Chugoku

US$ million

Chugoku	Food Sales (Wholesale)	Food Sales (Retail)
Hiroshima	13,587.8	10,898.8
Okayama	5,312.2	7,598.8
Yamaguchi	4,081.7	5,345.1
Shimane	1,197.6	2,931.7
Tottori	1,274.4	2,440.2
Total	25,453.7	29,214.6

Source: Commerce Statistics (2007) by The Ministry of Economy, Trade and Industry and Nihon Shokuryo Shimbunsha

Table 3. Food Purchasing Per Household (multiple-member household)

Capital (Prefecture)	Spending (US$)
Hiroshima city (Hiroshima)	11,497
Okayama city (Okayama)	10,205
Yamaguchi city (Yamaguchi)	10,729
Matsue city (Shimane)	11,279
Tottori city (Tottori)	10,674

Source: Household Spending Survey (2009) by Ministry of Internal Affairs and Communications

2.Retail Industry Restructuring

The Japanese retail industry is undergoing restructuring nationwide and Hiroshima is not immune. As a result, the total number of retail establishments of all kinds is declining. The number of conventional supermarkets stores and convenience stores continue to grow while the number of department stores and small-scale retailers has steadily declined over the past 20 years (Table 4).

As noted, the number of convenience stores continues to grow. The pace of growth, however, has slowed considerably over the last two years due in part to relatively high prices compared with other types of retailers.

Table 4. Sales and Number of Retail Establishments for Each Food-related Retail Format in

Hiroshima

Category	No. of Stores 2007 (2004)	Sales 2007* (US$ million)	Sales Growth 2004-2007 (%)	Floor Space (sq. meters)
Department Stores	13(12)	2,440.2	93.7	270,000
GMS	45(50)	2,264.6	88.8	495,377
Conventional Supermarkets	502(498)	4,751.2	102.7	470,675
Convenience Stores	945(830)	1,897.6	115.4	105,157
Other Food Retailers**	5592(6601)	3,375.6	89.5	258,224

A GMS is defined as a store that sells clothing, food and living-related products and sales of foods do not exceed 70% of the products sold.
A Conventional Supermarket is defined as a store in which over 70% of products sold is food.
* Sales include items other than food
** The Sum of Specialty and One Category Stores
(Source: Commerce Statistics 2007, 2004 by METI)

IV. Trends in Retail Food Industry

1. Large-Scale Retailers

Food Sales of Large-Scale Retailers Continuing to Grow

Amid the restructuring, the number of outlets of large-scale supermarket retailers in the region continues to grow. The number of large-scale supermarkets in Hiroshima grew from 76 to 86 in the last two years. Food sales in these stores also show resilience despite the region's general consumption slump (Table 5). These figures underscore the diverging performance among different formats, where large-scale supermarkets retailers, especially conventional supermarkets are faring well.

Table 5. Sales and Percentage Change of Food Sales at Large-Scale Retailers*

Hiroshima
(USD million)

	Total	Department Stores	Supermarkets

	Total Sales	Food Sales	Food Sales Growth (%)	Sales	Food Sales	Food Sales Growth (%)	No.of Stores	Total Sales	Food Sales	Food Sales Growth (%)	No.of Stores
2007	5,643.6	2,381.5	N.A.	2,646.7	665.5	N.A.	8	3,131.0	1,717.2	N.A.	76
2008	5,621.8	2,478.9	104.1	2,525.4	661.0	99.3	8	3,096.5	1,818.0	105.9	76
2009	5,337.7	2,474.0	99.8	2,294.6	626.6	94.8	8	3,043.1	1,847.5	101.6	83
2010	5,247.3	2,501.3	101.1	2,203.1	608.3	97.1	8	3,044.2	1,893.0	102.5	87

Chugoku

	Total			Department Stores				Supermarkets			
	Total Sales	Food Sales	Food Sales Growth (%)	Sales	Food Sales	Food Sales Growth (%)	No.of Stores	Total Sales	Food Sales	Food Sales Growth (%)	No.of Stores
2007	12,396.2	5,681.7	N.A.	4,629.9	1,148.8	N.A.	19	7,766.3	4,532.9	N.A.	237
2008	12,462.3	5,978.4	105.2	4,450.0	1,149.6	100.1	19	8,012.3	4,828.8	106.5	244
2009	11,853.7	5,947.5	99.5	4,034.8	1,096.1	95.3	19	7,818.9	4,851.5	100.5	253
2010	11,716.6	6,054.8	101.8	3,863.3	1,066.3	97.3	19	7,853.3	4,988.5	102.8	255

All Japan

	Total			Department Stores				Supermarkets			
	Total Sales	Food Sales	Food Sales Growth (%)	Total Sales	Food Sales	Food Sales Growth (%)	No.of Stores	Total Sales	Food Sales	Food Sales Growth (%)	No.of Stores
2007	258,521.6	120,327.7	N.A.	103,234.4	26,472.8	N.A.	323	155,287.3	93,854.8	N.A.	4,125
2008	255,501.2	123,860.4	102.9	98,521.0	26,502.3	100.1	312	156,980.2	97,358.2	103.7	4,264
2009	241,168.0	122,823.9	99.2	87,526.7	24,886.9	93.9	290	153,641.3	97,936.9	100.6	4,391
2010	238,769.1	124,270.4	101.2	83,436.1	24,015.9	96.5	274	155,333.0	100,254.5	102.4	4,683

Source: Commerce Statistics (The Ministry of Economy, Trade and Industry)

* A large-scale department store is defined as a department store with a floor space over 3,000 sq. meters in major cities (defined as Seirei Shitei Toshi, which includes Hiroshima) and over 1500 sq. meters in other areas. A large-scale supermarket is defined as a store with a floor space over 1,500 square meters, where over 50% of the space is dedicated to self-service operation.

Intense Competition

As described in the previous section, the number of large-scale retailers in Hiroshima continues to increase. The growth is driven by scores of regional retailers, which are seeking the economy of scale amid the sluggish demand. Until recently, the retail food market in Hiroshima has been dominated by a variety of local retailers. That is beginning to change as supermarkets based outside of Hiroshima are expanding its area of operation, adding to the already intensifying competition among retailers. The result is cutthroat competition among retailers of different characteristics and continuous price cuts.

Additionally, as regional retailers continue to expand across prefectural and regional borders, there are signs that the regional economy in Chugoku and Shikoku, especially the coastal areas, is becoming increasingly integrated.

Halows Co., for example, is one of the regional retailers that have been growing rapidly. The retailer has recently moved its head office from Hiroshima to Okayama, with an eye to expand its reach beyond regional borders, including Shikoku. The company estimates the food market of the “Setouchi Coastal” area at 3,960 billion yen, which accounts for 80% of the total regional market composed of Hiroshima, Okayama, Hyogo and Yamaguchi, Kagawa and Ehime. (Setouchi means the inland area surrounding Setonaikai, the inland sea between Chugoku and Shikoku.) Across Setonaikai, Ehime-based large-scale retailer Fuji Co. is reinforcing its already sizable operation in Hiroshima.

Meanwhile, AEON’s group of companies continues to increase its presence in Hiroshima. In 2009, AEON Mall, one of its subsidiaries, opened its second shopping mall in Hiroshima city, adding to the strong competition among shopping malls. Max Value West, Kansai-based supermarket chain store within the AEON group, is increasing its presence in Hiroshima. The company is reportedly planning to move its head office to Hiroshima within a year or two.

The Expansion of Discount Store Chains

The downward pressure on prices may not let up anytime soon. Discount food chains are expanding aggressively in the region on the back of increasingly price-conscious consumers. Okayama-based Daikokuten Bussan, is one of those companies. The retailer, which describes its format as “mega discount,” is rapidly growing from Kansai (Kinki) to Kyushu, opening several stores a year. Another is the Fukuoka-based Trial Company. The retailer has opened over 20 stores across Japan over the past year to the total of 132, including Chugoku region. One of its strengths comes from their wide-ranging private label products (over 2000 items) sourced from China, South Korea and Japan. The company is said to be trying to follow the Wal-Mart model.

In addition, major large-scale retailers in the region have launched discount store lines in response to the changing environment. Izumi and Fuji, for example, are altering a number of their existing stores into discount stores as well as opening new ones. In so doing, these retailers say they are trying to differentiate themselves from deep discounters by offering a unique selection of products.

Retail Company profiles

Regional Supermarkets

Company (Store Name)	Head Office	Total Sales USD million	Food Sales USD million	No. of Stores	Main Locations

Izumi (Izumi, you me town)	Hiroshima	5,577.3	1,856.2	87	Hiroshima, Fukuoka, Yamaguchi
Halows (Halows)	Okayama	871.8	Mostly food	48	Hiroshima, Okayama, Kagawa
Fresta (Fresta)	Hiroshima	764.6	Mostly food	53	Hiroshima
Yours (Yours/Avance)	Hiroshima	487.8	Mostly food	38 / 3	Hiroshima
Spark * (Spark)	Hiroshima	185.4	Mostly food	17	Hiroshima

Source: Corporate data, 2009-2010
*2005

Izumi

Izumi is one of Japan's biggest general merchandizing stores based in Hiroshima city operating over 80 stores mainly in Hiroshima and Fukuoka. The retailer has been expanding in Kyushu since the late 1990s, but recently strengthened its position in Hiroshima as well. In 2008-2009, Izumi opened two large-scale outlets called "you me town." Amid the intense competition, the retailer launched the discount store format in 2010. The company remodeled nearly a dozen of its existing stores into discount stores and opened two new discount stores in Okayama and Fukuoka. The company has employed its proprietary "you me Point Card" effectively to stimulate spending amid a consumption slump. Its food sales totaled 152.2 billion yen (USD1,856.2 million) in 2010.

Halows Co., ltd.

Halows is one of the region's major supermarket chain stores, operating mainly in Okayama and the eastern part of Hiroshima (not in Hiroshima city). The retailer, which runs 48 outlets as of 2010, plans to add 3 to 5 stores a year for a total of 63 stores by 2014, with total sales of 100 billion yen. All of their stores are open 24 hours a day. The company has grown in recent years thanks to a strategy to strengthen its private-brand selection and Every Day Low Prices (EDLP). As of February 2011, the sales of its private brand products accounts for 8.0 percent of its total sales. The company plans to expand in the Setouchi Inland region of Chugoku and Shikoku, which includes Okayama, Hiroshima and Kagawa. The retailer moved its head office in 2010 from Hiroshima to Okayama, where it built its new distribution center.

Fresta

Privately-held Fresta is one of the major regional retailers founded in Hiroshima, operating outlets mainly in Hiroshima city. The retailer is known for its unique merchandizing, services, and store design, which vary from store to store. It runs a kitchen studio at one of its outlets, where cooking classes are held a few times a week aimed at promoting specific items as a cross-marketing effort. With its own customers indicating their high priority as prices, the retailer has implemented a series of price cuts on dozens of items over the past year.

Yours

Yours is a privately-held supermarket chain based in Aki, western Hiroshima and operates mostly in Hiroshima city. In recent years, the company has grown through acquisitions to run 38 stores named Yours. The retailer also operates Avance, one of the few high-end food stores in Chugoku. Avance focuses on high-quality domestic products, going at length to procure distinct items from across Japan. Import items they carry are mainly processed foods from Europe and Asia. A store manager says one of their recent hit items is mangos wrapped as a gift with a price tag of $18-$25 per piece.

Spark

Privately-held Spark is one of the major regional retailers based in Hiroshima operating mostly in Hiroshima city and its suburbs. The majority of its outlets are open 24 hours, not so common in Hiroshima. One of their strengths is its sales of meat, according to the company, and the U.S. beef dominated their beef sales at its peak.

Department Stores

Company	Head Office	Food Sales USD million	No. of Stores
Sogo	Tokyo	164.6	2
Fukuya	Hiroshima	193.9	4
Mitsukoshi	Tokyo	67.1	1

(Source: Nihon Shokuryo Shimbunsha, STORES, 2008)

With few high-end retailers operating in Chugoku, Department stores are the main outlets for high-end items including imports.

Cooperative Grocer Chain

Chugoku CGC

Chugoku CGC is one of the regional subsidiaries of the nation's major procurement groups, CGC Japan. The group has a contract with a major packer and sells U.S. beef that is traceable back to contract factories and farmers.

Company	Head Office	Total Sales USD million	Food Sales	Members	No. of Stores*
Chugoku CGC	Hiroshima	440.2	mostly food	17 members inclu. Yours, Fresta, Fujioka, Spark, and Sanwa	286

(Source: Corporate data)
*in Chugoku region

2. Consumer Purchasing Behavior

Price, Value, and Safety

Household spending in Hiroshima remains relatively high compared with other prefectures, but has been slightly reduced in the past decade and consumers are becoming frugal. The average household spending on foods (2007-2009) in Hiroshima city is down by 7.3 percent compared with a decade ago while the overall spending is down by 4.5 percent, according to Hiroshima-based Hirogin Research Institute and government surveys.

The decline seems to reflect a notable shift in consumer behavior in recent years. For years, Japanese consumers have been willing to pay more for quality and safety. However, that attitude may be changing somewhat. According to a recent survey by Hiroshima-based major retailer Fresta, consumers cited "prices" as the biggest factor for purchasing, replacing "safety" for the first time. (Note: This trend is seen in other parts of Japan as well.)

Additionally, the changing consumer behavior is boosting the popularity of warehouse retailers and wholesale supermarkets, including the American company COSTCO, which plans to open 3 stores this year to a total of 12, and is considering opening several more, including one in Hiroshima.

On Imported Products

While there is no data available that shows import trends in Hiroshima exclusively, local buyers say consumer attitude in Hiroshima is in line with the national trend, in that consumers generally prefer domestic products. That tendency is especially strong among the seniors. As elsewhere in Japan, imported products, especially vegetables, are considered as complimentary to domestic products. However, local buyers say consumer's psychological barriers to imports are coming down in recent years and that they are more receptive to imports than have been generally perceived.

As for beef, consumers in Hiroshima have already embraced imports for years. U.S. penetration in the local market is already high (thanks to efforts by USMEF). Even with the ongoing trade restrictions due to BSE, U.S. beef is readily available in major supermarkets in Hiroshima. For instance, CGC Chugoku, a regional subsidiary of Japan's major independent grocers group, CGC Japan, supplies U.S. beef to many of its member retailers, reaching nearly 200 outlets in Chugoku. CGC Japan has a contract with a major U.S. packer.

Even so, the impact of Japan's restriction has been apparent, especially among those retailers, who used to enjoy brisk sales of U.S. beef. At Izumi, for example, while imports once accounted for as much as 40 percent of total beef sales, today, the figure is down to 15 percent. Similarly, at Spark, another major retailer, import beef today accounts less than 10 percent, down from over 60 percent, when U.S. beef was more readily available, according to the company.

Incidentally, household spending on beef in Hiroshima city is one of the highest in Japan, according to the government's household survey. At Izumi, which operates extensively both in Hiroshima and Fukuoka, beef sales accounts for about 40 percent of all meats in Hiroshima as compared to 26 percent in Fukuoka, where locals traditionally embrace chicken-oriented cuisine. To be sure, consumption of beef has been in decline as consumers are shifting to cheaper meats such as pork and chicken. Yet, Hiroshima seems to offer a unique opportunity going forward.

Bright Spots

Home meal replacement (HMR) is one of the few segments that households in Hiroshima city have spent significantly more over the past decade. That seems to reflect Japanese consumers' changing lifestyle and demographic change, where single-person households are on the rise. Household spending in Hiroshima city on HRM, frozen foods and eating out increased 7.7 percent, 15.6 percent, and 8.8 percent respectively, compared with a decade ago, according to Hirogin Research Institute. Reflecting the trend, regional supermarket chains consider HRM as crucial to stay competitive. Some of them are vying for differentiation by focusing intensely on HRM, i.e. launching a HRM-dedicated line of outlets.

3. Promotional Trends

Locally-Grown Products

Promotion of local products is one of the programs local governments across Japan have focused on and the government of Hiroshima is no exception. In an effort to stimulate the struggling local economy and reinforce its agriculture industry, the local government and Japan Agricultural Co-operatives (JA) Hiroshima are joining hands to increase the consumption of Hiroshima-grown vegetables and fruits. In response, scores of regional retailers have established a designated shelf for Hiroshima-grown products, though the range of products available is relatively limited.

Promotion of Recipes

Just as in the U.S., retailers have become increasingly active in promoting recipes. The approach is considered effective in creating a sustaining impact on consumers' purchasing behavior. At a time when consumers are inclined to buy fewer items to save money, the approach has become even more important for retailers to convince customers to buy more. The trend is visible in Hiroshima, where regional retailers are working with food processing companies (i.e. sauce and dressing makers) to develop and promote recipes that would use a variety of ingredients they sell. Such attempts are considered effective to appeal to consumers are buying fewer items lately.

Izumi, for example, recently created a booklet of 50 meal-soup recipes to be distributed in-store and on mobile phones last year. Each recipe uses a variety of ingredients as well as branded soup stock. Another retailer Fresta, on the other hand, runs a kitchen studio in one of its outlets to offer shoppers a cooking class a few times a week to cultivate loyalty while promoting usage.

In-Store Promotion

One of the measures increasingly employed across Japan is the use of hand-written Point of Sale materials, often prepared by store employees. They are typically attached to fresh products and healthy foods to provide information that would be useful to consumers with a sense of personal appeal. In some stores in Hiroshima city, for instance, one can see bags of dry fruits and tree nuts sold with meticulously hand-written notes, which explain nutritious and health benefits of each product. (Japanese consumers generally are not very familiar with the nutritious benefits of dry fruits and tree nuts as many of these items have so far been sold mainly as ingredients rather than snack.) Some give a message from a buyer or a grower, stressing the appealing points of products. A trend like this makes it even more important for U.S. exporters to be in close contact.

Food Education

Food education especially for school children has become a mainstream activity for retailers to develop closer ties with the local community and cultivate loyal customers. (Food makers often get involved in such efforts.) Behind the prevailing trend is a steady decline in consumption of vegetables and fruits, particularly among the younger generations. Ingredients for food education vary from locally-grown fresh products to imported ones. For example, CGC Chugoku recently worked with an importer to hold an event for families with children aimed at consumption of bananas. Retailers typically work with Five-A-Day to carry out food education programs.

V. Implications for U.S. Exporters

A series of interviews with local professionals in Hiroshima underscores that there is a significant potential in Hiroshima for U.S. exporters. They stress that consumers are still not fully aware of the quality and the variety of U.S. products available them and that demand for U.S. foods would grow if they get more information about them, the kind that would be valuable and useful.

These retailers suggest, for instance, providing more information that would give assurance to consumers, i.e. details about growers, where and U.S. products are grown. (They note Japanese buyers are well aware of the safety of U.S. products but not all consumers are.) In the same vein, they suggest promoting usage and recipes along with nutritious benefits would be effective in raising the awareness and creating new demand for U.S. products. Given the situation, the issue here seems to be not so much as what U.S. exporters should do but how best to reach out to a greater number of Japanese consumers in regional markets.

As described in detail in the previous chapters, regional large-scale retailers are bracing for an intensifying competition and vying for differentiation with an open mind. Notably, they are eager for differentiation, but not just on prices. For, there is a sense among some major regional retailers that competition over price cuts have come close to their “limit.” This would also mean a potential opportunity for U.S. exporters to explore.

A good example is Fresta, a Hiroshima-based retailer. The retailer has established a section dedicated to COSTCO products to better cater to varying needs of customers and to differentiate themselves from others. In addition, the retailer has launched a monthly “Dole Fair,” where the retailer sets aside a space in the grocery section for the company (not limited to U.S. agricultural products) in an effort to give more choice to customers. The retailer says its attempt has been successful.

Lastly, given a degree of similarities of mid-size cities in Japan, potential opportunities described above should exist not just in Hiroshima and the region but elsewhere. U.S. exporters should keep a close eye on the changing landscape of the regional retail markets.