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Japan

Retail Foods

Japan's Retail Market Remains Attractive for U.S. Exports

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Report Highlights:

Total retail sales including food, beverage, general merchandise, fabrics, apparel and accessories amounted to 68.516 trillion yen in 2013. Of this figure the total food and beverage retail sales amount was 44.516 trillion yen. The Japanese retail food industry in 2013 experienced growth in large and conventional supermarkets and convenience stores.

Post:
Tokyo ATO

Executive Summary:
SECTION I: JAPAN RETAIL FOOD SUMMARY

A. Overview

For the first time in five years the Japanese yen remained consistently close to 100 yen to the dollar in the year 2013. Consumer confidence is rising and spending is also higher. On April 1st of 2014 the consumption tax increased by 3%, causing an early shopping spike in February and March of 2013.

Yearly average	2011	2012	2013
JPY ¥ per USD\$	80.84	80.82	98.65

Source: http://www.murc-kawasesouba.jp/fx/year_average.php

B. Market Breakdown

Total retail sales including food, beverage, general merchandise, fabrics, apparel and accessories amounted to 68.516 trillion yen in 2013. Of this figure the total food and beverage retail sales amount was 44.516 trillion yen. Total retail sales have slightly increased in the past year. On April 1st of 2014 there was a tax increase, which has since caused a slow-down in the market. Below are the total retail sales figures:

FIGURE 1: Total Retail Sales (Billion JPY ¥)

Year	Total	Food & Beverage	General Merchandise	Fabrics, Apparel, Accessories
2011	67,076	43,607	12,783	10,686
2012	67,649	44,026	12,681	10,942
2013	68,516	44,516	12,710	11,187

Source: METI tables 3-1, 4-1

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

C. Food Sales in 2013

The Japanese retail food industry in 2013 experienced growth in two categories of large and conventional supermarkets and convenience stores. Department stores continued to fall for the second consecutive year (Figure 2). Convenience stores have strived to develop online stores to accommodate their younger customers who are always on the go, create ready-to-eat meals for working mothers, and provide delivery services for the fast growing elderly (60 and above) population that will be referred to in this report as Generation M.

FIGURE 2: Food Retail of Three Categories for 2011-2013 (Million JPY ¥)

Year	Large-scale Supermarkets & Conventional Supermarket	Department stores	Convenience Stores
2011	8,457,926	1,935,730	5,353,719
2012	8,535,260	1,916,244	5,817,844
2013	8,734,942	1,911,969	6,138,738

Tables 3-1, 4-1

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

D. Food and Beverage Sales by Region

FIGURE 3: Regional Sales and Population (Million JPY ¥)

	Year	Overall Food and Beverage Sales	Number of Establishments	2013 Population	Food Purchasing Power per Household (JPY)	Sales Growth '12-'13
Hokkaido	2011	577,914	316	5,430,909	681,430	1.50
	2012	576,949	319			
	2013	585,642	319			
Miyagi (Tohoku)	2011	246,119	138	2,328,143	747,818	0.71
	2012	264,811	143			
	2013	266,699	149			
Tokyo	2011	1,250,190	368	12,286,735	803,107	-0.49
	2012	1,252,308	369			
	2013	1,246,110	372			
Aichi (Chubu)	2011	732,697	318	7,434,996	*	0.95
	2012	725,354	317			
	2013	732,253	318			
Osaka	2011	826,593	305	8,869,280	800,702	1.13
	2012	824,956	306			
	2013	834,360	317			
Hiroshima (Chugoku)	2011	213,940	101	2,840,211	709,465	2.63
	2012	212,074	100			
	2013	217,672	111			
Ehime (Shikoku)	2011	116,254	73	1,404,051	862,357	3.06
	2012	117,291	74			
	2013	120,883	85			
Fukuoka (Kyushu)	2011	288,035	170	5,090,712	793,021	3.36
	2012	289,843	176			
	2013	299,599	177			

Source: data retrieved from METI tables 3-4, 4-4

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

SECTION II: RETAIL MARKET INDUSTRY

A. Establishment Trends

In 2013 Japan’s supermarkets and department stores have taken a back seat to convenience stores. To combat this, larger supermarkets have launched smaller neighborhood stores into the market. In their urban locations, customers usually need to travel some distance to the closest supermarkets. Many shoppers have decided to shop at convenience stores located closer to their work or homes. Supermarket juggernauts AEON and Seven & I holdings are acquiring their competitors to get an even stronger hold on the market. Online shopping options are becoming a popular trend for grocery stores, with some offering home delivery for little to no cost. This is a popular shopping method for Generation M, Japan’s number one consumer. While home delivery is growing, it has not reached all areas. In areas without direct home delivery options, consumers are able to have hard-to-get items delivered to the closest supermarket outlets near their home instead.

FIGURE 4: Japan Retail Food Market Percentages for 2013

Year	Large-scale Supermarkets and Conventional Supermarkets	Department Stores	Convenience Stores
2011	53.7%	12.8%	33.6%
2012	52.0%	12.3%	34.0%
2013	52.0%	11.3%	36.5%

Source: METI tables part 3-1, 4-1

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

B. Large Scale and Conventional Supermarkets

1. Outlets

The supermarket business in Japan is a mature market which is at full saturation levels for standard large-scale and conventional supermarkets. Many major supermarket chains are investing in easier to access locations; this can be seen in the development of city-style stores.

2. City-style Stores

City-style stores are becoming increasingly popular. Originally created by large supermarkets to better compete with convenience stores, these stores offer a variety of goods with a smaller amount of floor space. City stores are usually located in urban areas so customers living there do not have to travel far.

In June 2014, Aeon announced that it was going to triple its ‘A Colle’ stores from 90 to 250 by 2016. These stores are roughly twice the size of normal convenience stores but sell about 1,300 items - just under half as many as convenience stores - compared to about 10,000 items in supermarkets. These stores have hit a niche market with Generation

M, mothers and value-conscious customers. City stores have seen a 5% gain within the past year.

3. Target Market

As the Japanese market continues to mature, AEON and Seven & I holdings have strived to appeal to Generation M. AEON specifically is using earlier opening hours to appeal to these customers. Seven & I holdings' Ito-Yokado supermarkets introduced prepaid shopping cards and a special Senior Nanako point card that offers an additional 5% discount on the 15th of every month. As mentioned previously, home delivery is becoming increasingly popular.

4. Price Competition

Store brands, known in Japan as private brands (PB), have increased. AEON's Top Valu PB is sold at its Maruetsu and AEON stores, and Ito-Yokado PB has had great success with consumers now becoming more money conscious. The April 1st tax increase, however, has slowed their progress.

5. Company Highlights

The following table highlights the Japanese food industry sales, and the percentage component those sales represent. The general trend has been greater food sales in 2013.

AEON's private label Top Valu accounted for 20% of AEON's total sales in 2013. AEON also introduced Top Valu Ready Meal, which offers a variety of meals that take minutes to prepare. These meals are aimed at working mothers and Generation M.

On May 20th 2014, AEON merged with Maruetsu, Kasumi and Maxvalu Kanto to strengthen its supermarket brand outside Tokyo.

In June 2013, Ito-Yokado, a subsidiary of Seven & I holdings, acquired a 30% stake in Hokkaido-based supermarket Daiichi. Later in December 2013, it also gained a 20% stake in Tenmaya, a supermarket from the Okayama prefecture.

As of October 2014 AEON has been experiencing a profit decrease due to various factors. Stores failed to recover as hoped after the tax hike in April, and continued bad weather that has made customers less willing to go out. The bad weather and tax increase also affected Ito-Yokado, which is below the previous year's levels in terms of both sales and operating income.

Figure 5: Top Supermarkets by Total Sales in 2013

Rank	Company Name	Total (JPY Mil)	Food (JPY Mil)	Ratio of Food Sales	Number of Outlets	Location of HQ & Stores
1	AEON Retail	6,359,142	1,553,856	24.4%	1,882	Chiba
2	Seven & I holdings	5,631,820	2,009,400	35.6%	362	Tokyo
3	Uny	1,030,259	768,941	74.6%	226	Aichi
4	Daiei	651,163	381,010	61.9%	198	Osaka-Kobe
5	Izumi	535,510	236,500	44.1%	102	Hiroshima
6	Life	534,923	431,124	80.5%	239	Tokyo
7	Arcs	454,391	454,300	99%	290	Sapporo
8	Valor	431,218	303,321	70.3%	252	Gifu
9	Heiwado	404,597	278,362	68.8%	141	Shiga
10	Izumiya	287,207	173,092	63.1%	93	Osaka
11	Maruetsu	325,836	296,681	93%	271	Tokyo
12	Fuji	309,429	124,695	42.5%	98	Ehime
13	Okuwa	290,000			172	Wakayama
14	Max Valu	265,057	237,134	89.4%	177	Hiroshima
15	AEON Kyushu	245,614	111,297	48.3%	120	Fukuoka

C. Specialty Supermarkets

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_\(J\)](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_\(J\)](http://www.queens.jp/pc.html_(J))

Kaldi Coffee: Specializes in premium imported products.

<http://kaldi.co.jp/english>

National: One of the favorites of expats.

http://www.national-azabu.com/e_storeguide.html

D. Convenience Stores (CVS)

1. Outlets

In 2013, convenience stores have increased their sales by 5%, in part due to the large number of locations and the wide variety of products that are offered. Along with these reasons, convenience stores' growing popularity can also be attributed to the locations being close to their customer's homes. This creates a sense of community where customers can easily get to know their neighborhood staff, which is particularly important to Generation M. Convenience stores now offer home delivery services, as well. Seven-Eleven offers the Seven Meal bento delivery service that is delivered by its local staff while Family Mart's delivery staff often check on the well-being of their senior customers. Another popular trend in 2013 is fresh brewed coffee with approximately 700 million cups sold nationwide. CVS fresh brewed coffee is now a solid competitor to cafés such as Starbucks and Doutor.

2. Company Highlights

Seven-Eleven's private label, Seven Premium, has brought in 2 trillion yen in sales in FY2013. Of its 1,700 offered products; bread and beer have proven to be the most profitable. The company has also brought in 28 products under the "Seven Gold" private label—these products are more focused on their high quality rather than low price. With these products' success, large premium companies like Haagen-Dazs have tried to collaborate with Seven-Eleven to make more products.

Seven-Eleven especially had great success with their fresh brewed coffee, where by mid-December 2013, the company sold over 300 million cups of coffee.

In February 2013, Lawson teamed up with Yahoo Japan to create Lawson's Smart Kitchen, an online supermarket that offers weekly delivery service of over 23,000 grocery items. The delivery service is currently being offered for free in the Kanto region (eastern Japan); with customers who live outside the Kanto region having to pay a small fee. By October 2013, Lawson's had 50,000 customers sign up for the service.

Lawson also announced a new city-style store called Lawson Mart—a store that features more fresh foods and produce; in addition they will have kitchens in the store. These kitchens offer 10 minute, easy to prepare family meals that appeal to working mothers and Generation M.

Lawson's private label, Lawson Select, currently has approximately 250 products.

Lawson released a premium label named Uchi Café Sweets; this label is used mostly for the various cakes and confectionaries that are sold at the convenience store. In November 2013, Lawson rolled out premium bread under the Uchi Café Sweets label that rivals the Seven-Eleven Gold bread. Also in November 2013, Family Mart re-launched its 7,000 premium coffee outlets as Famima Café, where they also introduced tables, chairs and free Wi-Fi to attract new customers.

The following table (Figure 6) summarizes the top convenience stores in Japan 2013.

Figure 6: Top Convenient Stores in 2013 (Sales and Outlets)

Rank	Company Name	Total (JPY Bil)	Number of Outlets	Location
1	Lawson	19,453	11,606	Nationwide
2	Seven & I	3,781	16,664	Nationwide
3	Family Mart	105,065	9,975	Nationwide
4	Mini-Stop	62,212	2,196	Nationwide
5	Three F	22,424	639	Tokyo Area
6	Poplar	13,880	655	Nationwide
7	Daily Yamazaki	240,634	1,500	Nationwide

E. 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 food related shops or restaurants.

1. Outlets

The entire department store industry calculated for food sales a slight but positive increase, which hadn't happened in the last five years. Sales were Yen 1,733,086,640,000 (\$17.3 billion). Confectioneries increased 1.1%, home-meal-ready increased 0.1%, fresh groceries only saw a slight decrease of 0.6%. (Japan Food Journal Co., Ltd.

<http://news.nissyoku.co.jp/Contents/urn/newsml/nissyoku.co.jp/20140129/YAMAMOTOH20140121115205178/1>)

It is the food sales and apparels that keep department stores afloat. According to a recent survey, apparel accounted for 22.9% of total sales but this has been declining in the past 10 years. The share of revenue coming from food was 53.8% in 2013, and has increased each year for the past 10 years.

(<http://www.garbagenews.net/archives/2050431.html>)

The most recent significant change in the department store industry was the merging of H2O Retailing and the supermarket giant Izumiya, according to M&A Capital Partners http://www.ma-cp.com/gyou_c/60.html . The merging of department store retailers with supermarkets is an industry trend. Izumiya is a supermarket giant in the regional areas of western Japan which needed to strengthen its marketing and branding. Because regional

department stores are experiencing the same, M&A Capital Partners reports that regional department stores will strategically partner themselves with successful Tokyo and Osaka metropolitan department store to stimulate sales revenue to survive. http://www.ma-cp.com/gyou_c/60.html

2. Sales

In 2013 department store food sales amounted to 1,738,651 million yen, 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, this is the first time in sixteen years the Department store total sales have increased above the previous year. Despite the decrease in sales, department stores in major cities have seen an increase in sales to foreign visitors.

3. Depachika

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

4. Pricing, Quantity and Premium

Department stores usually carry imported branded food products, though 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 used for gifts.

5. Company Highlights

Listed below are the top 10 department store establishments and their total sales for Japan in 2013.

Rank	Store Name	Location	Total Sales (Billion Yen)
1	Mitsukoshi-Isetan	Isetan Shinjuku	265.4
2	Hankyu Hanshin	Hankyu Umeda	192.2
3	Sogo Seibu	Seibu Ikebukuro	184.4
4	Mitsukoshi-Isetan	Mitsukoshi Nihonbashi	173.6
5	Takashimaya	Yokohama	135.4
6	Takashimaya	Nihonbashi	129.9
7	Daimaru Matsuzakaya	Matsuzakaya Nagoya	124.1
8	Takashimaya	Osaka	120.7
9	JR East Takashimaya	JR Nagoya	120.4

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 at the age of retirement. According to the METI, they also account for the majority of consumption in Japan. The roughly 32 million citizens in this generation are expanding the silver demographic market. Japan has the fastest growing elderly population (over 65) or Generation M, in the world. Recent demographic reports have claimed that Generation M represents 26% of the entire Japanese population. By 2020, it is estimated to increase to 29% and then to 36% by the year 2040. Of course, the total population is estimated to decline from 127 million in 2014 to 105 million in 2040.

National Institute of Population and Social Security Research predicts the following demographic change:

Year	Population (Thousands) by Age Group			
	Total	0-14	15-64	65+
2010	127,176	16,803	81,032	29,246
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

2. Season and Holidays

Japanese culture places a heavy emphasis on 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 (Valentine's Day for women) Sakura (cherry blossoms) travel Fiscal Year begins – job rotation
April	New school year begin events Entrance ceremonies 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 , years' end gift giving
Winter- December	Christmas sales New Years & end of year sales campaigns
January	Coming of Age holiday Setsubun (end of winter) promotions
February	Valentine's Day (for men) Fiscal Year ending promotions by companies

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, 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. HMR and frozen foods have both seen particular emphasis. Interest in healthy or functional foods has increased.

1. Healthy or Functional Foods

The demand for healthy and nutritionally balanced foods has increased with the 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 thing is that FOSHU products require government approval, while health enhanced food does not.

2. Home Meal Replacement (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). There has been a 13% increase in consumption of HMR since 2012.

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 workers who live alone or with roommates often do not cook and almost exclusively eat out.

The expanding retail presence of delicatessen in super markets, 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), 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 2.638 trillion yen, 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: 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
Co-op	453	462	101.99
Other	97	124	127.84

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

4. Frozen Foods

With an ever increasing desire for convenience and value priced foods, frozen food sales in Japan continued to increase by 3.3% from the previous year. Many versions of HMR frozen foods continue to grow. Some examples of these foods include cooked rice dishes, Asian and Western noodles, breads and fish. Frozen vegetable imports increased to reach a total of 142

billion yen in 2013.

5. Sweets

Sweets are an important section of convenience stores, which market 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 has been highly popular.

Recently, ice cream has become a popular sweet treat for all. Seven & I and Häagen-Dazs have been working together producing various seasonal flavors to debut in convenience stores nationwide. Recently debuted flavors include lemon ginger, chestnut, azuki beans (sweet red beans)—a favorite for Japanese people of all ages. Soon, they will introduce two more new flavors; a red wine and custard ice cream combination named Antoinette, and Opera—styled after the French cake of the same name—with alternating layers of butter and coffee flavored ice cream.

6. Consumption

Japan is a nation fueled by consumption—a key component to economic recovery. Nearly 23% of household expenditures go toward food according to the Japanese Statistics Bureau. There are two main consumer groups in Japan: Generation M and Youth.

Generation M, Age 60 and above, Consumption

Just like in the United States with the Baby Boom Generation retiring, Japanese of Generation M 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 size of the U.S. GDP in 2011) and see Japan's rich aging consumers as a dynamic testing ground. Another example is Seven & I holdings 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 of youth (age 20-30s) who prefer going out as a group of three to restaurants, movies, and events. The rise in young single person households combined with a busy lifestyle has also driven consumption in youths. Many eat out at restaurants or get ready-to-eat meals to avoid the hassle of cooking.

7. Market Consolidation

Market consolidation highlights from 2013 were:

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

In September, 2014, Lawson announced plans to buy out the upscale Seijo-Ishii chain of supermarkets. With this addition, Lawson hopes to expand and diversify to become a better competitor to Seven & I holdings. The Seijo-Ishii stores will retain their names after the acquisition.

Seiyu Ltd. is set to close 30 stores around Japan due to low profits. The closure will affect about ten percent of the 373 outlets, though the company did not specify any locations or when they might be shut down. They also have plans to remodel about 50 stores to accommodate a wider selection of fresh food and deli items. Seiyu hopes to strengthen its online grocery business as well by expanding pre-existing service areas.

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 strategy for market entry into Japan, for example:

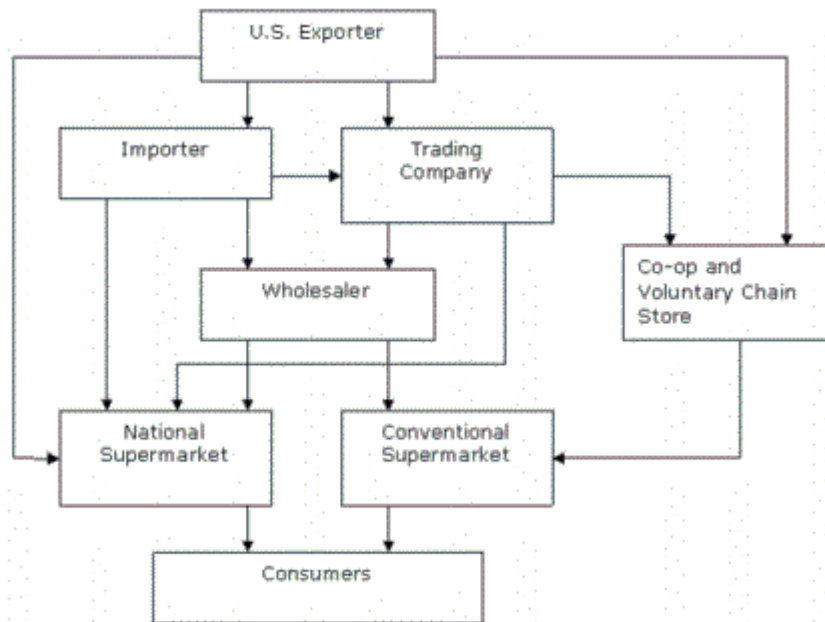
1. **Overall**, traditional entry points via importers are beginning to make way for other more diverse avenues. For example, even within one food retail organization (i.e., large-scale supermarket, regional supermarket chain, convenience store chain, etc.), there may be several routes for procurement – including importers, wholesalers, etc.
2. **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.
3. **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:

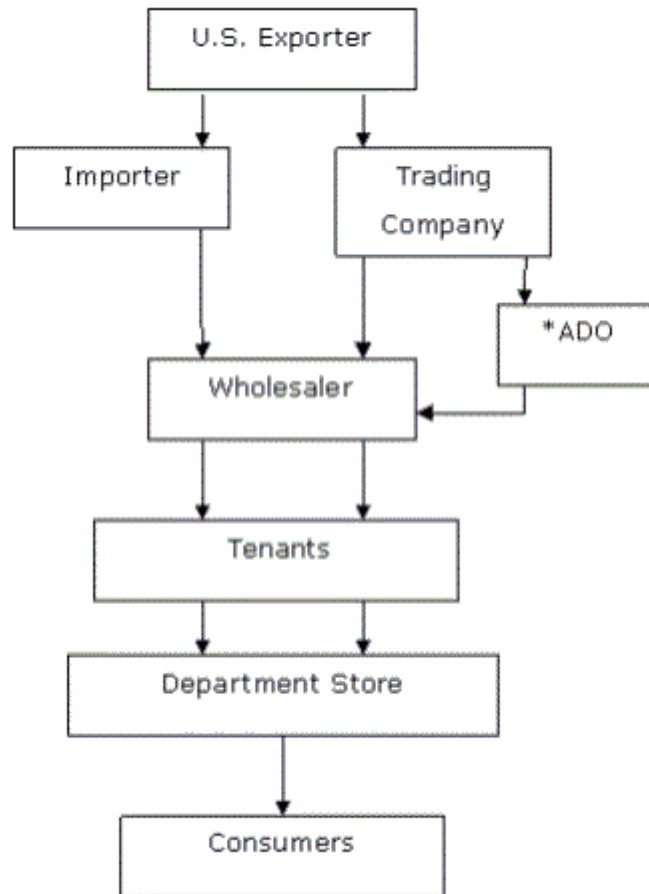
1. Direct from the importers
2. Direct from the manufacturers and processors
3. Wholesalers and distributors

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



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 are 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.



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 from co-ops, traditional shops, specialty shops, to the online marketplace.

1. Co-Ops and Voluntary Chains

These use a variety of sources, including importers, wholesalers and direct importing. There are several major joint procurement organizations Serving voluntary chains: 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 source from 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 present opportunities for some U.S. food exporters.

4. **Online**

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

In 2012 online sales increased by 3.1%, and in 2013 there was a major shift from e-commerce (computers) to m-commerce (smartphones). Rakuten has remained the leader in internet retailing with m-commerce at 27% and reaching up to 50% during discount sales events. Online sales are expected to increase constantly at 8% to reach 6.6 trillion yen by 2018.

Rakuten, a virtual mall powerhouse in Japan, reported that roughly 10% of all transactions are received via smartphones. And for the Jan-June 2012 period Rakuten enjoyed double-digit growth and a consolidated operating profit of ¥36 billion (\$450 million), making it the 4th largest retailer in all of Japan. One report attributes the gain to sustained strength in online food and drink purchases. Food and groceries are also cheaper on the Amazon site compared to regular stores. For example, Cup of Noodles by Nissin are ¥126 when purchasing a pack of 20 on line, in comparison to the AEON Koto store of ¥138. Amazon Japan allows e-retailers to sell products through their portal site more efficiently and with greater profit margins. Amazon Japan generates an estimated ¥500 billion (\$5.86 billion) in yearly sales. By using warehouses and IT-based inventory control, these retailers offer lower prices which are helping to increasing the share of food purchases online by Japanese consumers.

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 holdings 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.

F. International Competition of Food Exports to Japan

The United States is by far the largest exporter of food products to the Japanese market, representing 23.8% of all imported value in 2013. China's exports have remained stable over the last three years. Thailand and Brazil represent the fastest growing exporters to the Japanese Retail Food market.

FIGURE 11: Major Food Exporters to Japan

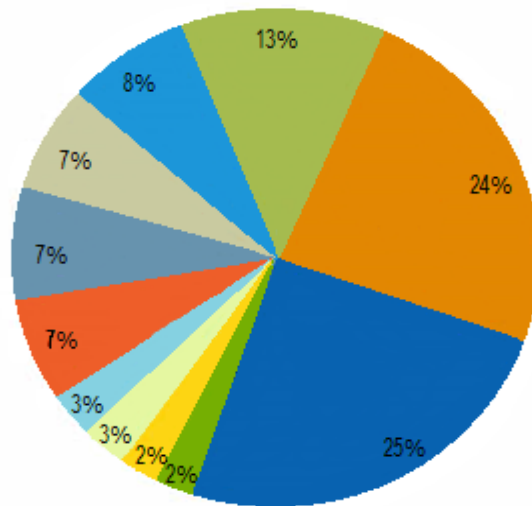
Rank	Partner Country	USD (millions)			% Share			% Change
		2011	2012	2013	2011	2012	2013	2013/2012
	<i>World</i>	62,985	61,569	57,779	100.00	100.00	100.00	-6.16
1	United States	16,803	15,756	13,740	26.68	25.59	23.78	-12.79
2	China	7,071	7,919	7,286	11.23	12.86	12.61	-7.99
3	Australia	4,954	4,771	4,340	7.87	7.75	7.51	-9.03
4	Canada	4,510	4,653	4,223	7.16	7.56	7.31	-9.23
5	Thailand	5,289	4,401	4,009	8.40	7.15	6.94	-8.91
6	Brazil	3,450	3,428	3,993	5.48	5.57	6.91	16.46
7	France	1,516	1,800	1,593	2.41	2.67	2.76	-3.15
8	Indonesia	2,492	1,645	1,555	3.96	2.92	2.69	-13.64
9	New Zealand	1,466	1,541	1,387	2.33	2.50	2.40	-10.00
10	Argentina	511	598	1,181	0.81	0.97	2.05	97.39

Source: Global Trade Atlas (Agriculture Total, Group 2)

Using the same data presented as a pie chart, one can see the commanding lead of U.S. food exports to Japan and conversely the preference for U.S. goods by the Japanese consumer.

Figure 12: Food Exporters to Japan

57,779,868,295.22 Million USD



Source: Global Trade Atlas (Agriculture Total, Group 2)

Key factors affecting food exports to Japan are: imported food products are often less expensive than their domestic counterparts, Japanese consumers now show increased acceptance of imported food after the Fukushima nuclear reactor incident, and the strong yen exchange rate of the last few years has driven up food imports from foreign countries to Japan. In particular, almonds from the U.S. to Japan increased by 30% in value in 2013 from the previous year. Japanese importers have increased bovine meat products as well. Tongue of bovine growth from 2012 to 2013 was 153% (Global Trade Atlas).

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 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.	Japan's food self-sufficiency rate is only 39% 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, you can contact the U.S. Agricultural Trade Offices in Tokyo or Osaka at the following addresses:

Tokyo	Osaka
U.S. Agricultural Trade Office U.S. Embassy, Tokyo 1-10-5 Akasaka, Minato-ku Tokyo 107-8420 Tel: 81-3-3224-5115 Fax: 81-3-3582-6429 E-mail: atotokyo@fas.usda.gov	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 and Agricultural Affairs Office 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>