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Food Service - Hotel Restaurant Institutional

Japan HRI Food Service Sector Report 2016

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Report Highlights:

The hotel, restaurant and institutional food service industry (HRI) achieved record high sales in 2015, reaching ¥31.79 trillion (\$261 billion). Growing inbound tourism has contributed to the industry's success in both 2015 and 2016. This report highlights the major trends and industry changes.

Post:

Tokyo ATO

Executive Summary:

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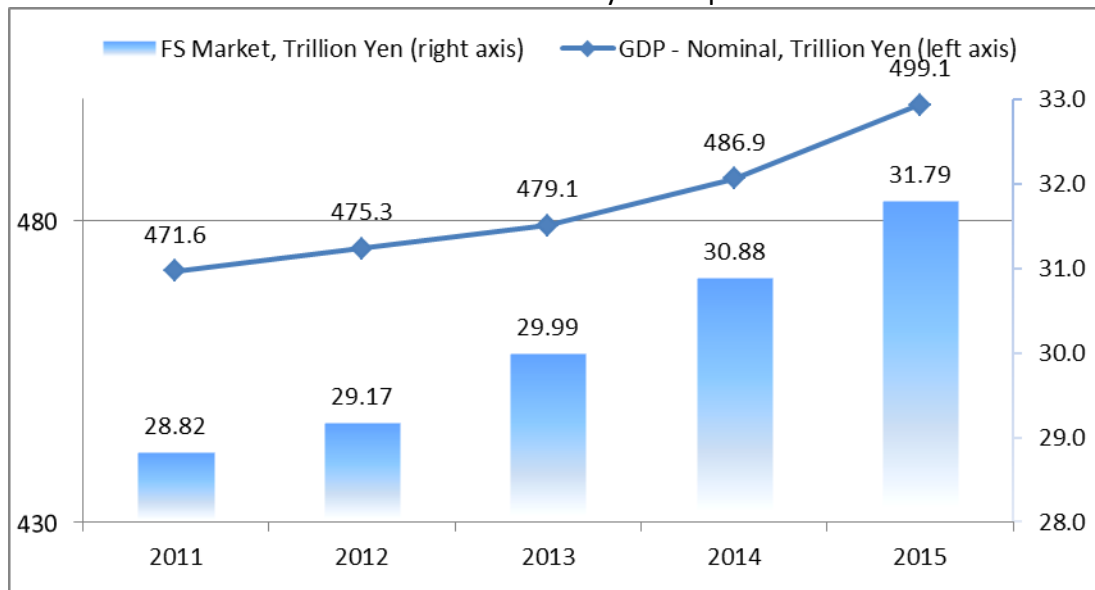
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I. MARKET SUMMARY

A. Market Volume and Trends

The food Service (HRI) sector was valued at ¥31.79 trillion (\$261 billion) in 2015, up 2.9 %, from 2014. HRI sales volumes showed strong growth due to increasing personal and business spending for dining-out and a significant increase in the number of inbound tourists visiting Japan. Japan’s food service industry is closely tied Japan’s Gross Domestic Product (GDP) and has reflected general economic conditions. Japan’s 2015 GDP grew due to the overall strength of major corporations. An uptick in salaries and the minimum wage generated increased disposable income. Food costs and grocery prices have risen, as reflected in Chart 1.

Chart 1: The Value of the Food Service Industry and Japan’s GDP



Source: Food Service Industry Research Institute (Estimate of Foodservice Market in Japan, 2011 through 2015, URL: <http://anan-zaidan.or.jp/data/2016-1-1.pdf>), Japan Statistic Bureau

Note: In Sections I and II, the statistics used are primarily expressed in yen, since year-to-year fluctuations in the exchange rate have been extreme, and could therefore distort the trends.

Chart 2: Annual Average Exchange Rates

| Year Average | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------|-------|-------|-------|--------|--------|
| JP¥ per US\$ | 79.97 | 80.82 | 98.65 | 106.85 | 122.05 |

Source: Trade Statistic of Japan (2011), Mitsubishi UFJ Research & Consulting TTS Yearly Average (2012-15)

Chart 3: Corresponding Value in US\$ Using Annual Average Exchange Rates

| Japan FS Market Total | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------|-------|-------|-------|-------|-------|
| In Trillion Yen (¥) | 28.82 | 29.17 | 29.99 | 30.88 | 31.79 |
| In US\$ Billion (\$) | 360.4 | 361.1 | 304.0 | 289.0 | 260.5 |

Source: Food Service Industry Research Institute, Trade Statistic of Japan (2011), Mitsubishi UFJ Research & Consulting TTS Yearly Average (2012-2015)

The key factors influencing the value of the food service sector in the last five years are the following.

1. The March 2011 earthquake and tsunami deeply impacted the entire economy in Japan and HRI sales dropped dramatically. For several months, Japanese consumers and business refrained from any action or event that could be perceived as celebratory.
2. Industry sales have recovered slowly since June 2011 but two deadly food poisoning incidents slowed sales by scaring consumers away from dining out temporarily in late 2011.
3. From 2012 through 2013, industry sources reported that sales were recovering along with an economic upturn, especially in the less expensive Quick Service Restaurant (QSR) sector and the value restaurant sector. Major chain restaurants focused their attention on new-style restaurant development and human resource cultivation.
4. In 2014, the Japanese economy showed some growth as exports recovered (supported by a favorable exchange rate) and business profitability improved (partly due to falling energy costs). On the other hand, the April 1, 2014 consumption tax increase from 5 percent to 8 percent took a considerable toll on household spending at the same time that average HRI menu prices were increasing in response to higher food, utility and labor costs.
5. The increase in overseas visitors to Japan (47% rise from 13.4 million in 2014 to 19.7 million in 2015) supported growth of both the overall Japan economy and sales in the food service industry.

Dining out is an important part of Japanese culture, both in terms of socializing and doing business. But for both social and business dining, Japanese consumers demand high quality ingredients in their meals. The prospect of Japan’s implementation of the Trans-Pacific Partnership (TPP) Agreement would only improve the competitiveness of imported foods in the HRI sector and U.S. suppliers are well-positioned to compete in many product categories provided they are willing to adjust to changing

market demands.

The food service sector has re-organized in the last 2 decades as many traditional “mom and pop” restaurants have gone out of business and have been replaced by new chain- style restaurants. According to the preliminary Census report for 2014, from 1991 to 2014, the total number of restaurant outlets decreased from 846 thousand to 619 thousand, down 26.7 %. At the same time, sales increased from 29.84 trillion to 31.78 trillion, up 6.5 %, indicating a streamlining in the industry. The need for streamlining was driven by the consumption tax increase; a rise in wages, which triggered price increases in the general economy; and increasing costs of imported food associated with the weakening yen. In addition, the decades-long deflationary mindset of consumers has maintained a continuous pressure to reduce menu prices.

According to a most recent industry report, total sales volumes in the sector registered record high growth even after the increase in food costs. Starting in September 2015, the sector saw an upturn in sales volumes (and in the average menu price per customer, up 4.2%) due to the increase of consumer spending for eating-out and the number of foreign tourists, although some adverse weather in November 2015 negatively impacted sales. The Japan HRI industry expects sales growth to continue until at least the Tokyo Olympic Games in 2020.

The quick-service restaurant (QSR) sector’s sales volume declined abruptly in 2014 until the middle of 2015, due to a series of food safety scandals involving a few of the large scale QSR chains in Japan. However, QSR sector sales have recovered since the third quarter of 2015 due to major efforts to rehabilitate the sector’s food safety image and development of new and attractive menus in rapid succession.

Chart 4: Sales of 194 major restaurants (with 33,224 outlets),

Monthly Change Compared to the Previous Year

(unit: percentage)

| Month\Type | Total | QSR | FSR | Pub Dining | Dinner | Coffee & Tea Shop | Other |
|------------|-------|------|------|------------|--------|-------------------|-------|
| Sep 2015 | 1.6 | 0.3 | 4.0 | -5.7 | 8.2 | 0.8 | 7.0 |
| Oct 2015 | 5.0 | 3.8 | 7.0 | -1.9 | 11.8 | 4.2 | 11.4 |
| Nov 2015 | -0.5 | -0.5 | 0.6 | -9.5 | 2.0 | 2.0 | 0.8 |
| Dec 2015 | 2.7 | 4.2 | 2.2 | -6.1 | 7.5 | 2.5 | 2.1 |
| Jan 2016 | 5.3 | 9.6 | 2.9 | -6.2 | 6.9 | 1.5 | -0.1 |
| Feb 2016 | 5.5 | 9.6 | 2.7 | -6.0 | 6.4 | 3.2 | 5.2 |
| Mar 2016 | 1.8 | 5.4 | -1.2 | -7.3 | 4.5 | 0.0 | 2.4 |
| Apr 2016 | 3.0 | 6.3 | 0.8 | -8.7 | 6.9 | -0.1 | 4.3 |
| May 2016 | 0.6 | 4.6 | -2.0 | -12.7 | 0.5 | -0.8 | 3.9 |
| Jun 2016 | 2.0 | 4.8 | 0.4 | -9.4 | 2.8 | 1.1 | 4.4 |
| Jul 2016 | 5.9 | 9.8 | 3.8 | -4.3 | 7.0 | 1.5 | 5.4 |
| Aug 2016 | -1.7 | 0.6 | -3.8 | -11.5 | -0.3 | 1.3 | 0.8 |
| Sep 2016 | 1.5 | 4.5 | -1.5 | -6.6 | 2.7 | 2.5 | 2.3 |

* QSR= Quick Service Restaurant, FSR = Family Style Restaurant, DR = Dinner Restaurant

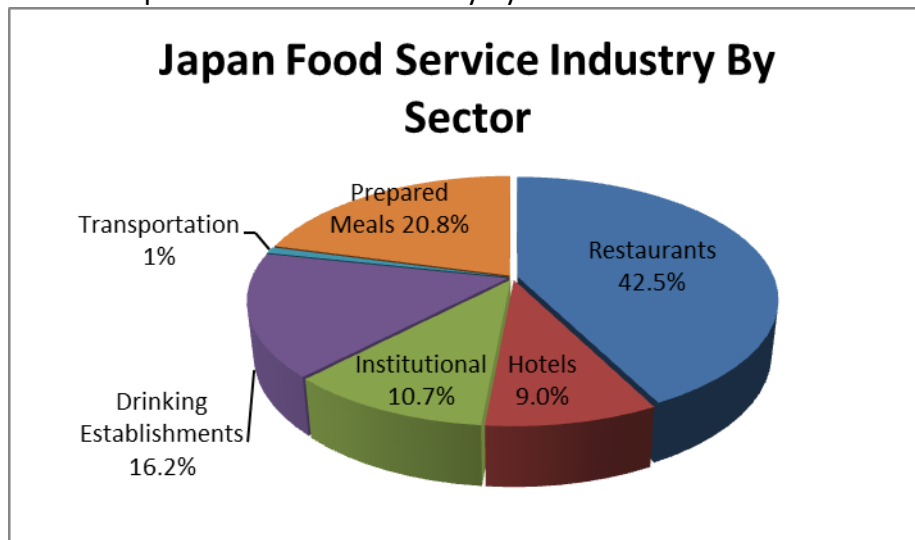
* Other: including Institutional, School Meal, Deliver Pizza and other

Source: Foodservice Industry Research Institute

B. Sectors

The Japanese food service industry, broadly defined, has six major segments. In 2015, the largest sector was Restaurants (42.5 % of the market and valued at \$110.6 billion), followed by Drinking Establishments (16.2 % valued at \$42.3 billion), Institutional Food Service (10.7% valued at \$27.8 billion), Hotels (9% and valued at \$23.5 billion), and Transportation related Food Service (0.8 % valued at \$2.2 billion). A sixth category that has been growing in Japan is “Prepared Meals Sold at Retail Stores”. These foods are ready-to eat, Home Meal Replacement (HMR) type products (lunch boxes for consumption at the office are one example) such as food sold at lunch box (Obento) shops, convenience stores, supermarkets and department stores. They are considered by the Japan Food Service Association to fall within the Food Service Sector. The value of the “Prepared Meals sold at Retail Stores” sector in 2015 was \$54.1 billion, accounting for 20.8% of the total Japanese food service industry. Sales in this market segment jumped 5.7% from the previous year.

Chart 5: Japan Food Service Industry by Sector 2015



Source: Foodservice Industry Research Institute

From 2014 to 2015, the overall sales volume of the restaurant sector increased by 2.1% and the sales volume of the hotel sector, both western style and Japanese style, increased their overall sales volume by 4.6%. These statistics reflect strong sales in business among fine dining restaurants. The sales of restaurants in the transportation sector showed an increase of 2.4%. The sales of the drinking establishment sector also increased 1.9% over 2014. Sales in the institutional sector slightly increased from 1.2% in 2014 to 1.3% in 2015.

The growth in HMR was driven by two demographic sectors: young single professionals and the elderly. Japan’s population is aging faster than any in the world, and elderly do not always have the ability to drive or travel far to shop for groceries. As a result, many get their daily meals from the local “conbini,” or convenience stores, such as 7-11, Lawson, or Family Mart. Also, young professionals living alone or with roommates often don’t cook and eat primarily outside the home. Every segment reached record high sales in 2015, driven by both the increase of per capita dining out expenditure due

to favorable corporate earnings and the previously-mentioned record increase in the number of international travelers to Japan.

Chart 6: Japan HRI Market by Sector by Year

| Sector\Year | 2011 | 2012 | 2013 | 2014 | 2015 | | Change '14 to '15 | Share | |
|-------------------------|------|--------|--------|--------|--------|---------|-------------------|-------|-------|
| | Unit | ¥ Tri. | ¥ Tri. | ¥ Tri. | ¥ Tri. | \$ Bil. | | | % |
| Restaurants | | 12.20 | 12.47 | 12.91 | 13.22 | 13.50 | 110.58 | 2.1% | 42.5 |
| Hotels | | 2.60 | 2.55 | 2.67 | 2.74 | 2.87 | 23.49 | 4.6% | 9.0 |
| Institutional | | 3.28 | 3.31 | 3.29 | 3.35 | 3.39 | 27.80 | 1.3% | 10.7 |
| Drinking Establishments | | 4.71 | 4.65 | 4.89 | 5.07 | 5.16 | 42.31 | 1.9% | 16.2 |
| Transportation | | 0.23 | 0.24 | 0.25 | 0.26 | 0.26 | 2.15 | 2.4% | 0.8 |
| Prepared Meals | | 5.78 | 5.95 | 5.98 | 6.25 | 6.61 | 54.12 | 5.7% | 20.8 |
| Total | | 28.80 | 29.17 | 29.99 | 30.88 | 31.79 | 260.44 | 2.9% | 100.0 |

Source: Foodservice Industry Research Institute

Additional factors affecting the food service industry in 2015 were:

- A relatively weaker yen, making imported food cost more but also resulting an increased in the number of inbound foreign tourists. Tourism was also bolstered by relaxation of tax-free shopping rules for tourists and an extension of the visa waiver program to several Southeast Asian countries.
- The weaker yen combined with the consumption tax increase resulted in higher prices for food, employment and utilities. As a result, food service operators had to raise prices on their menus in order to maintain profitability.
- Rising investments in preparation for the 2020 Tokyo Olympics.
- Redevelopment projects in the Tokyo metropolitan to replace older buildings with newer ones are leading to newer, more sophisticated restaurants being introduced. These new restaurants are more likely to be part of a restaurant group or chain rather than an independent owner and also tend to target affluent young people, who are willing to pay for higher quality menu items.
- Streamlining by chain restaurants, hotels and food suppliers through mergers and acquisitions to reduce operating costs, and investments in human resource development in order to offer better and new types of services.
- A rise in the number of new restaurant and hotel outlets, which tend to offer both good value and high quality.
- The trend of the media and television programs showcasing individual restaurants, including everything from five star restaurants to casual style restaurants, in both metropolitan areas and rural regions.

The Japanese food service sector has traditionally been very receptive to the use of imported food products. This is primarily because;

- Imported food products are often less expensive than their domestic counterparts.
- The food service industry does not require unique packaging or labeling for food, unlike the retail industry.
- The food service sector often incorporates new food concepts from abroad in order to stand out, which makes it more receptive to importing new or unfamiliar items.

C. Value of Total Imported Food vs. Domestic Products

According to Japan’s Ministry of Agriculture, Fishery and Forest (MAFF) statistics, domestically produced agricultural and marine products accounted for a total of ¥9.9 trillion (\$80.8 billion) in 2015, which is equivalent to 39% of total food consumption in terms of calories and 66% in value terms of value.

In 2015, Japan’s vegetable and fruit imports totaled a record 366 billion yen, up 6.4% from the previous year. A representative from the major beef bowl chain Yoshinoya Holdings said “About 90% of onions used in our beef bowls are produced in China and other overseas countries. Almost all of the beef in our beef bowls is produce in the United States. As we open more stores, imports have become indispensable to securing a stable supply of ingredients.”

Japan’s nuts and dried fruit imports were valued at \$612.1 million in 2015, up 6.5%, from the previous year. These were led by increased in almonds, pecans and raisins. The U.S. is one of the major suppliers of these tree nuts to Japan. Japan also imported a growing amount of wine and craft beer, which are both more commonly found in the retail and food service sectors.

While it is difficult to say exactly what percentage of imported food vs. domestic food is used for the food service sector as a whole, it is estimated that well over half of total food service menu items include imported food in one form or another. Imported items such as beef, pork, shrimp, salmon, wine, cheese, frozen vegetables, and frozen potatoes are heavily used by the food service sector.

According to the Global Trade Atlas, Japan imported a total of \$59,956 million agricultural and food products in 2015, 9.1% less than the previous year. The total share of food and agricultural imports from the United States by value was slightly down from 23.6% in 2014 to 22.76%. Other countries that gained market share included China, Thailand, Australia, Brazil and Vietnam. Countries that lost market share in 2015 include Canada, Chile and France. Thailand’s increase was driven by an increase of processed chicken, which jumped from \$15.6 million to \$275.5 million.

Chart 7: Japan Food and Agricultural Imports by Country

| Partner Country | United States Million Dollars | % Share | % Change |
|-----------------|-------------------------------|---------|----------|
|-----------------|-------------------------------|---------|----------|

| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 | 2015/2014 |
|---------------|--------|--------|--------|--------|--------|--------|-----------|
| World | 68,083 | 65,957 | 59,956 | 100.00 | 100.00 | 100.00 | - 9.10 |
| United States | 14,646 | 15,565 | 13,647 | 21.51 | 23.60 | 22.76 | - 12.32 |
| China | 9,338 | 9,159 | 8,341 | 13.72 | 13.89 | 13.91 | - 8.93 |
| Thailand | 4,152 | 3,985 | 3,986 | 6.10 | 6.04 | 6.65 | 0.03 |
| Australia | 4,292 | 3,879 | 3,699 | 6.30 | 5.88 | 6.17 | - 4.65 |
| Canada | 4,577 | 4,152 | 3,661 | 6.72 | 6.30 | 6.11 | - 11.83 |
| Brazil | 4,057 | 2,889 | 2,851 | 5.96 | 4.38 | 4.76 | - 1.30 |
| Chile | 1,826 | 1,933 | 1,618 | 2.68 | 2.93 | 2.70 | - 16.27 |
| Korea South | 1,888 | 1,805 | 1,546 | 2.77 | 2.74 | 2.58 | - 14.33 |
| France | 1,749 | 1,775 | 1,537 | 2.57 | 2.69 | 2.56 | - 13.38 |
| Vietnam | 1,280 | 1,398 | 1,308 | 1.88 | 2.12 | 2.18 | - 6.42 |

Source: Global Trade Atlas (HS Code 02 through 23, except 5, 6, 13 and 14)

In 2015, total U.S. agricultural exports to Japan declined in terms of both volume and market share, driven by decreases in feed grains, meat products, and dairy products. One cause was the west coast port strike at the beginning of year as well as price advantages of other countries.

In response to a relatively strong dollar and production increases in third countries, Japanese food service companies shifted sourcing their beef from the U.S. to Australia, and shredded cheese from U.S. suppliers to European Union countries. Some of the U.S. grain export share was also taken over by Brazil and Argentine due to price competitiveness. The Japanese food service industry has been speeding up its ability to shift ingredient sourcing decisions compared to prior years.

Meanwhile, U.S. seafood exports to Japan, including crab, shrimp and lobster, increased from \$100.5 million in 2014 to \$122.4 in 2015, up 21.8 percent in spite of the weaker yen. U.S. craft beer exports to Japan also increased in 2015 along with a growing number of newly opened Western style beer pubs in major cities.

Chart 8: Japan Agricultural Imports from the U.S. by Product

| Description | United States Dollars | | | % Share | | | % Change |
|--|-----------------------|--------|--------|---------|-------|-------|-----------|
| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 | 2015/2014 |
| Total U.S.A. in value | 14,646 | 15,565 | 13,647 | 100 | 100 | 100 | -12.32 |
| Cereals | 3,831 | 4,677 | 3,817 | 26.15 | 30.05 | 27.97 | -18.39 |
| Meat And Edible Meat Offal | 2,974 | 3,115 | 2,599 | 20.31 | 20.02 | 19.05 | -16.56 |
| Oil Seeds Etc.; Misc Grain, Seed, Fruit, Plant Etc | 1,875 | 1,834 | 1,798 | 12.8 | 11.78 | 13.18 | -1.94 |
| Fish, Crustaceans & Aquatic Invertebrates | 1,131 | 1,211 | 1,258 | 7.72 | 7.78 | 9.22 | 3.92 |
| Edible Fruit & Nuts; Citrus Fruit Or Melon Peel | 964 | 977 | 992 | 6.58 | 6.28 | 7.27 | 1.55 |
| Prep Vegetables, Fruit, Nuts Or Other Plant Parts | 671 | 635 | 596 | 4.58 | 4.08 | 4.36 | -6.23 |
| Food Industry Residues & Waste; Prep Animal Feed | 760 | 719 | 500 | 5.19 | 4.62 | 3.66 | -30.42 |
| Edible Preparations Of Meat, Fish, Crustaceans Etc | 552 | 560 | 465 | 3.77 | 3.6 | 3.41 | -16.95 |
| Beverages, Spirits And Vinegar | 455 | 424 | 430 | 3.11 | 2.72 | 3.15 | 1.57 |
| Miscellaneous Edible Preparations | 344 | 301 | 285 | 2.35 | 1.94 | 2.09 | -5.24 |
| Dairy Prods; Birds Eggs; Honey; Ed Animal Pr Nesoi | 260 | 363 | 254 | 1.77 | 2.33 | 1.86 | -30.14 |

Commodity: Food & Agricultural products - All (HS 02 through 23, except HS 5, 6, 13 & 14)

Source: Global Trade Atlas

D. Opportunities and Challenges

The HRI industry is increasingly offering international cuisines, creating growing demand for imported agricultural products. The sophisticated Japanese consumer generally demands high quality food products, and U.S. suppliers are well positioned to compete in many product categories provided they are willing to adjust to market demands.

U.S. beef continues to benefit from the 2013 regulatory changes that expanded access to all U.S. beef and beef products from cattle less than 30 months of age. However, U.S. beef exports to Japan decreased 10.5 percent in 2015 due to tight U.S. supplies and a related higher export price. According to the most recent statistics, from January through September in 2016, U.S. beef exports recovered and increased 16 percent from the same period of the previous year. While the expanded access since 2013 has helped the United States reclaim market share, competition with Australian beef (the leading supplier to Japan since 2004) has increased following the implementation of the Japan Australia Economic Partnership Agreement in January 2015. Australia currently maintains an 11% tariff rate advantage on U.S. frozen beef and an 8% advantage on fresh/chilled beef. U.S. and Australian beef would both be subject to the same tariff rates upon implementation of Trans Pacific Partnership (TPP) agreement. The Japan-Australia agreement also gives Australia tariff advantages on many other

agricultural products including wine, citrus, almonds, walnuts and cheese.

On November 30, 2015, an industry publication called the Nikkei Marketing Journal (Nikkei MJ) reported that U.S. beef was ranked as the fifth best among 35 international and domestic beef brands surveyed. The survey included 33 domestic brands plus U.S. and Australian beef. Matsuzaka beef (Mie prefecture) was ranked first, followed by Kobe beef, Miyazaki beef (Miyazaki Prefecture) and Yonezawa beef (Yamagata Prefecture). The study ranked U.S. beef as number five, scoring higher than many famous domestic beef brands such as Omi (Shiga), Maezawa (Iwate), and Saga (Saga) as well as non-branded domestic Japanese beef. Australian beef ranked tenth.

The research also asked buyers about the criteria used in making decisions on beef procurement. The highest priority (78%) was given to quality (freshness and exterior). The second was taste (68%), the third was supply availability (62%), the fourth was high level of safety (55%) and the fifth was marbling (42%). All of those factors were shown to be more important than low price, which came in at 36%. A majority of the Japanese buyers also indicated an interested in increasing sales of lean meat, which may suggest a marketing advantage for U.S. suppliers over traditional Japanese domestic beef. For more information see [GAIN JA 5013](#).

As a result of U.S. Meat Export Federation and FAS Japan’s marketing efforts, a greater number of major hotels and family style restaurants are currently serving U.S. beef and there has been an increasing number of American menu promotions at all kinds of restaurants in Japan. Menu fairs focusing on beef have also led to utilization of many other U.S. food products, including seafood, fruits, vegetables, nuts, condiments, wine and beer.

Chart 9-a: Japan Beef Imports by Country, Annual

| Calendar Year: 2013 - 2015 | | | | | | | |
|----------------------------|----------------------|---------|---------|---------|--------|--------|--------------------|
| Partner Country | Quantity Metric Tons | | | % Share | | | % Change 2015/2014 |
| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 | |
| World | 599,922 | 587,297 | 563,724 | 100.00 | 100.00 | 100.00 | - 4.01 |
| Australia | 310,017 | 305,675 | 314,334 | 51.68 | 52.05 | 55.76 | 2.83 |
| United States | 216,850 | 221,739 | 198,504 | 36.15 | 37.76 | 35.21 | - 10.48 |
| New Zealand | 33,585 | 28,825 | 21,749 | 5.60 | 4.91 | 3.86 | - 24.55 |
| Mexico | 21,581 | 12,031 | 13,060 | 3.60 | 2.05 | 2.32 | 8.56 |
| Canada | 15,161 | 16,411 | 12,539 | 2.53 | 2.79 | 2.22 | - 23.59 |
| China | 1,148 | 1,066 | 856 | 0.19 | 0.18 | 0.15 | - 19.76 |

Source: Global Trade Atlas (HS Code 020110 through 020230, 020610 through 020629, 021020 and 160250)

Chart 9-b: Japan Beef Imports by Country, Year to date

| Year To Date: January - September |
|-----------------------------------|
|-----------------------------------|

| Partner Country | Quantity | | | % Share | | | % Change |
|-----------------|----------|---------|---------|---------|-------|-------|-----------|
| | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2016/2015 |
| World | 446,062 | 421,877 | 430,230 | 100.0 | 100.0 | 100.0 | 1.98 |
| Australia | 231,201 | 234,919 | 220,009 | 51.83 | 55.68 | 51.14 | - 6.35 |
| United States | 168,690 | 147,466 | 170,996 | 37.82 | 34.95 | 39.75 | 15.96 |
| New Zealand | 23,551 | 17,830 | 16,472 | 5.28 | 4.23 | 3.83 | - 7.62 |
| Canada | 12,418 | 8,452 | 12,892 | 2.78 | 2.00 | 3.00 | 52.53 |
| Mexico | 8,218 | 10,370 | 7,228 | 1.84 | 2.46 | 1.68 | - 30.30 |
| Ireland | - | 268 | 750 | 0.00 | 0.06 | 0.17 | 179.58 |

Source: Global Trade Atlas (HS Code 020110 through 020230, 020610 through 020629, 021020 and 160250)

At the same time, Japan's agricultural exports have been growing as the Government of Japan (GOJ) has instituted plans to double its agricultural exports by 2020 in an effort to revitalize the agricultural sector. Japan's total agricultural product exports in 2015 increased to a record ¥750 billion, equivalent to \$6.15 billion, a 22% jump in value from 2014. As Japan expands its exports, particularly exports of processed products, it could create more demand for Japanese imports of agricultural ingredients.

Another potential opportunity is rice. Higher domestic rice prices have negatively impacted the profit margins of food service operators since rice is still an important staple in the Japanese diet. In 2016, Japan's domestic rice production is expected to decrease by 3% in quantity, which has already resulted in an overall 4% increase in the average price of domestic table rice in September 2016 compared to September 2015. The production cost of Japanese rice is more than 4 to 5 times greater than in the United States. Traditionally, the food service sector has preferred domestic rice over imported rice for a variety of reasons. However, the industry is more and more accepting of imported rice, a situation that could expand opportunities for U.S. rice in the market. However, even under the TPP agreement, Japan would continue to levy a 778% tariff on imported rice in order to reduce the price gap between imported and domestic product.

The national consumption tax was scheduled to increase from 8% to 10% in 2017, but that increase was postponed until October 2019. When the tax does increase, the reduced rate of 8 percent will be applied to food and drinks sold at the retail level, excluding alcoholic beverages and food categorized as HRI. The GOJ officials has announced that the higher 10% tax will still apply to food sold at traditional restaurants, catered foods, meals at company/school cafeterias and hotel room service meals. The point of demarcation between food retail and HRI is still not clear, especially for ready-to-eat meals sold at convenience stores and fast food.

Sixty percent of consumers surveyed in May 2016 said they will cut down household expenditure after the next consumption tax increase. Among areas where people said they would shy away from spending money are dining out and buying clothing. Therefore, the food service industry will likely be negatively impacted by the planned tax increase. In addition, sorting out the food exemptions that are planned in conjunction with the next tax increase will become major challenge for the industry.

A brief summary of the opportunities and the challenges for U.S. food exporters targeting the Japanese

food service sector are listed below:

Chart 10: Advantages and Challenges

| Advantages | Challenges |
|--|---|
| The Trans-Pacific Partnership trade pact (TPP), if ratified, will reduce import duties for a variety of agricultural products from the U.S. and expand export opportunities of U.S. agricultural product exports to Japan. | Several competing countries, such as Australia, Chile and Mexico, preceded conclusion of Economy Partnerships Agreement (EPA) with Japan and currently have a tariff advantage. |
| Japan’s new cabinet strategy calls for the country to double its agricultural exports. This could increase demand food and ingredient imports. | Japanese government policies relating to food safety, such as a strict Positive List for Maximum Residue Levels, slow approvals for food additives, and stringent labeling requirements even pose impediments to trade for some products. |
| The successes of American style restaurants a good avenue for introducing U.S. recipes and food ingredients into the general public’s diet. | Many consumers view American food culture as limited to quick service restaurants, giving U.S. cuisine a less healthy image than that of Japan and other countries. |
| American style breakfast and brunch concepts are catching on. These concepts help expand U.S. food product usage in the industry. | There are differences between U.S. and Japanese requirements and specifications for value-added food products. |
| U.S. food manufacturers have a positive reputation regarding food safety relative to many Asian competitors, especially among the trade. | Imported food products are viewed by many consumers as less safe than domestically produced Japanese food products. |
| The U.S. has a reputation and history as a reliable supplier of food (in terms of both availability and delivery) with reasonable prices. | The quality and reliability of Asian exporting countries have been growing as distribution infrastructures and quality assurance (QA) procedures have improved. |
| The United States has a wide variety of food products, including fresh & processed. | Japanese buyers are now sourcing from all over the world rather than their more limited historic suppliers. |
| High Japanese farming costs and decline of domestic agricultural production make imported food products vital. | The perception of U.S. price competitiveness and quality has declined vis-à-vis other exporting countries, especially in light of the recent strong dollar. |

II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

There are no magic formulas for new-to-market exporters to enter the Japanese food service market. Strategies will vary depending on the type of food product being introduced and the current competitive environment. However, there are some basic procedures that new-to-market exporters are recommended to follow when considering the Japanese food service market for the first time.

1. Market Access

One of the fundamental first steps before entering the Japanese market is to determine whether or not your products have market access. This means:

- Determine if your product category can currently be imported into Japan. There could be restrictions due to phytosanitary or food safety related concerns.
- Determine the import classification and tariff rate for your product. Some product categories such as those containing rice and dairy products are still highly protected by the Japanese government and face either prohibitively high tariffs or import quotas. It is important to know in advance if this is the case to prevent time and energy being dedicated to products that will not ultimately be price competitive. Freight forwarders and traders can be helpful in determining into what category your product falls.
- Determine whether your product meets Japanese regulations for food ingredients, especially looking at food additives. If the product contains prohibited ingredients it will have to be reformulated before it can be imported into Japan. In some cases this may be difficult for U.S. exporters due to volume constraints or because the ingredients is a key element of the formulation, and so this is something you will want to know before investing too much time into your export Japan export strategy for that product. Freight forwarders can also be helpful in determining ingredient acceptability.

For more information, see the latest FAS Japan Food and Agricultural Import Regulations and Standards (FAIRS) report and Exporter Guide at;

<http://www.usdajapan.org/reports/>

Japan Customs has a website for requesting an advance ruling on tariff classifications, which is available to importers and related parties.

<http://www.customs.go.jp/english/advance/index.htm>

2. Competitive Analysis

Once it is established that the product can be imported into Japan, it is important to establish whether the product will be accepted from a competitive standpoint. This entails doing at least a preliminary analysis of the market to determine:

- What is the size of the potential demand for the type of product?
- Who are the key customer targets for the products?
- What is the current pricing of similar types of products?
- Can the product be introduced at a competitive price?
- What are the key points of differentiation for the product compared to others?
- In what form and what kind of packaging is the competitor's product sold? Will customers expect the same?

To do this analysis it is helpful to take some combination of the following steps:

- Visit Japan to research in person the customers your type of product is sold to and see how the product is marketed.

- Participate in one of the food related trade shows or showcases held in Japan in order to research your product potential in the market.
- Utilize resources such as U.S. Foreign Agricultural Service and its local U.S. Agricultural Trade Office (ATO) and your local State Regional Trade Group (SRTG) to obtain information about the market relevant to you product.
- Talk with freight forwarders and Japanese importers that handle your category of products.
- If possible, meet with potential customers to determine the kinds of needs they have and their current sources for your products.
- Hire a company to do some product testing among actual Japanese customers to gauge their reactions to the product taste, appearance, and texture.

3. Comparative Advantage of the Products

To succeed in entering the Japanese market, it will be important to define the comparative advantage of your products versus the competition. Potential customers in Japan will have to perceive merit in using your products. The most common merits are:

- A price savings that will encourage the customer to give your product a trial.
- A product or form of product that is new to the Japanese market. Every year there are newly introduced or unique food items that become popular in Japan. Recent examples include gourmet hamburgers, craft beers, hard ciders, flavored olive oil, flavored popcorn and frozen fruits for smoothies, to name a few.
- A more convenient form of the product that makes it easier for end-users or food service operators to use. This may include a smaller package and a new technology for packaging that make the product easier to prepare or a new form of the product that offers advantages in terms of labor cost, preparation time or efficiency.
- A high quality product. Food service operators are always interested in products that offer better quality in one form or another. For example, it may be that your product has a demonstrably better track record than competitors on safety issues or the quality is more consistent. These points of difference are worth promoting.

4. Receptivity of the Distribution Trade

It is important for new-to-market exporters to understand how the distribution system works and to identify potential partners or distributors. Such partners or distributors can offer invaluable advice on issues related to the product positioning, packaging, labeling, and custom clearance procedures. There are numerous ways to identify these partners. Some suggestions include:

- Ask the ATO and U.S industry associations about the market potential for your category of

products.

- Attend trade shows such as Foodex, Super Market Trade Show and Food Service Industry Show to meet potential partners and obtain leads.
- If visiting Japan, discuss potential importers and distributors with experienced freight forwarders, or if meeting any customers, enquire as to their preferred distribution channel. Many times customers will have their own preferred channels which they use for imported products.

It is important to obtain a reliable partner or importer if you expect to do long term business in Japan and you do not plan to have your own in-country office. Some things to look for include:

- Does the partner/importer represent other imported products?
- Do they have a favorable reputation and financial history?
- Do they have the capability of communicating with you in English?
- Do they have an understanding of import procedures for your type of food product?

5. Ability and Willingness to Meet Market Requirements

To be successful, it is very important for the new-to-market exporter to be willing to make changes to the product if necessary to meet market expectations in terms of service, quality, quantities, packaging, and/or price. This process could also improve your products' quality and increase marketing competitiveness. Some things that could come up include:

- Consider reformulating the product, if necessary, to meet relevant Japanese Food Sanitation Laws and Regulations.
- Adjust the product or packaging to meet Japanese taste profiles and market expectations. For example, many Japanese operators prefer smaller package sizes due to lack of storage space.
- Provide samples on a timely basis, but only upon request.
- Ensure that all documentation necessary to clear customs and quarantine inspection is provided thoroughly and accurately. Japanese Customs officials always request detailed information about all food ingredients and additives and the manufacturing process (processing outline) to define the import tariff rate, compliance with food safety standards, etc.
- Reply to requests for information in a timely manner, within at least 48 hours, preferably less.
- Work closely with your partner or importer to prepare sales materials in Japanese.

- Be patient. Most Japanese food service operators will start with only a small order to test the potential supplier. This is especially true for new-to-market suppliers where the risk of something going wrong is the highest.
- Japanese food service operators look for suppliers who can provide consistent high quality product without defects or foreign materials, and who are reliable partners in terms of both delivery and safety issues. To help cement relations, it is strongly recommended to have face-to-face meetings at least once per year with your customers.

B. Market Structure

1. Distribution

Most imported food products still pass through trading companies. The large general trading companies such as Mitsubishi, Marubeni and Itochu have many divisions specializing in a wide variety of imported food products, while small importers tend to specialize in a limited line of high-value items. Trading companies function as legal importers of the products and carry out a variety of functions including handling documentation, clearing customs, testing, warehousing, and financing the inventory. In the past, trading companies would normally sell the product to first-line wholesalers who in turn would sell to secondary wholesalers and even to third-line distributors before the product finally reached the food service operator.

This pattern has changed in the past decade, particularly for chain food service customers who have substantial buying power. In order to reduce food costs, most large food service operators now take possession of the product or use designated distribution centers rather than wholesalers. In addition, more food service operators import products directly, even though the majority still use trading companies. Even when food service operators import products directly, they often contract out supply chain operations including import procedures, inventory management and delivery. This outsourcing is done after initial purchasing in order to streamline supply chains. The deflationary environment of the past two decades has intensified price competition among food service chains, and has accelerated the trend to eliminate middlemen.

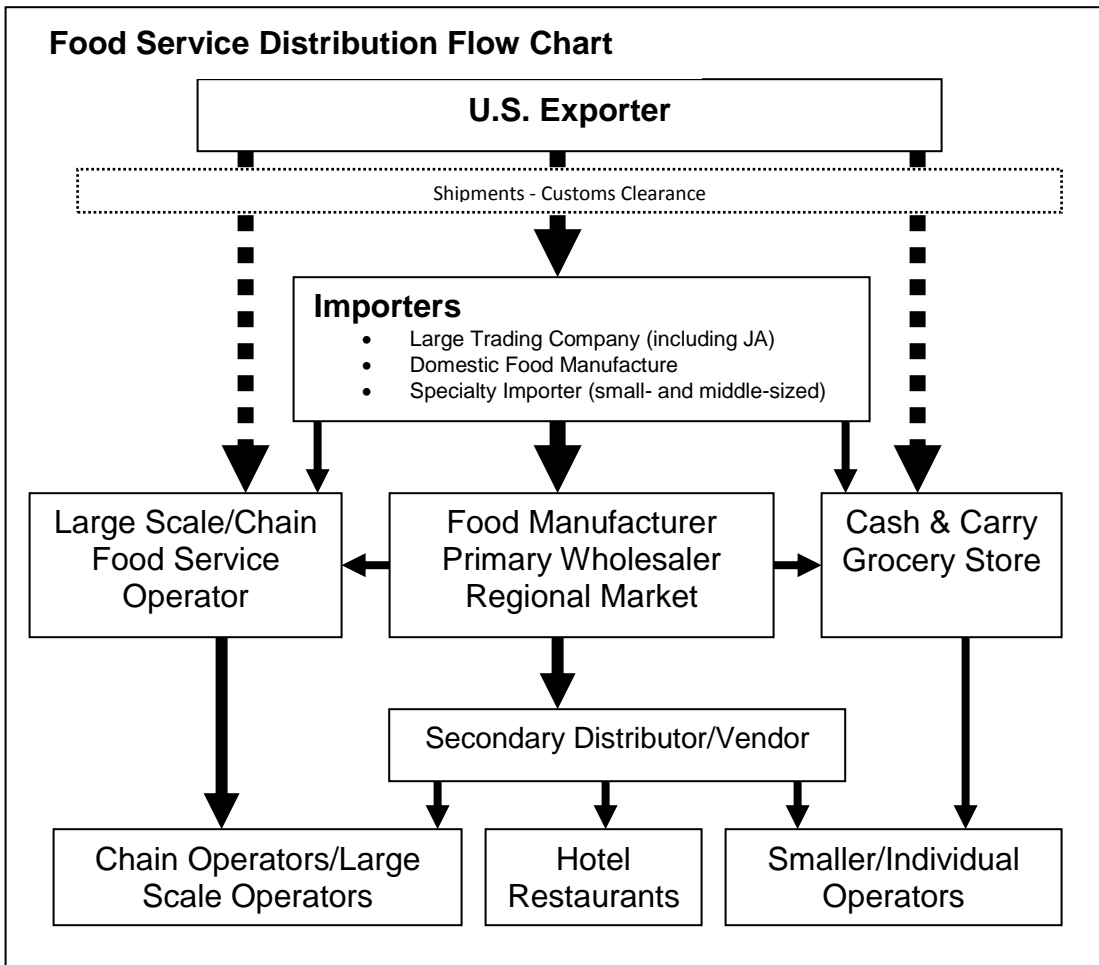
Wholesalers are also consolidating. Smaller wholesalers are either disappearing or being bought by larger ones. In order to add value, most large wholesalers own their own distribution trucks. Wholesalers now focus on carrying broad product lines that can efficiently service small food service operators or small chains with one-stop service. Some wholesalers are now also beginning to import products directly to reduce costs further.

Meanwhile, a written food safety assurance is now the standard in Japan. Food vendors, not manufacturers, are responsible for food safety even if they just deliver food products. Chain restaurants require their food suppliers to provide affidavit-like assurances, and food service operators often use several distributors in Japan to hedge risks against problems.

Some “cash and carry” retailers, including wholesale clubs such as COSTCO and METRO, are becoming popular resources for food products among Japan’s smaller-sized food service operators in order to

reduce costs. The biggest is Gyomu Super (Business Supermarket), which has a total of 600 outlets throughout Japan. Additionally, regional food wholesalers have formed strategic purchasing alliances and have opened cash & carry outlets in the region. Bulk packed meat, seafood, fresh produce, coffee, seasonings/condiments, wine, cheese, frozen vegetables and frozen baked items are hot selling food products at these outlets.

Chart 11: Flow of product from the U.S. exporter to HRI end-users



2. Segmentation

Most segments of the HRI market showed growth in 2015, except the pub dining segment. Most notably, full service restaurants, hotel restaurants and tourist-related restaurants continue to grow. Family style restaurants successfully attracted senior generations with targeted menu development and interior renovation. Although sales at quick service restaurants have shown poor performance between 2013 and 2015, they have started to recover in 2016. Key trends in the HRI industry that U.S. exporters should be aware of are:

i. Large Increase of Foreign Travelers to Japan

According to the statistics of the Japan National Tourism Organization, the number of foreign travelers visiting Japan substantially increased from 13.41 million in 2014 to 19.74 million in 2015, an increase of 47.1 %. This trend was stimulated by a weak yen and an easing of visa requirements. In 2016 the total number of foreign tourists from January through November reached a record high of 17.977 million, up 24.1 % from the same period of the previous year. The tourists from Malaysia (up 33.4 %), China (up 30.5 %) and South Korea (up 30.2 %) showed large increases. Reports of tourism industry newspapers forecast a constant increase until at least the Olympic Games in Tokyo in 2020.

The food service industry increasingly targets these foreign travelers, offering special menus and services. One example is offering Halal food for Muslim tourists. There are few Muslims in Japan and only a few Halal certified restaurants. However, the industry is proactively preparing certified Halal food options for travelers to Japan.

ii. New Tastes from America

The variety of menu items available in Japan continues to expand. Partly due to the large number of Japanese traveling abroad every year (19 million in 2015), foods from Europe, Asia, Australia and the Americas are becoming increasingly popular. Japanese consumers are interested in trying new cuisines and this trend results in the emergence of new types of restaurants and shops every year. Examples of this include Alexander’s Steakhouse, Carl’s Jr., Café Habana and Pie Hole, which have successfully launched new business formats in Japan.

The famous Carl’s Jr. and Los Angeles based Pie Hole opened their first shops in Tokyo in 2016 , offering popular U.S. foods. Both new shops successfully bring in young Japanese early adopters. The interest in new food ideas opens the door to food exporters to introduce new concepts into the Japanese market.



The famous U.S. burger chain, Carl’s Jr., opened its first shop in a bustling shopping area, Akihabara, Tokyo in March 2016. An energy-related Japanese company operates the burger chain in Japan.



The first Pie Hole shop opened in Shinjuku, the busiest part of Tokyo, in November 2016. The ATO Director celebrated with the company president at his preopening event in front of the shop.

iii. Increasing Meat Consumption

Japanese consumers increasingly enjoy grilled beef at American style steak houses and/or Yakiniku (casual barbeque) restaurants. The consumers have shown great acceptance for dry aged beef. The aging population is also cashing joining this trend, partly in response to a report which encourages

elderly people to consume more protein in their diets by eating meat regularly for better health. Japanese consumers traditionally eat thinly sliced beef both at home and in steak restaurants, however they are getting used to eating bigger or thicker cuts of steak.

Wolfgang Steakhouse and Royal Host have shown great success with sales of dry aged U.S. beef since 2013. This inspired other U.S. steak restaurants to open, including Alexander's Steakhouse, which opened an upscale steak restaurant in Tokyo in October 2016. The customers who have tried dry aged beef at these restaurants have helped to spread acceptance of matured beef by promoting it to their friends.


Pepper Food Service Company offers casual steak menus at reasonable prices, and created a stand-up steak restaurant chain, Ikinari Steak. This restaurant chain offers a thick cut steak of Certified Angus Beef (CAB) at a relatively inexpensive price. Customers order their food at the register according to how many grams they want and which cut. Then the food is delivered to a table where the customer stands while eating. This new and unusual concept has been expanding rapidly, adding 100 outlets in only a few years.

The U.S. Meat Export Federation and FAS Japan's marketing team have promoted authentic American Barbeque (BBQ) by explaining the difference between yakiniku-style thinly sliced Japanese barbecue and authentic American style barbecue. Many chain restaurants and hotel restaurants were impressed by the difference in taste between thin and thicker-sliced cuts of beef. Promotional efforts have highlighted dry-aged beef and slow-roasted, Texas-style BBQ. As Japanese consumer awareness and appreciation for these different styles have expanded, restaurants are increasingly cooking with dry-aged beef and classic barbecue techniques using large cuts of meats. These promotional efforts have also created a buzz within the Japanese media, further heightening acceptance and popularity of these new products.

See more details about recent BBQ promotions at:

<https://goo.gl/kpc1mj>




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| <p>Alexander’s Steakhouse opened a very nice restaurant at the top floor of a skyscraper in a Tokyo’s business district, Shiodome, offering dry aged beef.</p> | <p>A fastest growing steak restaurant, Ikinari Steak, offers thick cut steaks, reasonable prices , and personalized cuts chosen by gram.</p> |

iv. Third Wave Coffee Shops

The number of “third wave” coffee shops is increasing in Japan. New gourmet coffee brands from the U.S., such as Blue Bottle, Gorilla and The Coffee Bean and Tea Leaf opened their first outlets in Tokyo in 2015.

These coffee shops feature stronger relationships with coffee growers, traders, and roasters, in order to incorporate higher-quality coffee beans, fresh roasting and skilled brewers. These concepts are well received by Japanese consumers. Even though Japan has plenty of traditional coffee shops that provide quality coffee and a cozy atmosphere, the market continues to embrace new concepts from abroad that focus on serving coffee and food.

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| <p>Blue bottle coffee opened its first shop in 2015. The first shop regularly had long lines of customers since it opened , and has now expanded to 6 outlets in 2016.</p> | <p>The Coffee Bean & Tea Leaf opened its first outlet in the center of Tokyo’s business district in May 2015, through E. A Style, a company established jointly by the retail giant, AEON, and a QSR chain company, Hotland. They have already expanded the number of outlets to 11.</p> |

v. Value Competition

While it can be said that more and more people are eating-out, consumers continue to demand high-food quality at reasonable prices.

In order to compete in the market, many fast food and family restaurants offer something called “Choi-Nomi” (quick drinking) specials. It is common in Japanese culture for working professionals to

stop by pubs on their way home for one or two drinks and light snacks. Choi-nomi specials, offering deals on a drink and appetizers, are designed to attract these customers, and now are being used not just by pubs but also by both fast-food and family restaurants. The major beef bowl chain Yoshinoya now offers drinks choi-nomi specials. Sixty selected Yoshinoya shops tested the Choi-Nomi service in June 2015, and reported increased sales of 20 percent. Now all locations, about 2,900 outlets, offer the same Choi-Nomi service.

Other QSR chains including Kentucky Fried Chicken, Freshness Burger, Tendon Ten-ya (Tempura bowl) and a family style chain, Bamiyan (Chinese cuisine), have all followed suit.



vi. Convenience Stores Gain Power as Food Service Operator

Convenience stores (CVS) continue to expand their ready-to-eat or deli-food offerings and have begun to compete with many fast food establishments including Japan's beef-bowl chains, coffee shops and donuts shops. Convenience stores used to heavily rely on professional male customers. But over the years, they have succeeded in appealing to seniors and women by offering healthier, meals, smaller portions and by expanding their dessert lineups.



CVS chains are becoming a major player in the area of takeout coffee, with increasingly better quality coffee beans and machines. According to a report in the Nikkei newspaper in 2016, the major three CVS chains; 7-11, Lawson and Family Mart; sold a combined 1.9 billion cups of regular coffee in 2015, which was up 30% from the previous year.

After Japanese convenience stores successfully started to attract coffee customers, they added fresh donuts to their inventory starting in 2015. Seven Eleven sold about 400 million donuts in 2015, which are delivered from a central kitchen to the store within 3 hours. In addition to donuts, Lawson features small gourmet Christmas cakes designed for one person.

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| <p>Automatic coffee machine and donut display located near the cashier in a typical Seven-Eleven.</p> | <p>Lawson's red Christmas cake made of French chocolate ganache, chocolate mousse and berry flavored sponge cake, sold for \$2.70.</p> |

vii. Premium Bento – Three Star Lunch Boxes

The area of sharpest growth in the food industry has been ready-to-eat products. As mentioned before, many consumers purchase take-out lunches at convenience stores or similar retail shops that can be eaten quickly at the office or elsewhere. These are often sold for 600 yen or less. To compete with these retailers, food service operators now offer premium bento boxes. They have steadily increased the freshness, quality, and variety of the take-away foods they offer, providing a more attractive menu selection to consumers for a higher price than the convenience stores. U.S. exporters that provide the kinds of products that would fit lunchbox-type or Home Meal Replacement items should consider approaching assemblers of these types of foods.

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| <p>Nippon Restaurant Enterprise's lunch boxes, named Suwa. An authentic Japanese-style meal, good for vegetarians, retails for JPY2,160 (US\$20). This bento box is available at both train station kiosks and for catering.</p> | <p>Ningyocho Imahan, a Tokyo based Sukiyaki restaurant, offers a seasonal bento which celebrates 'girls day' in the spring. Contents: marbled roast beef, sashimi and other items for JPY 4,320 (\$40)</p> | <p>The most expensive lunch box from the company Hotto Motto, the nation's largest lunch box chain, features a variety of Japanese-style food including beef, seafood, eggs and vegetables. It sells for JPY 790 (\$7.00)</p> |

Seasonal and special lunch box development is common in the industry for special occasions. Frequent menu changes can become both an opportunity and constraint for imported food products.

viii. Food Safety Scandals

Many Japanese consumers are concerned about whether or not their food is safe, especially after a series of highly visible food adulteration or mislabeling incidents. In 2013, there were a spate of food-

mislabeled scandals involving major Japanese hotels, department stores, and well-established restaurants. The media reported that many major hotels and 66% of department stores listed food on their menus as domestic that was actually imported. In Japan's food culture, consumers tend to believe that domestic food is safer than imported food and are willing to pay significantly more for food produced in Japan. However, using imported food can reduce food costs and offset supply shortages. Therefore, hotel and restaurant managers often prefer to use imported food in some cases.

Then in 2014, a TV report showed staff at a Chinese company using long expired chicken meat and picking up food from the floor to add back to the mix. The resulting food safety scandal seriously damaged the sales of the largest QSR players and a large scale convenience store chain, since it was reported that they used imported chicken from China. At the same time, there were several reports of foreign materials; such as metals, plastics and organic substances; that were found in food and drinks at a major hamburger chain in 2015, greatly harming sales from that particular chain.

A survey of Nikkei MJ on June 21, 2015 reported that 36.7% of Japanese consumers reduced their frequency of eating at fast food restaurants during the first half of the year 2015 due to a combination of food safety concerns and menu price increases. However, QSR industry sales have recovered since late 2015 after no major food safety scandals occurred in the Japanese restaurant industry in 2016.

ix. Reasonably Priced Gourmet Restaurants (stalls and stand-up-eating) Spread Through Social Media
The prevalence of smart phones provides a new dynamic for the local food service industry. There are several popular search sites especially designed for finding good restaurants throughout Japan such as Tabelog, Gurunavi and Hotpepper. Social networks such as Tripadvisor and Facebook have also become a means to finding good restaurants when people travel around Japan.

Yatai (food stalls) and Tachigui (stand-up-eating) restaurants have benefitted from this trend. These very casual, often temporary types of eateries have for many years offered Japanese food at a cheap price. However, like in the United States with food trucks, the quality of food offered at these types of eateries has greatly improved, and they now offer international and sometimes very high-quality food. You can now find a diverse array of upscale Tachigui restaurants, offering everything from French and Italian cuisine to Spanish food and even steak.

One way that these restaurants have become so popular is through social media, where people love to share information about their food and drink experiences. In Japan, you can find many posts on Facebook and Twitter about great places to eat, including small and out-of-the-way locations and yatai.



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| Stalls on a street in Fukuoka, which has become a very attractive dining spot for the city's tourists. Food stalls can be found in all regions of Japan throughout the year. | Ore-no-Italian (one of a series of different ethnic restaurants using the "Ore-no" theme) features upscale and reasonable priced Italian food and live music, but because diners must stand while they eat, it has a high turnover rate each day. |
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C. Sub Sector Profiles

Note: This report is based on statistics from the Japan Food Service Association, its affiliated Foodservice Industry Research Institute, and the private marketing company Fuji Keizai.

1. Restaurant Sector

The restaurant sector is the largest of the HRI food service segments. Restaurant sales in 2015 were ¥13.5 trillion, equivalent to \$110.6 billion, up 2.9% over the previous year. This represents 42.5% of total food service industry sales. The restaurant sector includes a wide variety of operators, ranging from American-style fast food chains to more traditional family-owned single outlet restaurants.

The restaurant sector is divided into four major sub-segments:

Chart 12-a: Japanese Restaurant Sector – 2015

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|---|--|--|
| Restaurant Sector ¥13.5 Trill. (\$110.6 Bill.) (42.5% share of total HRI sales) | General Restaurants (Share 71.8%) | ¥9.7 Trillion (\$79.4 Billion) |
| | Sushi Shops (10.5%) | ¥1.41 Trillion (\$11.6 Billion) |
| | Noodle Shops (9.2%) | ¥1.24 Trillion (\$10.1 Billion) |
| | Other (8.6%) | ¥1.16 Trillion (\$9.5 Billion) |

Source: Food Service Industry Research Institution

Sales at "general restaurants" soared 2.7% in 2015 compared to 2014. General restaurants include upscale and casual restaurants, family-style restaurants, Japanese, Chinese and Western-style restaurants. Sales at sushi and noodle shops increased 1.5 % and 5.8 %, respectively, from 2014. "other restaurants" was the only segment that significantly dropped in 2015 compared to 2014. Quick service restaurants are a major component of the "other" category.

Chart 12-b: Japanese Restaurant Sector

| Type of Restaurants | 2013 | 2014 | 2015 | | Change '15/'14 | Share |
|---------------------|-------------|-------------|-------------|----------|----------------|-------|
| Sales | JPY billion | JPY billion | JPY billion | US\$ bil | % | % |

| | | | | | | |
|-------------------------|--------|--------|--------|-------|-------|-------|
| Total Food Service | 29,992 | 30,879 | 31,787 | 260.4 | 2.9% | 100.0 |
| Total Restaurant Sector | 12,909 | 13,220 | 13,497 | 110.6 | 2.1% | 42.5 |
| General Restaurant | 9,115 | 9,435 | 9,691 | 79.4 | 2.7% | 30.5 |
| Sushi Shop | 1,355 | 1,392 | 1,412 | 11.6 | 1.5% | 4.4 |
| Noodle Shop | 1,151 | 1,170 | 1,237 | 10.1 | 5.8% | 3.9 |
| Other | 1,288 | 1,224 | 1,157 | 9.5 | -5.5% | 3.6 |

Source: Food Service Industry Research Institution

2. General Restaurants

This category offers the greatest opportunity for most U.S. food exporters and includes casual and family-style restaurants which mainly serve Western dishes or specialize in specific types of food such as steak, “Hamburg” (meat loaf), pizza or pasta. Their menus rely heavily on imported food products to provide authenticity as well as taste. Large family restaurant chains such as Skylark, Royal Host, Denny’s, Saizeriya, Coco’s, Jonathans, and Capricchiosa (Italian style), are major users of imported U.S. food ingredients including items such as beef, pork, frozen potatoes, and vegetables.

Upscale American restaurants have entered the Japanese market or expanded in a last few years, including ILEMULINO, Wolfgang’s Steakhouse by Zwiener, Union Square Café and Lawry’s. In addition, casual steak restaurant chains, such as Cowboy Family, Bronco Billy and Steak Ken have also proliferated. These restaurants typically offer free salad, side dishes and cooked rice with a main dish such as steak or hamburger, at a reasonable price (\$15 to \$25). These companies use imported food extensively.

After the relaxation of the rules on imported U.S. beef in February 2013, traditional steak houses and Yakiniku (Korean style barbeque) restaurants significantly increased the variety of beef menu items offered, adding items like T-bone steak and bone-in short ribs. For example, the Japanese steak restaurant chain “Ikinari Steak” has promoted a U.S. Certified Angus Beef (CAB) Steak since the relaxation of the regulations. The U.S. is recognized as a high-quality supplier which can reliably export these special cuts to Japan.

French restaurants have always been popular in Japan and more recently Italian restaurants have also grown in popularity. Mexican restaurants, which are still few in number, are slowly growing in popularity and provide opportunities for U.S. exporters for items such as tortillas, frozen guacamole, and related Tex-Mex ingredients. Food service chains that come to Japan from the U.S. are perfect target customers for U.S. exporters who sell related food products.

Chart 13: General Restaurant: Number of Restaurant Outlets by Type

| Type of Restaurants | 2013 | 2014 | 2015 | 2016* | 2017* | Change '16/'15 |
|-------------------------|--------|--------|--------|--------|--------|----------------|
| Family-Style Restaurant | 11,600 | 11,695 | 11,675 | 11,715 | 11,750 | 0.3% |

| | | | | | | |
|--|---------|---------|---------|---------|---------|-------|
| Western Cuisine (American, European) | 10,047 | 10,202 | 10,373 | 10,566 | 10,747 | 1.9% |
| Japanese Cuisine | 106,585 | 105,485 | 104,250 | 103,050 | 101,970 | -1.2% |
| Chinese & Korean Cuisine | 36,320 | 35,990 | 35,635 | 35,335 | 35,085 | -0.8% |
| Ethnic Cuisine (Mexican, Indian, SE Asian) | 2,478 | 2,559 | 2,632 | 2,665 | 2,698 | 1.3% |

Source: Fuji Keizai Co., Ltd. Food Service Industry Marketing Handbook 2016
2016* and 2017*: Estimate

Along with the improving economy, the number of family style restaurant has been growing since 2012. Italian and American restaurants were a major element of the increase in 2015. American branded restaurants have expanded and steadily gained market, driven by an expansion of American-style breakfast outlets and the renewed availability of U.S. beef. Other new trends in this category include steakhouses and authentic barbeque restaurants.

3. Sushi Restaurants

Japan is famous for sushi, which is increasingly popular around the world. Not surprisingly, Japan is the world's largest importer of seafood products, of which a substantial portion ends up in sushi form. This includes tuna, scallops, sea urchin, salmon, salmon eggs, yellow fin, crab and shrimp. Most seafood imports pass through wholesale markets such as the Tsukiji Fish Market in Tokyo before being delivered to sushi shops throughout Japan. The U.S. is a major supplier of salmon, salmon eggs, and sea urchin used by sushi operators in Japan.

The value of the sushi food service segment has been growing steadily for the past three years, and was estimated at ¥1.41 trillion in 2015, equal to \$11.6 billion. A Fuji Keizai Report estimated that there Japan had about 42,400 sushi restaurants in 2015, a decline of 2.4% the number of outlets since 2011. This doesn't mean that Japanese consumers are eating less sushi. The major sushi chains offer far cheaper prices than traditional sushi bars, and are steadily consolidating and increasing their sales volumes and number of outlets (See chart 14).



Chart 14: Major Sushi Chains

| Company | Sales 2015 | Sales 2016* | | Change | # of outlets | Change |
|---------|------------|-------------|------------|------------|--------------|------------|
| | ¥ million | ¥ million | \$ million | 2016/15, % | 2016 | 2016/15, % |

| | | | | | | |
|------------------|---------|---------|-------|-------|-----|-------|
| Akindo Sushiro | 135,050 | 145,850 | 1,195 | 8.0% | 448 | 8.7% |
| Kura Corporation | 105,000 | 110,000 | 901 | 4.8% | 383 | 4.9% |
| Hama Zushi | 82,300 | 97,100 | 796 | 18.0% | 520 | 17.9% |
| Kappa Zushi | 68,800 | 63,850 | 523 | -7.2% | 342 | 0.3% |
| Genki Zushi | 25,350 | 26,500 | 217 | 4.5% | 139 | 4.5% |

Source: Fuji Keizai Co., Ltd. Food Service Industry Marketing Handbook 2016
2016*: Estimate

4. Noodle Shops

Noodles, served either hot or cold, are one of the most popular foods eaten both inside and outside of the home in Japan. Japanese noodles come in three main forms. Soba, which are noodles made from buckwheat; udon, noodles made from wheat; and ramen shops which are counted among the “general restaurants” in this report.

In 2015, the value of the soba/udon food service segment was estimated at ¥1.24 trillion or \$10.1 billion. According to Fuji Keizai research, there were an estimated 34,995 soba/udon shops in 2014. This number decreased to 32,550 in 2015, a decline of 7% from the previous year. Many of the restaurants that closed were single proprietorships, but chain operators have increased their number of outlets, typically at shopping malls and rest stops. Marukame-Seimen is the largest udon shop operator in Japan, and grew from ¥82 billion in sales and 775 outlets in 2015 to ¥83.5 billion (estimated) and 785 outlets (planned) in 2016.



Marukame-Seimen is a QSR udon chain operated by the Toridoll Company, featuring fresh cook udon and tempura. The company has seen marked growth since the first udon shop opened in Kobe in 2000.

Noodles consumed outside of the home are frequently ranked as the most popular lunch item by consumers because they are quick to serve and quite inexpensive. A typical soba set menu will cost only ¥400 - ¥600. It is common for the Japanese working professional to eat a bowl of noodles in just a few minutes during their lunch break.

The number of outlets of large chain soba/udon shops is expected to increase while the number of individual shops declines rapidly. Toridoll, the largest QSR noodle chain, has a 33.5% share of the sub-sector. However, in the category of full-service noodle shops, the majority are still individual outlets. Even the largest full service soba/udon chain, Sagami Group, has only 215 shops and a 3.7% share of the sub-sector.

Opportunities for U.S. exporters are principally the ingredients used as toppings for noodles. This includes items such as chicken products, seasoned pork slices and sweet corn kernels. U.S. exporters

wanting to enter this segment should target the major food service wholesalers that supply the shops.

Regarding ramen shops, the Foodservice Industry Research Institute Report counted ramen shops in the sector of general restaurants, which is not broken down into sub-sectors. The Fuji Keizai Report estimated the value of the ramen segment as ¥436.8 billion in 2016, equal to \$4,171.2 million, and noted very little growth in the last three years, as an equilibrium was maintained through both expansion of ramen chains and closing of individual shops. There were about 15,620 ramen shops in 2016, a 0.8% increase from 2011.

Chart 15: Major Ramen Shop Chains

| Brand | Company | Sales 2015 | Sales 2016* | | Change | # of outlets |
|---------------|-----------------------|------------|-------------|------------|------------|--------------|
| | | ¥ million | ¥ million | \$ million | 2016/15, % | 2016* |
| Korakuen | Korakuen | 40,400 | 40,500 | 331.8 | 0.2% | 533 |
| Hidaka | Hidy Hidaka | 36,900 | 38,900 | 318.7 | 5.4% | 409 |
| Tonta | Shusui | 27,000 | 26,700 | 218.8 | -1.1% | 540 |
| Rai-rai-tei | Rai-Rai-tei | 21,000 | 21,500 | 176.2 | 2.4% | 235 |
| Marugen | Monogatari Corp | 15,400 | 15,950 | 130.7 | 3.6% | 116 |
| Hakata Ippudo | Chikaranomoto Company | 13,000 | 13,700 | 112.2 | 5.4% | 105 |
| Sub total | (Total of the above) | 153,700 | 157,250 | 1,288.4 | 2.3% | 1,938 |
| Sub total | (Other) | 279,600 | 279,550 | 2,245.0 | 0.0% | 13,682 |
| Grand Total | | 433,300 | 436,800 | 4,171.2 | 0.8% | 15,620 |

Source: Fuji Keizai Co., Ltd. Food Service Industry Marketing Handbook 2016
2016*: Estimate

5. Other Restaurant Types

The Food Service Research Center categorizes a number of special food service concepts into its “All Other” category. These include:

- Hamburger shops
- Pizza Delivery shops
- Fried Chicken shops
- Donuts and Ice Cream Shops
- Beef bowl
- Curry & Rice,
- Okonomiyaki (traditional Japanese food which is like a pancake with meat, vegetables and noodles inside)

A brief description of those that are of particular interest to the U.S. exporter follows:

i. Hamburger Chains

The number one food service operator in Japan is McDonald’s Japan, which opened in 1972 and now has about 3,100 outlets nationwide. The hamburger fast food concept has been one of the most visible and successful market segments over the past 40 years. However, the value of the hamburger segment has been decreased since the peak year in 2010, when it reached ¥708,200 million (equal to \$5,802.5). However, so far in 2016, the segment shows significant recovery.

Chart 16: Hamburger Market

| Year | Total Sales | | Change ** | # of outlets | Change ** |
|-------|-------------|------------|--------------|-----------------|--------------|
| | ¥ Million | \$ Million | | | |
| 2016* | 596,800 | 4,889.8 | 9.1% | 5,255 | -1.6% |
| 2015 | 546,800 | 4,480.1 | -10.0% | 5,340 | -3.3% |
| 2014 | 607,800 | 4,979.9 | -8.8% | 5,525 | -1.7% |
| 2013 | 666,100 | 5,457.6 | -3.6% | 5,620 | -1.7% |
| 2012 | 691,300 | 5,664.1 | -0.9% | 5,720 | -0.5% |

Source: Fuji Keizai Co., Ltd. Food Service Industry Marketing Handbook 2016

2016*: Estimate

** : Change from the previous year

The major reason behind the prolonged decline in hamburger sales at fast food restaurants was the previously-mentioned food safety scandals in 2014 and 2015, as well as heavy competition from convenience stores and other QSR segments such as beef bowl, soba/udon, ramen and sushi. Even though the scandals had a serious impact on the major hamburger chains, by providing reasonably priced, fast and clean service, the hamburger chain concept has kept a significant share of its young customers and families with children.

And despite a dip in sales of large chain QSR burger restaurants, there has been a surge of new burger restaurant openings. Shake Shack and Carl’s Jr. have both entered the market in 2015 and 2016, respectively, and have been doing well. These shops are especially popular among young professionals, and have the effect of highlighting the diversity and high-quality of American food. Because hamburger chains originated in the United States, they are ideal targets for U.S. exporters. They typically import many of their food items including frozen potatoes, pork patties, fresh tomatoes, and cut lettuce.

ii. Pizza Chains

The pizza industry has seen continued growth in Japan over the past decade. Fueled by the launch of Domino’s Pizza in 1985, pizza chains have successfully carved out a niche in the food service market in Japan with their promise of rapid delivery. According to Fujikeizai Report, the value of the delivery pizza segment is estimated at ¥127.2 billion or \$1.1 billion in 2016, an increase of 5.7% from 2015. The top pizza chains include:

| | | | | | | | |
|------------------|-------|-------|-------|-------|-------|------|------|
| Total | 4,702 | 4,652 | 4,895 | 5,066 | 5,164 | 42.3 | 1.9% |
| Pub Dining | 993 | 978 | 1,019 | 1,038 | 1,067 | 8.7 | 2.8% |
| Coffee/Tea Shops | 1,018 | 1,020 | 1,061 | 1,092 | 1,127 | 9.2 | 3.2% |
| Roytei | 322 | 317 | 336 | 351 | 355 | 2.9 | 1.1% |
| Night Clubs | 2,370 | 2,337 | 2,478 | 2,585 | 2,614 | 21.4 | 1.2% |

Source: Food Service Industry Research Institute

i. Pub Dining

Izakaya are Japan's unique drinking pubs where a variety of homemade-style appetizers and meals are served with various kinds of alcoholic beverages including beer, sake, *shochu* (Japanese spirits), wine and cocktails. Since 2008, in this segment, the number of chain *izakaya* operations has increased more than individually-owned businesses. This has been driven by a similar trend towards streamlining of procurement and distribution system due to harsh competition within the sector. Most chain restaurants use imported food products in moderation, while focusing on regional food products that are common in Japanese cooking.

At pub dining restaurants, consumers order various dishes together at the same table and share with colleagues, friends and family. Chain operations are popular because of their reasonable menu pricing and wide range of food items. *Izakaya* chain restaurants usually have central buying systems which are always looking for new menu ideas. Pub dining operators also modify overseas recipes according to their own style and taste to create Japanese fusion items. The industry heavily uses fresh oysters, frozen vegetables, canned tomato sauce, canned olive oil, and further processed foods, such as frozen soups, and frozen seasoned pork and beef that are imported from the United States.

Updated statistics in 2016 showed a decrease in sales in this sector due to increasing the number of QSR operators that started to offer Cho-Nomi (quick drink) specials. (For details see Section II-B-2-ix of this report). This is an example of how competitive the HRI market is and how one subsector added something new, convenient and reasonably priced to successfully attract new customers.

Chart 19: Major Pub Dining Chains

| Rank 2016 | Parent Company | Sales* (\$ Mil.) | Restaurant Names, # of Outlets | Location | Purchasing Agents |
|-----------|----------------|------------------|------------------------------------|------------|-------------------|
| 1 | Monterozza | 1,197 | Sirokiya, Uotami, Wara-wara, 2,050 | Nationwide | Wholesalers |

| | | | | | |
|----|---------------------|-----|--|---------------|----------------------------|
| 2 | Chimney | 618 | Hananomai/Sakanaya-dojo, Kodawariyama, 775 | Eastern Japan | Trading firms, wholesalers |
| 4 | Daisho | 413 | Shoya, 636 | Eastern Japan | Wholesalers |
| 3 | Watami Food Service | 412 | Watami, 490 | Nationwide | Trading firms, wholesalers |
| 5 | Torikizoku | 402 | Torikizoku, 540 | Nationwide | Trading firms, wholesalers |
| 8 | SPF Dining | 301 | Isomaru Suisan, 200 | Eastern Japan | Trading firms, wholesalers |
| 6 | G. Taste | 274 | Murasaki, Toriaezu Gohei, 335 | Nationwide | Trading firms, wholesalers |
| 7 | Colowide MD | 262 | Amata-ro, Hokkaido, Hiikiya, 250 | Eastern Japan | Trading firms, wholesalers |
| 9 | Reins International | 239 | Doma-doma, Kamadoka, 254 | Nationwide | Trading firms, wholesalers |
| 10 | Oizumi Foods | 239 | Wan, Sen no niwa, 255 | Eastern Japan | Trading firms, wholesalers |

Source: Fuji Keizai Co., Ltd. Food Service Industry Marketing Handbook 2016
2016*: Estimated

ii. Coffee/Tea Shops

In 2015, the coffee/tea shop sector reached ¥1,127 billion in sales, an increase of 3.2% from the previous year. The sector is very popular throughout Japan, but the sales volume of the sector had dropped from ¥1,740 billion in 1982 to ¥1,092 billion in 2014, a decline of over 37%. The sector went through major structural changes during this period. In 1980, Doutor Coffee Company opened the first self-service coffee shop (meaning, customers select and pay for coffee at the counter rather than ordering through wait staff at their seats) in Tokyo and sold a cup of regular drip coffee for 150 yen, which was one-third to one-fourth the price of most conventional style full-service (meaning coffee shops where a waiter or waitress serves coffee to a customer's table) coffee shops at that time. In 1996, as these self-service coffee shops came into fashion in Japan, Starbucks Coffee opened its first shop in the center of Tokyo. The new style self-service coffee/tea chains, including both Japanese and American outlets, have been waging expanding their business and have altered the market since then. More recently, an even newer trend is the "third wave" coffee shops offering unique types of coffee and targeting millennials, such as single source, sustainable etc. As mentioned previously, the third wave coffee shops from the U.S. hit the shore in Japan in 2016. Blue Bottle Coffee, The Coffee Bean and Tea Leaf and Gorilla Coffee are examples that have been opening in rapid succession. As a result of these new coffee shop styles, older traditional coffee shops have faced severe losses, and many are going out of business. These new U.S. coffee shops that have swept Japan's coffee industry may provide opportunities to expand U.S. food and beverage products.

Here is a list of major new style coffee/tea shop chains in Japan in 2015:

Chart 20: Major Coffee/Tea Room Chains

| Rank 2016 | Company Name | Sales (\$ mil.) | # Units | Location | Purchasing Agents |
|-----------|--------------|-----------------|---------|----------|-------------------|
|-----------|--------------|-----------------|---------|----------|-------------------|

| | | | | | |
|----|--|-------|------|------------------|-------------------------------|
| 1 | Starbucks Coffee Japan, Ltd. | 1,394 | 1200 | Nation wide | Trading firms, Wholesalers |
| 2 | Doutor Coffee Co., Ltd. | 831 | 1245 | Nation wide | Same as above |
| 3 | Komeda Coffee | 534 | 676 | Central Japan | Same as above |
| 4 | Tully's Coffee Japan by Ito-en | 458 | 645 | Nation wide | Same as above |
| 5 | Saint Marc Café Holdings | 229 | 410 | Nation wide | Same as above |
| 6 | Pronto Corporation (Pronto) | 214 | 275 | Nation wide | Same as above |
| 7 | Nippon Restaurant System (Hoshino) | 139 | 168 | Western Japan | Same as above |
| 8 | UCC Foodservice Systems Inc. (Coffee kan) | 120 | 141 | Western Japan | Same as above |
| 9 | Pokka Create (Café de Crie) | 98 | 199 | Western Japan | Same as above |
| 10 | Chat Noir (Veloce) | 97 | 173 | Western Japan | Same as above |

Source: Fuji Keizai Co., Ltd. Food Service Industry Marketing Handbook 2016
2016*: Estimated

McDonald's Japan was a popular place to drink regular coffee when the hamburger chain launched a 100 yen (\$1) coffee in 2008. Inspired by popular regular coffee sales among quick service restaurants like this, Seven-Eleven started a boom in convenience store coffee in 2013. By 2014, all major convenience stores including 7-11, FamilyMart and Lawson offered 100 – 150 yen coffee. The coffee bean (HS code 0901) imports to Japan increased from 416,845 metric tons in 2014 to 442,311 metric tons in 2015, up 6.1%. Convenience store chains were a major factor in this increase and have become a threat to the above mentioned coffee chains.

7. Hotel Food Service Sector

Food sales in the hotel sector shot up to ¥2.87 trillion in 2015, equivalent to US\$23.5 billion. This was a 4.6% increase from the previous year, and represents 9% of total food service industry sales. After a significant decline after the major earthquake in 2011, the hotel food business has recovered steadily in the last three years.

Along with an increasing number of foreign travelers visiting Japan, a number of new hotels have opened in 2015 which are run by foreign-affiliated companies such as Starwood Hotel & Resorts in Kyoto, The Park Front Hotel at Universal Studios Japan in Osaka, and Hyatt Regency in Okinawa. Major Japanese hotels have also scheduled new hotels and/or renovations in order to accommodate the increase in foreign tourists and to prepare for the Olympic Games that will be held in Tokyo in 2020. Most major hotels showed an increase in sales in 2015 from the previous year.

First class hotels have a large variety of banquet rooms and on-site restaurants including Western, Chinese and Japanese restaurants. Hotels are major users of almost all kinds of foods, particularly

imported products. Because they usually have a large professional chef staff, hotels tend to create many dishes from scratch rather than relying on prepared or further processed foods.

Decision making on what kinds of items to put on the menu is usually made by the executive chefs of each hotel. Because they cater to international travelers, many major hotels regularly feature promotions of different country's cuisines, including American fairs. For this reason, they are historically very receptive to imported food. Halal food is one area of growing interest as the number of Muslim tourists visiting Japan has continues to increase.

Chart 21: Major Hotel Chain Food and Beverage Sales in 2016

| Rank 2016 | Company (Hotel Brand) | Sales 2015 | Sales 2016* | | Change 2016/ 15 | # of Outlets |
|--------------|---|---------------|--------------|-------------------|-----------------------|-----------------|
| | | ¥ million | ¥ million | \$ milli on | % | 2016 * |
| 1 | Prince Hotels and Resorts | 75,400 | 77,100 | 631.7 | 2.3 | 43 |
| 2 | Hotel Okura & Resorts | 42,800 | 44,800 | 367.1 | 4.7 | 49 |
| 4 | Marriott International (Ritz-Carlton) | 31,000 | 32,100 | 263.0 | 3.5 | 15 |
| 3 | Hankyu Hanshin Dai-ichi Hotel Group | 31,300 | 31,200 | 255.6 | -0.3 | 45 |
| 5 | New Otani Group | 30,150 | 30,800 | 252.4 | 2.2 | 14 |
| 6 | Tokyu Hotels | 28,500 | 29,600 | 242.5 | 3.9 | 44 |
| 7 | Imperial Hotel | 28,800 | 28,900 | 236.8 | 0.3 | 3 |
| 8 | Resort Trust (Xiv, Sun Resort) | 26,600 | 26,900 | 220.4 | 1.1 | 43 |
| 9 | Rihga Royal Hotel Group | 23,100 | 22,650 | 185.6 | -1.9 | 11 |
| 10 | Nippon Hotels (JR East Tokyo Station Hotel, Hotel Metropolitan) | 20,250 | 19,800 | 162.2 | -2.2 | 44 |

Source: Fuji Keizai – Food Service Industry Marketing Handbook 2016

2016*: Estimate

Japan also has many small *Ryokan* or Traditional Japanese style inns, which primarily serve domestic holiday travelers but increasingly host foreign tourists as well. Their menus tend to be limited to traditional Japanese dishes, and therefore make them a less inviting target for U.S. exporters.

8. Institutional Food Service

The institutional food service sector in Japan includes business/office cafeterias, school lunch programs, hospital meals and childcare centers (for infant & preschool). The sector's sales reached ¥3.39 trillion in 2015, equivalent to \$27.8 billion. This represented 13.5% of total food service industry

sales. Institutional food sales increased 1.3 % in 2015 from the previous year, mostly as a result of both rising sales and higher food prices. The institutional food service operators have invested in refurbished business and school cafeterias in order to attract more customers, and have added more healthy and delicious menus.

Chart 22: Institutional Food Service Sales by Sub-Sectors

| Institutional\Sales | 2013 | 2014 | 2015 | | | |
|---------------------------------------|-----------|---------|---------|------------|---------------|-------|
| | ¥ billion | | | \$ billion | Change '14/13 | Share |
| Business/Office Cafeterias | 1,687.8 | 1,721.0 | 1,746.2 | 16.3 | 1.46% | 6.9% |
| School Lunch | 491.9 | 496.8 | 507.9 | 4.2 | 2.23% | 2.0% |
| Hospitals | 808.2 | 820.3 | 820.7 | 6.7 | 0.05% | 3.3% |
| Nursing Homes (infant & preschool) | 299.1 | 312.2 | 318.4 | 2.6 | 1.99% | 1.3% |
| Total: | 3,287.0 | 3,350.3 | 3,393.2 | 27.8 | 1.28% | 13.5% |

Source: Food Service Industry Research Center

In addition to the above institutional food service market, there is a sub-sector of nursing home (for aging generation) meal services. The sub-sector had a marked rise of 5.8% in 2015 to reach ¥755.9 billion in sales, equivalent to \$6.2 billion according to Fuji Keizai Food Service Industry Marketing Handbook 2016. Nursing home meal service sales are forecast to increase by another 4.6% in 2016 and to continue to grow after that as Japan's senior population expands. Many food service companies are starting to target what is called the "silver" market, and can be expected to try to find new ways to capture sales from this growing population segment.

One such trend is online food sales and meal delivery services for senior citizen and hospital patients being cared for at home. According to Fuji Keizai statistics, the total size of the meal/food delivery sales was ¥98,300 million (\$805.4 million) in 2015, an increase of 3.1% from the previous year. The report also forecasts that sales will be ¥102,800 million (\$842.3 million) in 2020, an increase of 7.9% from 2014.

Watami Takushoku is the top meal delivery service company for senior citizens and nursing homes. It was a catering business that originated from a division of a pub dining company called Watami Food Systems. Despite an overall sales increase, the company's market share was down from 41.4% in 2014 to 38.3% in 2015 as a result of increased competition. The popularity of online meal delivery among the aging population encouraged newcomers. These online based meal delivery companies tend to use traditional Japanese food ingredients such as, rice, seafood and fresh produce in order to the taste preferences of the senior generation.

| | | |
|---|---|--|
|  |  | <p>Photos from the Watami Takushoku website offering healthy daily special menus cooked by hand and delivered in chilled containers.</p> <p>¥2,900 (\$25) for a set of 5 meals, 1 meal per day, 5 days per week.</p> |
|---|---|--|

Reflecting this segment’s upward trend in general, all of the top 10 companies showed significant increases in sales volumes in 2015 from the previous year.

Chart 23: Institutional Food Service Chains

| Rank 2015 | Company Name | Sales | # Units | Location | Principal Purchasing Agents |
|-----------|-------------------------------------|-----------|---------|----------|-----------------------------|
| | | (\$ mil.) | | | |
| 1 | Nissin Healthcare Food Service Co., | 1,713.2 | 5,287 | Tokyo | Wholesalers |
| 2 | AIM Service | 954.7 | 1,455 | Tokyo | Wholesalers |
| 3 | Green House | 826.7 | 1,879 | Tokyo | Wholesalers |
| 4 | Seiyo Food-Compass Group, Inc. | 704.4 | 946 | Tokyo | Wholesalers |
| 6 | Fuji-Sangyo Co., Ltd. | 608.2 | 2,238 | Tokyo | Wholesalers |
| 7 | Leoc Co., Ltd. | 519.7 | *1,859 | Tokyo | Wholesalers |
| 6 | Uokuni Sohonsa | 516.2 | 2,649 | Osaka | Wholesalers |
| 8 | MEFOSU Inc. | 406.6 | 2,321 | Tokyo | Wholesalers |
| 9 | Nihon General Food | 249.0 | 728 | Aichi | Wholesalers |
| 10 | Ichifuji Foodservice | 241.2 | 1482 | Osaka | Wholesalers |

Source: Nikkei Marketing Journal (MJ)– May 25, 2016

* Number of units in 2011

(Nikkei MJ doesn’t separate sales of Tawami Takushoku, institutional business, from a total sale of Watami Food Systems which included majority of a pub dining business.)

Conclusion

The \$300 billion food Service Industry in Japan is vibrant and expanding. U.S. suppliers can take advantage of this exciting market by offering quality products to the appropriate restaurants or restaurant suppliers. The top food service companies are listed in the chart below according to sales volumes.

Appendix

(Chart 24): Top 50 Restaurant Company Profile

| Rank 2015 | Company | Sales (\$ Mil.) | Outlet Name/ Type/and # of Outlets | Location | Purchasing Agents |
|-----------|---------------------------------|-----------------|---|---------------|---|
| 1 | Zensho | 3,647.4 | Sukiya, Coco's/ QSR,beef bowl & various/4,897 | Nation wide | Trade firms, wholesalers, Direct import |
| 2 | McDonald's Japan | 3,085.2 | McDonald's/ QSR hamburger/ 3,093 | Nation wide | Trade firms, wholesalers, Direct import |
| 3 | Skylark | 2,455.2 | Skylark,Gusto, Yumean,Barmiyan/ FSR/2,595 | Nation wide | Trade firms, wholesalers, Direct import |
| 4 | Colowide | 2,358.9 | Gyukaku, Amata-ro, WPJ/ pub dining/ 2,466 | Eastern Japan | Trade firms, wholesalers |
| 5 | Nisshin Healthcare Food Service | 1,713.2 | Office/hospital meals, Institutional, 5,325 | Nation wide | Trade firms, wholesalers |
| 6 | Plenus | 1,521.3 | Hotto Motto/take out meals/ 3,002 | Western Japan | Trade firms, wholesalers |
| 7 | Monteroza | 1,161.9 | Sirokiya,Uotami,Wara-wara/pub dining/2,143 | Nation wide | Wholesalers |
| 8 | Kentucky Fried Chicken Japan | 1,150.1 | KFC,Pizza hut/ QSR-delivery meals/ 1,531 | Nation wide | Trade firms, wholesalers |
| 9 | Akindo Sushiro | 1,106.4 | Akindo, Sushi-ro/QSR-Sushi/377 | Western Japan | Trade firms, wholesalers, Direct import |
| 10 | AIM Service | 954.7 | Institutional/ 1,431 | Eastern Japan | Wholesalers |
| 11 | Saizeriya | 900.7 | Saizeriya/FSR Italian/ 1,018 | Nation wide | Trade firms, wholesalers, Direct import |
| 12 | Mos Food Service | 872.0 | Mos Burger/QSR hamburger/ 1,442 | Nation wide | Trade firms, wholesalers |
| 13 | Kura Corporation | 848.6 | Kura-zushi/QSR sushi/ 344 | Western Japan | Trade firms, wholesalers |
| 14 | Green House | 826.7 | Institutional, home meal replacement/ 1,886 | Nation wide | Trade firms, wholesalers |
| 15 | Yoshinoya Holdings | 808.7 | Yoshino-ya, Hanamaru Udon/QSR beef bowl and noodle shop/1,190 | Nation wide | Trade firms, Direct import |
| 16 | Osho Food Service | 767.7 | Gyoza no Osho/ Ramen shops/702 | Nation wide | Trade firms, wholesalers |

| | | | | | |
|----|-------------------------|-------|---|---------------|---|
| 17 | Duskin | 753.8 | Mr. Donuts/ QSR/ 1,321 | Nation wide | Trade firms, wholesalers |
| 18 | Doutor Coffee | 727.1 | Doutor/ coffee shop/ 1,359 | Nation wide | Trade firms, wholesalers, Direct import |
| 19 | Toridoll | 647.0 | Marukame Seimen/ QSR-noodle/ 848 | Nation wide | Wholesalers |
| 20 | Seiyo Food Compass | 704.4 | Han,CASA,Itoguruma/ pub dining,family style,Institutional/912 | Eastern Japan | Trade firms, wholesalers, Direct import |
| 21 | Matsuya Foods | 683.5 | Matsu-ya/QSR-beef bowl/ 1040 | Nation wide | Trade firms, wholesalers, Direct import |
| 22 | Ichiban-ya | 654.0 | Ichiban-ya/ QSR-curry shop/ 1,270 | Nation wide | Trade firms, wholesalers |
| 23 | Honke Kamadoya | 652.4 | Kamadoya/ take out meals/ 1,700 | Nation wide | Trade firms, wholesalers |
| 24 | Seven and I Foodservice | 633.4 | Denny's, Famil, Popo, FSR/QSR/840 | Nation wide | Trade firms, wholesalers |
| 25 | Fuji Sangyo | 608.2 | Institutional/ 2,810 | Eastern Japan | Wholesalers |
| 26 | Saint Marc Holdings | 598.1 | Bakery café/ various | Western Japan | Wholesalers |
| 27 | Daisho | 570.4 | Shoya/ pub dining/ 799 | Eastern Japan | Wholesalers |
| 28 | Four Seeds | 540.9 | Pizza La/ pizza delivery/ 886 | Nation wide | Trade firms, wholesalers, Direct import |
| 29 | Chimney | 524.8 | Hananomai,Sakanayadojo/ pub dining/ 707 | Eastern Japan | Trade firms, wholesalers |
| 30 | LEOC | 519.7 | Institutional/380 | Eastern Japan | Trade firms, wholesalers |
| 31 | Uokuni Sohonsa | 516.2 | Office cafeteria-Institutional/ 2,611 | Western Japan | Wholesalers |
| 32 | Joyful | 500.6 | Joyful/ FSR/ 742 | Western Japan | Wholesalers |
| 33 | Aleph | 484.6 | Bikkuri Donkey/ FSR/347 | Eastern Japan | Trade firms, wholesalers |
| 34 | Fujio Food Systems | #REF! | Maido Okini/ Japanese style rst/ 706 | Western Japan | Wholesalers |

| | | | | | |
|----|-------------------------------------|-------|--|---------------|---|
| 35 | Nippon Restaurant Enterprise | 435.2 | American Diner B&G /Ajisai-tei/FS restaurants,bento/ 382 | Eastern Japan | Trade firms, wholesalers, Direct import |
| 36 | Monogatari Corporation | 433.7 | Yakiniku King, ramen/295 | Central Japan | Trade firms, wholesalers |
| 37 | Mefos | 432.5 | Institutional/ 2,300 | Eastern Japan | Trade firms, wholesalers |
| 38 | Rock Field | 399.6 | RF1/ takeout meals/ 329 | Central Japan | Trade firms, wholesalers |
| 39 | Origin Toshu | 374.7 | Origin Bento, takeout meals, 615 | Eastern Japan | Trade firms, wholesalers |
| 40 | Watami Food Service | 368.7 | Watami/ pub dining/ 1,094 | Nation wide | Trade firms, wholesalers |
| 41 | Hurxley Hokka-Hokka-tei | 360.7 | Takeout lunch box/ 1,091 | Eastern Japan | Trade firms, wholesalers |
| 42 | Kisoji | 359.8 | Kisoji/ Japanese style restaurants/ 169 | Nation wide | Trade firms, wholesalers |
| 43 | Baskin Robbins Thirty-One Ice Cream | 351.8 | Thirty-One Ice Cream/QSR-ice cream/ 1,140 | Nation wide | Trade firms, wholesalers |
| 44 | Nippon Restaurant System | 335.9 | Yomen-ya Goemon/ pasta & coffee shops/ 500 | Nation wide | Trade firms, wholesalers |
| 45 | Koraku-en | 332.6 | Korakuen/ noodle shops/ 516 | Eastern Japan | Trade firms, wholesalers, Direct import |
| 46 | Royal Host | 319.6 | Royal Host, Cowboy Family, Shakey's/ FSR/270 | Nation wide | Trade firms, wholesalers, Direct import |
| 47 | Hiday (Hidaka) Co., Ltd | 301.7 | Noodle, Chinese restaurants/ 361 | Kanto Region | Trade firms, wholesalers |
| 48 | Dynac | 296.1 | Hibiki,Toridori/pub dining,restaurants/ 251 | Eastern Japan | Trade firms, wholesalers |
| 49 | Green House Foods | 295.8 | Saboten, Shahoden /HMR,restaurant/ 638 | Nation wide | Trade firms, wholesalers |
| 50 | Via Holdings Inc. | 285.9 | Pub dining, various | Eastern Japan | Wholesalers, Trade firms |

Source: Nikkei Marketing Journal, May 25, 2016

QSR= Quick Service Restaurant, FSR = Family Style Restaurant

III. POST CONTACT AND FURTHER INFORMATION

Reports from USDA Japan, including the Agricultural Trade Offices and the Office of Agricultural Affairs, are frequently updated and can be found by searching the FAS Japan Reports website at:

<http://www.usdajapan.org/reports/>

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Fax: 81 (3*) 3582-6429

In Osaka-Kobe:

Agricultural Trade Office, Osaka

American Consulate General

11-5, Nishitenma 2-chome

Kita-ku, Osaka 530-8543

E-mail: ATOOsaka@fas.usda.gov

Tel: 81 (6*) 6315-5904

Fax: 81 (6*) 6315-5906

**Please add a zero before this number if dialing from within Japan.*

The following homepages and reports can provide useful information to interested exporters.

B. Agricultural Trade Office's homepages

<http://www.usdajapan.org/> (FAS Japan, English)

<http://www.myfood.jp/> (ATO Tokyo, Japanese)

Follow us on Twitter @USDAJapan

C. Exporter Guide

Japan Exporter Guide

This is comprehensive document from the ATOs in Japan containing information useful to exporters considering the Japanese market for the first time. These reports are frequently updated and can be found using the FAS Japan Reports website at: <http://www.usdajapan.org/reports/> and searching for Japan and Exporter Guide

D. Regulations & Standards

The USDA/FAS Report, “Japan Food and Agricultural Import Regulations and Standards (FAIRS Country Report)”, provides information about food import regulations and standards. This report can be found at the following website: <http://www.usdajapan.org/reports/>