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Japan

Retail Foods

Japan Retail Foods

Approved By:
Morgan Perkins, Director

Prepared By:
Sumio Thomas Aoki, Senior Marketing Specialist
Marika Miyamoto, Intern

Report Highlights:
The total value of all retail food and beverage (F&B) sales was 52.2 trillion yen or $474.9 billion dollars. In the Japanese retail industry, supermarkets (with floor space under 1500 m^2) which include specialty shops and local stores, still represent the bulk of the retail food market. Food & beverage sales through drug stores as well as the internet are increasing. Ready to eat meals or take home food items represent a growth area that has helped supermarkets, convenience stores and other retail outlets throughout the food & beverage industry to increase revenue.

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Executive Summary

According to the Ministry of Internal Affairs and Communications, Japan's GDP was US$4,383.6 billion in 2015, making it the world's third largest economy, with a 5.9% share of the world GDP. Japan's economy was smaller only than the United States' (US$18,036.6 billion, 24.2% share) and China's (US$11,007.7 billion, 14.8%). Nonetheless, Japan's per capita GDP of US$ 34,522 ranked twentieth among the OECD member countries. Latest information indicates that Japan's GDP totaled JPY 539.3 trillion (US$ 4,954.56 billion*) in 2016.

Tertiary industries (the service sector) represent the mainstay of the Japanese economy, accounting for 72.7% of total GDP in 2015. Secondary industries (manufacturing) followed with 26.2% and the primary industries (agriculture, fisheries, and forestry) lagged behind at only 1.1%.

In 2016, Japan's total exports reached JPY 70 trillion (US$643.15 billion*), down 7.4% down from the previous year, and imports totaled JPY 66 trillion (US$606.39 billion*), down 15.8% from the previous year, with a JPY 4 trillion (US$36.75 billion*) trade surplus, which was the first surplus in 6 years, as Japan had recorded trade deficits each year since 2011. The major export items from Japan were transport equipment at 24.8%, general machinery at 19.4%, and electrical machinery at 17.6% of total exports. Food items represented less than 1% of the total exports. Major import items included mineral fuels at 18.2% followed by electrical machinery at 16.3%, chemicals at 10.8% and food; representing 9.6% of imports.

* US$1=Y108.84, the average exchange rate of 2016 was used for calculation.

(Source: Statistics Bureau, Ministry of Internal Affairs and Communications)

The total value of all retail food and beverage (F&B) sales was 52.2 trillion yen or $474.9 billion dollars. In the Japanese retail industry, supermarkets (with floor space under 1500 m^2) which include specialty shops and local stores, still represent the bulk of the retail food market. Although most of the attention tends to focus on large retail brands such as AEON supermarkets, Ito Yokado supermarkets, Seven Eleven convenience stores, Lawson convenience stores, etc... traditional, smaller supermarkets still play an important role in distribution.

Drug Stores are also increasing their food & beverage sales and are generally expected to expand their food & beverage product lines. In the suburbs and areas outside of big cities drugstores have increased their presence; often in towns too small to have supermarkets or convenience stores. One interesting trend for this category is the drive to carry a larger selection of foods and beverages. Many drugstore chains aim to develop their food and beverage section to generate 50% of total revenue.

Ready to eat meals or take home food items represent a growth area that has helped supermarkets, convenience stores and other retail outlets throughout the food & beverage industry to increase revenue. REM today includes sushi, pasta, sandwich, and Chinese. According to the Japan Ready-made Meal Association, total sales in 2016 were 9.8 trillion yen. That is 18.9% of retail sales.

One other interesting trend to highlight is growing internet sales of food & beverage, which have become a significant sales outlet. Those sales are now almost as important in the F&B sector as sales of Department Stores and Drug Stores. Food & beverage sales via internet were 1.2 trillion yen ($11.1 billion) in 2014, 1.3 trillion yen ($10.8 billion) in 2015 and grew again in 2016 to reach 1.450 trillion yen ($13.2 billion). In terms of the E-commerce markets in 2016, the category for foods, beverages, and alcohol had the highest sales.

Developing relationships with importers is important for success in Japan. Also important is to have a long term plan and manage expectations: Japanese businesses tend to take time for any decision-making. Participating in Foodex Japan, Supermarket Trade Show or other food related trade shows is the best method to meet importers. Sending an email or telephoning a Japanese company in English won't get you success.

The Japanese yen weakened in 2015, averaging 122.05 yen per US dollar, but grew steadily throughout 2016, averaging 109.84 yen per U.S. dollar. The government forecasts that the economy will continue to recover steadily, attributing growth to the positive effects of stimulus policies, and rising income and full employment. Also, according to the Japan National Tourism Organization (JNTO), the estimated number of international travelers to Japan reached 2.3 million for the month of May 2017; a growth rate of 21.2% compared to May 2016. In 2016, food & beverage sales via the retail market were estimated at $474.9 billion.

Yearly Average Exchange Rate, Yen/USD

Yearly Average	2014	2015	2016
JPY per USD	106.85	122.05	109.84

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

Section I. Japan Retail Food Summary

A. Structure and Overall Value

The value of all retail sales in Japan in 2016, including food, beverages, general merchandise, fabrics, apparel and accessories, was 70.6 trillion yen or $642.9 billion dollars shown in Figure 1. This was 2.0% lower than the previous year. Of this figure, the total value of all retail food and beverage (hereinafter, F&B) sales was 52.2 trillion yen or $474.9 billion, which was a decrease of 1.4% compared to 2015.

FIGURE 1: Total Retail Sales (Billion JPY (Billion $))

Year	Total	Food & Beverage (Supermarket 1500 m^2 + <1500 m^2 + Department Store + GMS + Convenience Store + Drug Store + Internet)	General Merchandise (Excluding Food & Beverages)	Fabrics, Apparel & Accessories
2014	72,308 ($676.7 B)	52,913 ($495.2 B)	7,895 ($73.9 B)	11,500 ($107.6 B)
2015	72,035 ($590.2 B)	52,878 ($433.2 B)	7,886 ($64.6B)	11,271 ($92.3 B)
2016	70,617 ($642.9 B)	52,163 ($474.9 B)	7,640 ($69.6B)	10,814 ($98.5 B)

Source: Ministry of Economy, Trade and Industry, Commercial sales Monthly, Part 1- Table 1, Report on the Current Survey of Commerce.
http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

Ministry of Economy, Trade and Industry, E-Commerce market Survey
*平成**28**年度*
我が国におけるデータ駆動型社会に係る基盤整備（電子商取引に関する市場調査）
www.meti.go.jp/press/2017/04/20170424001/20170424001-2.pdf

Note 1:Section Food & Beverages shows retail food sales in Japan but does not include food sales of General Merchandising Supermarkets (GMS). Data for GMS sales are not specifically divided into sales of food, apparel, tools, electronics, etc. An estimate was established based on trade journalists and experts.

Note 2: Department store food sales are indicated in Column General Merchandise in Part 1-Table 1. Food sales for Department Stores were added to Food & Beverage amount of Part 1-Table 1.

Figure 2: Food Retail Sales of Three Categories for 2012-2016 (Million JPY)

Source: METI, Large-scale retail sales trade, Part 3- Table 1, Report on the Current Survey of Commerce.
Source: METI, Convenience store, Part 4- Table 1, Report on the Current Survey of Commerce.
Source: METI, Drug Store, Table Part 4-Table 1

	2014			2015			2016			
Year	Billion Yen	Billion $	Share	Billion Yen	Billion $	Share	Billion Yen	Billion $	Share	Trend
Supermarket	39,008.0	365.1	73.7%	38,288.0	313.7	72.4%	37,019.0	337.0	71.0%	down
General Merchandise Store (GMS)	2,997.0	28.0	5.7%	2,986.0	24.5	5.6%	2,937.0	26.7	5.6%	flat
Department Store	1,929.0	18.1	3.6%	1,926.0	15.8	3.6%	1,895.0	17.3	3.6%	flat
Convenience Store	6,582.0	61.6	12.4%	7,023.0	57.5	13.3%	7,370.0	67.1	14.1%	up
Drugstore	1,207.0	11.3	2.3%	1,339.0	11.0	2.5%	1,491.0	13.6	2.9%	up
Internet	1,191.0	11.1	2.3%	1,316.0	10.8	2.5%	1,450.0	13.2	2.8%	up
Total	52,914.0	495.2	100.0%	52,878.0	433.3	100.0%	52,162.0	474.9	100.0%	

Retail Market Summary

The Japanese F&B retail industry includes supermarkets, general merchandise stores (GMS), department stores, convenience stores, drugstores, and internet sales. As shown in Figure 2, supermarkets have the highest sales volumes. Supermarkets sell food and beverages. Some may have non-food products such as utensils, toothpicks, batteries, etc... but very little compared to F&B. They do not sell clothing, linens, electronics or furniture.

General merchandise stores (GMS) will have products such as apparel, shoes, sporting goods, bedding, kitchenware, etc... in addition to a supermarket. Malls with a supermarket are also considered GMS outlets. They are not common in Japan, but GMS are represented by the two largest retailers in Japan, AEON Co., Ltd. and Seven & I, which operates Ito-Yokado. GMS in western Japan include Uny, Izumi, Okuwa, and Izumiya. GMS malls often carry popular brand products such as Oakley, Ray Ban, Puma, etc... Since the appearance of GMS stores in the year 2000, department stores have lost many customers.

Department stores in Japan are similar to the U.S. department stores; offering premium brand apparel, shoes, beddings, electronics, jewelry, etc... Department stores also sell premium food items as gifts, and—unlike US department stores—Japanese Department stores normally rely heavily on the sale of ready to eat meals. However, department stores have seen those sales decrease over the past ten years.

The retail formats seeing the strongest growth in sales are convenience stores, drugstores and the internet. Overall sales by convenience outlets are higher than GMS sales. Convenience stores in Japan are significantly different than those in the US. Product lines are much broader. Most basic household food items are found there. Tasty and wholesome salads, rice balls (onigiri), sandwiches, and lunch boxes are purchased by workers on the way to work, at lunch or to take home for dinner. These take home items are delivered multiple times to each location. There is an alcoholic beverage section, juices, dairy, ham & sausages, eggs, bakery, and ice cream.

Consumers rely on the local drugstores to purchase over-the-counter medicine, detergents, hair care products, cough drops, and toiletries. In recent years, drugstores are offering more and more F&B due to strong demand in local areas where drug stores are located, but where supermarkets and convenience stores may not be represented.

Finally, the internet is making a significant impact on retail sales of F&B. Amazon and Rakuten are the biggest internet sellers in Japan.

Retail Market Close-up

The F&B retail market is categorized by size, concept (supermarket vs mall) and services (convenience stores). Supermarkets may be large in size (1500 square meters (m^2) and larger), but also include small shops tucked away in the city residential areas. Upscale supermarkets are usually also part of the supermarket category. Discount stores on whose shelves food products are growing may also form part of the supermarket category. An attempt was made to study and break down the supermarket category for clarity but at present satisfactory data is lacking and the industry consensus is lacking on definitions of the various categories.

The largest market shareholder for food retail in Japan is the supermarket category. A supermarket is defined as a store that mainly sells foods & beverages. In contrast, according to trade specialists a General Merchandise Store (Hereinafter, GMS) will have about half of their revenue generated by F&B sales and the other half through apparel, fashion, beddings, etc... These GMS stores hold approximately 5.8% of the food & beverage market in Japan. It should be noted that in this report GMS food and beverage sales has been estimated by ATO staff: not all GMS companies report their food & beverage sales separately. Based on information from government experts and retail industry journalists, half of overall GMS sales are believed to be generated from F&B. Survey information regarding retail sales of food as well as non-food products are consolidated by the Ministry of Economy, Trade and Industry.

Department stores usually have a small supermarket and sell a large variety of ready-to-eat, take-home foods. Usually located on the basement floor and known as "depachika" there are abundant high-end specialty food, gift and take-out food outlets.

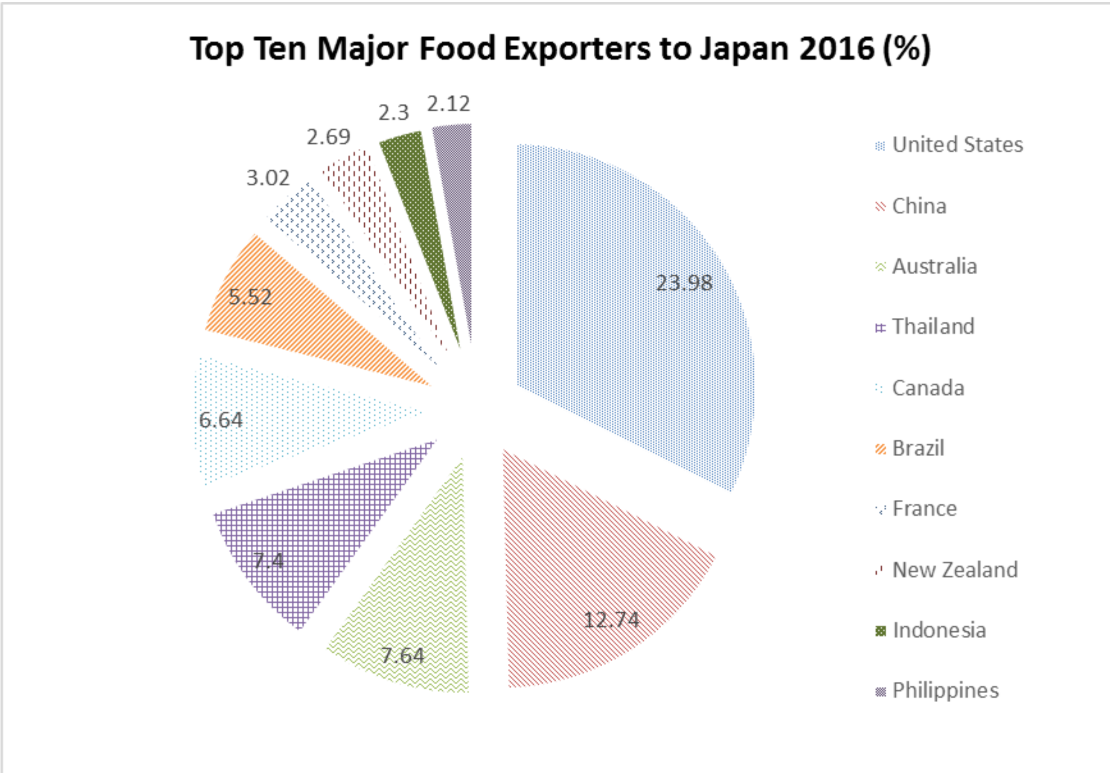
The category with the most growth is Convenience Stores. Convenience Stores are beginning to carry an expanded selection of fresh products and have developed strong ready-to-eat product lines.

The second fastest growing category for food & beverage sales is the Drug Store sector. Depending on the store size and the location of the store (city vs suburb) a drugstore will carry up to 30 % of their products from the F&B category. Of course, nutritional and functional foods are a focus for the Drug Stores but they also carry snacks, confectioneries, and health foods. . The drugstore association has set a 50% product line target for foods in the next few years. It is in the suburbs and areas outside of the big cities that the drugstores have increased their presence most. Those areas often do not have large supermarkets so consumers demand groceries from these smaller retailers.

B. International Competition and Food Imports to Japan

Japan import statistics shows that the U.S. is their number one agricultural trading partner with approximately $14 billion import value. The United States is Japan's most reliable supplier of safe and high quality food and ingredients. In 2016 overall imports were down 2.38 percent.

Figure 3: Food Exporters to Japan in 2016



Source: Global Trade Atlas: All Commodities

Figure 4: Major Food Exporters to Japan in 2016

Ranking	Partner Country	United States Dollars (Millions)			% Share			% Change
		2014	2015	2016	2014	2015	2016	2016/2015
	World	55,570	50,244	49,050	100.00	100.00	100.00	- 2.38
1	United States	14,618	12,597	11,762	26.31	25.07	23.98	- 6.63
2	China	7,193	6,470	6,249	12.95	12.88	12.74	- 3.41
3	Australia	3,945	3,733	3,747	7.10	7.43	7.64	0.39
4	Thailand	3,776	3,684	3,630	6.80	7.33	7.40	- 1.46
5	Canada	3,782	3,325	3,255	6.81	6.62	6.64	- 2.11

6	Brazil	2,760	2,738	2,707	4.97	5.45	5.52	- 1.15
7	France	1,658	1,443	1,482	2.98	2.87	3.02	2.72
8	New Zealand	1,445	1,286	1,320	2.60	2.56	2.69	2.65
9	Indonesia	1,266	1,117	1,128	2.28	2.22	2.30	0.95
10	Philippines	1,098	1,031	1,042	1.98	2.05	2.12	1.04

Source: Global Trade Atlas: USDA BICO Categorization

C. Regional Retailer Trends Overview

The more populated areas such as Tokyo, Osaka, Aichi (Central Japan), and Hokkaido (the most northern island of Japan), contain large numbers of retail outlets (see Figure 5). Food expenditure per household in the Tokyo area was the highest at 1,091,112 yen ($9,934) in 2016, followed by Hiroshima. Hiroshima's food expenditures per household has been increasing in recent years.

FIGURE 5: Regional Sales and Population

Prefecture	Year	Supermarket >1500 m^2	Department Store	Convenience Store	Drugstore	Food Expenditure Per Household		Population
		# Stores	# Stores	# Stores	# Stores	Yen	$	Thousand
Hokkaido	2005	207	28	na	na	789,563	7,100	
	2010	296	17	na	na	853,667	9,612	5,401
	2015	303	16	2886	616	854,910	7,005	
	2016	282	16	2956	654	904,155	8,232	
Miyagi	2005	111	6	na	na	921,729	8,288	
	2010	137	2	na	na	898,316	10,115	2,324
	2015	150	2	1114	240	919,584	7,534	
	2016	145	2	1140	254	955,619	8,700	
Tokyo	2005	283	40	na	na	1,004,307	9,031	
	2010	322	38	na	na	1,031,516	11,615	13,415
	2015	343	34	6874	1483	1,101,344	9,024	
	2016	326	34	7003	1536	1,091,112	9,934	
Aichi	2005	251	15	na	na	913,948	8,218	
	2010	300	13	na	na	955,716	10,761	7,509
	2015	317	13	3558	785	969,149	7,941	
	2016	295	13	3663	848	1,000,491	9,109	
Osaka	2005	257	25	na	na	943,797	8,487	
	2010	275	22	na	na	884,489	9,959	8,866
	2015	298	22	3651	826	954,562	7,821	
	2016	292	22	3801	859	990,480	9,017	
Hiroshima	2005	75	9	na	na	858,004	7,715	
	2010	92	8	na	na	909,971	10,246	2,863
	2015	104	6	1119	252	948,577	7,772	
	2016	99	6	1158	274	1,014,186	9,233	
Ehime	2005	53	3	na	na	866,316	7,790	
	2010	70	2	na	na	771,695	8,689	1,416
	2015	84	2	575	198	861,399	7,058	
	2016	84	2	593	204	885,183	8,059	
Fukuoka	2005	119	10	na	na	841,444	7,566	
	2010	154	7	na	na	797,226	8,977	5,122
	2015	173	8	2137	614	931,029	7,628	
	2016	144	8	2219	647	934,831	8,511	
Okinawa	2005	36	2	na	na	807,017	7,257	
	2010	37	2	na	na	713,293	8,032	1,423
	2015	48	1	554	51	791,093	6,482	
	2016	50	1	524	55	804,595	7,325	

Store data
平成27年商業動態統計年報 第Ⅲ部第３表　都道府県別、百貨店・スーパー別、商品別販売額等
Part3 Table3 Department stores and supermarkets sales value by prefectures and by goods
http://www.meti.go.jp/english/statistics/tyo/syoudou_nenpo/index.html (Part 3, Table 2)
Food Expenditure per Household:
Data represents yen amounts for the prefectural capital city. Not the prefecture. Two or more per household.
第４－１表　都市階級・地方・都道府県庁所在市別１世帯当たりの支出金額，購入数量及び平均価格
平成27年(2015年)計，二人以上の世帯

Population Source
MIC, 参考資料【総計】平成26年住民基本台帳人口・世帯数、 平成28年度人口動態 都道府県別 (Reference, 2016total population by prefecture) http://www.citypopulation.de/Japan.html

D. Retailer Trends Overview

Convenience Stores

Convenience stores are constantly inventing ways to appeal to customers of all ages, with most targeting the working class; often referred to as "salary men/women". "Salary women", are a growing population as more women enter and stay in the labor force. Single portion sizes, lunch box take home entrées, and sweets are abundant with fresh ideas constantly generated by product development teams. The countryside is not a popular location for the supermarkets to build and distribute product efficiently. However, convenience stores are already widespread and have the ability to position themselves in remote areas where their services such as mail, delivery, banking, and foods are welcomed.

Drugstores

Another retail store category that is spreading in the countryside is drug stores that have the wherewithal to provide their services in remote areas and still be profitable. The interesting trend for the drug store category is that their present strategy is to expand food and beverage product lines. Their goal is to develop their food and beverage section to fulfill 50% of their entire revenue.

Internet

The Internet sales of F&B are growing too. They are closing in on the F&B sales of Department Stores and Drug Stores. According to industry contacts, supermarkets are also feeling the impact. Potential customers visit brick-and-mortar stores to see and evaluate products and, if satisfied. order on the internet. According to a report published by the Ministry of Economy, Trade and Industry called "E-Commerce Market Survey for 2017;" F&B sales via internet were 1.2 trillion yen ($11.1 billion) in 2014, 1.3 trillion yen ($10.8 billion) in 2015 and grew again in 2016 to reach 1.45 trillion yen ($13.2 billion). In terms of the E-commerce market size in 2016, the category for foods, beverages, and alcohol had the highest sales. Electronics followed in second place. Books, movies and music came in third. Recently, internet companies have increased F&B marketing. Amazon began its F&B E-commerce, "Amazon Fresh" on April 21, 2017. Customers can have their perishable foods delivered in 4 hours. Right now this service is limited to six districts in Tokyo. "Net-Supermarket" promises same day delivery to their customers.

Ready to Eat Meals

Another area of interest is the Ready-to-Eat meal market. Ready-to-Eat meals (REM) are defined as food that was prepared by an institution outside the home and sold through a retail outlet (e.g. Convenience Store) and taken to a different location such as the home, office, park bench, etc... and consumed. REM is part of the marketing strategy of most retailers to increase customers and revenue. For the traditional retailers such as Supermarkets, Department Stores and Convenience Stores, the strongest competitors are shops that specialize in REM sales. REM today commonly includes a wide variety of offerings, including sushi, pasta, sandwiches, and Chinese food. According to the Japan Ready-Made Meal Association, total sales in 2016 were 9.8 trillion yen, or 18.9% of retail sales.

The Senior Population

The senior population is served more and more by locally adapted supermarkets, convenience stores and drug stores. Locally adapted supermarkets are close to senior residences that provide them shopping options within walking distance. These supermarkets compete against convenience stores.

E: Advantages and Challenges

Figure 6: Summary of U.S. Food Product Advantages in the Japanese Market

Key Words	**Advantages**	**Challenges**	**Advice**

Quality	U.S. specialty food products attract Japanese consumers. U.S. products often have a good story to tell.	Image of the U.S. as a large producer with corporate farms	Have a good story to educate customers about the history and quality of your product. Also, emphasize the quality and source of ingredients
Cultural Influences	Japanese consumers are strongly influenced by U.S. food culture and enjoy trying things seen as cool or trendy	Many products common in the U.S. are uncommon to Japanese consumers	Be able to explain how your product relates to American culture. Also explain how you use or prepare it.
Healthy	The health related food market in the U.S. is very advanced, and there are many new health products each year	Some Japanese consumers believe American cuisine is unhealthy	Make sure to emphasize health related benefits but be careful not to make claims unless provided approval by the Japanese government.
Food Safety	U.S. agriculture can successfully differentiate itself from Japan and other countries with its food safety assurances such as HACCP, GAP, ISO, etc…	Some Japanese consumers believe U.S. foods contain more pesticide residues, hormones or artificial chemicals than domestic products, and some consumers do not like food additives.	Educate customers about safety issues in order to help facilitate communication and provide customers with transferable knowledge.
Stable Supply	The U.S. is a major supplier of food products all over the world, providing a very stable supply.	The West Coast Port closure affected Japanese businesses and prompted them to diversify their supply chains.	Japan's food self-sufficiency rate is only 39%. It has been declining due to the aging farm population. Therefore, Japan is dependent on foreign food supply.

Section II: Road Map for Market Entry

A. Entry Strategy

1. Overall, traditional entry points via importers are diversifying. For example, even within one retail chain organization (i.e., large-scale supermarket, regional supermarket chain, convenience store chain, etc.), there may be several routes for procurement- including importers, wholesalers, and more.

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

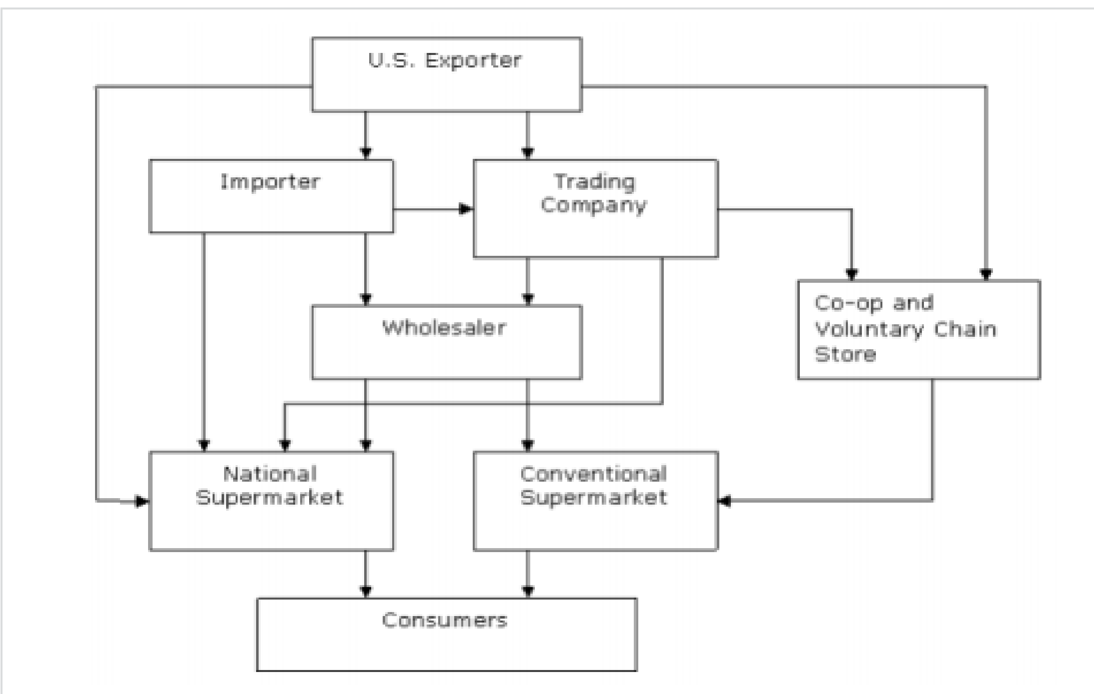
3. Conventional supermarkets tend to depend on wholesalers from which they usually acquire a number of regional/local and national wholesalers who buy imported food products from trading houses and importers. Wholesalers and big trading houses are generally interested in handling high volume products,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

B. Market Structure

1. Supermarket Store Procurement Structure

The giant, nationwide supermarket chains such as Aeon and Ito-Yokado purchase their food primarily through three channels:

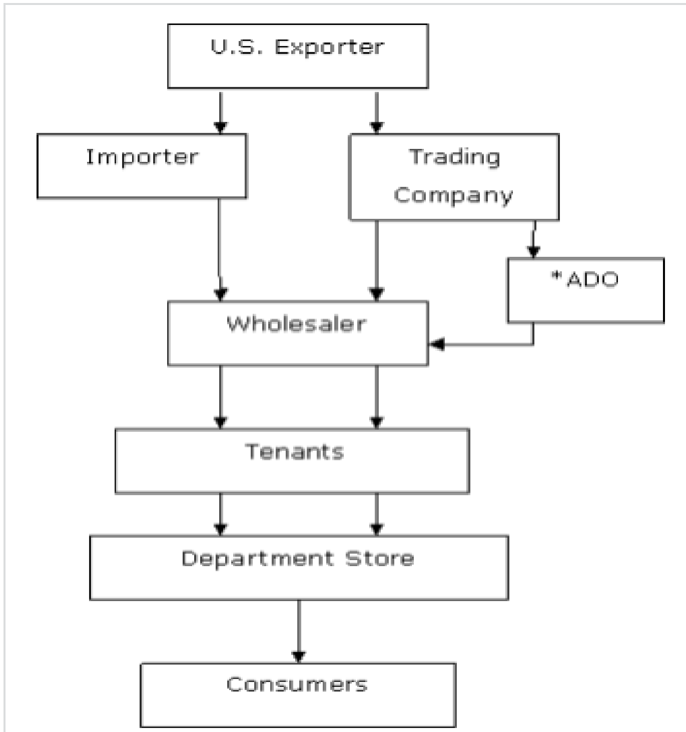
a. Directly from the importers
b. Directly from the manufacturers and processors
c. Wholesalers and distributors



Conventional supermarkets may purchase through similar distribution channels, however, they mainly purchase from wholesalers. Major national chains rely on more direct routes when purchasing.

2. Department Store Procurement Structure

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



3. Convenience Store Procurement Structure

Convenience store chains use trading companies or wholesalers, depending on the type of product. The distribution of product is the same as for the Supermarket. Due to limited shelf space, convenience stores can only hold a few brands per category. Because of this, product performance is continuously reviewed; products which show insufficient or declining sales are quickly replaced, ensuring the highest turnover possible. Convenience store management systems present the most significant challenge for imported packaged processed foods because they require U.S. exporters to:

a. Modify product taste/specifications to Japanese consumer tastes
b. Shorten delivery times to ensure freshness
c. Update and introduce new products frequently

4. Specialty and Other Stores Procurement Structure

Specialty shops (i.e. foreign foods, discount foods, etc...) also primarily depend on wholesalers. Select coffee shop chains, discount stores and natural food specialty stores with chain operations may present opportunities for some U.S. food exporters. The structure for these groups also follow the supermarket model.

5. Co-ops and Voluntary Chain Procurement Structure

Co-ops and voluntary chains use a variety of sources which include: direct importing, purchase from manufacturers, importers, and wholesalers. There are several major organizations serving voluntary chains including CGC Japan, Nichiryu, All Japan Supermarket Association (AJS), and Consumer Cooperatives (Co-ops). Their major role is to develop private label products and Consumers Cooperatives (Co-ops). Most private label products are developed with Japanese food processors and overseas sources to offer to member retailers. Some of these organizations directly import non-branded food products that are “volume” oriented in nature.

6. Traditional Store Procurement Structure

These are mom & pop or “one category” stores that typically source from wholesalers. Penetration of imported foods into these shops and stores is relatively low.

7. Online

Online shopping continues to grow in popularity in Japan, with mobile shopping dominating more than half of all e-commerce transactions. The 2016 Japan e-commerce market to the majority of online sales are non-food items, food and beverage sales are increasingly being purchased online. Therefore, it is another possible channel in which US exporters can consider for food distribution.

C. Company Profiles:

1. Supermarkets, Clubs, Warehouse Outlets, etc... $374.7 billion, 76.6% Market Share

The largest retail outlet is AEON Co. Ltd. AEON Co. Ltd has experienced a moderate recovery in sales since the consumption tax hike in 2014 due to the company’s initiatives to establish a price-advantage by holding low-price sales promotions for food as well as offering over 5,000 lower-priced items through their own private brand, TopValu. The second largest retailer in terms of overall sales value is Ito-Yokado. Ito-Yokado is part of the Seven and I group that is has also experienced great success with its 7-11 convenience store business.

The well-known US brand retailers, Costco and Walmart, have also been successful in Japan. Costco opened its first warehouse store in Japan in 1999, and is now operating 25 outlets. Walmart purchased Seiyu supermarket chain in 2005, and Walmart Japan currently operates 341 retail stores in Japan, using the more familiar name, Seiyu.

FIGURE 7: Top Supermarkets by Total Sales in 2017

Rank	Company Name	Total (JPY Mil)	Food (JPY Mil) ($ Billion)	Ratio of Food Sales	Number of Outlets	Location of HQ
1	AEON Retail*	2,185,342	1,075,200 ($9.8)	49.2%	426	Chiba
2	Ito-Yokado	1,255,017	585,457 ($5.3)	46.6%	182	Tokyo
3	UNY Group Holdings Co., Ltd.	742,032	499,502 ($4.5)	67.3%	228	Aichi
4	U.S.M.H	684,896	638,769 ($5.8)	93.2%	256	Tokyo
5	Life cooperation	652,784	539,211 ($4.9)	82.6%	264	Tokyo
6	Izumi	648,030	206,532 ($1.9)	31.8%	103	Hiroshima
7	Arcs	512,645	465,658 ($4.2)	90.8%	339	Hokkaido
8	York Benimaru	426,172	325,026 ($3.0)	76.2%	205	Fukushima
9	Maruetsu*	373,069	346,655 ($3.2)	92.9%	285	Tokyo
10	Heiwado	373,069	260,331 ($2.4)	69.7%	149	Shiga
11	Fuji	308,291	130,490 (1.2)	42.3%	96	Yokohama
12	MaxValu Nishi Nihon*	277,911	249,392 ($2.3)	89.7%	182	Fukuoka
13	Okuwa	265,210	195,446 ($1.8)	73.6%	157	Wakayama
14	Kasumi*	262,447	249,937 ($2.3)	95.2%	170	Ibaraki
15	AEON Kyushu*	236,410	110,954 ($1.0)	46.9%	115	Fukuoka
16	MaxValu Tokai*	221,531	206,174 ($1.9)	93.0%	140	Shizuoka

Source: Tokei Geppou May 2017 pp 34, 39

**All affiliated with AEON CO., LTD.*

U.S.M.H (ユナイテッドスーパーマーケットホールディングス)

1-2. Specialty Supermarkets

Specialty supermarkets are important for export products because these stores carry products with higher prices, and look to differentiate themselves via product lines. Here is a list and some background information for these specialty supermarkets.

Kinokuniya Co, Ltd.:
Kinokuniya first started out as a fruit shop located in Aoyama, Tokyo in 1910. From there, Kinokuniya branched out to introduce healthy dietary cultures from around the globe. Offering freshly baked bread, imported cheeses, and other various Western foods, Kinokuniya helped incorporate various novel foods into the Japanese diet.
http://www.e-kinokuniya.com/kinokuniya2.pdf

Meidi-ya:
Meidi-ya was founded in 1885. Meidi-ya develops quality food products such as jam, pasta, beverages, syrup, canned fruit, canned meat, honey and confectionery materials under the "Meidi-ya" brand for the high-end Japanese market. Meidi-ya also imports top-quality food, wines, and spirits from all over the world.
http://www.meidi-ya.co.jp/en/

Seijo Ishii:
In 1927, Seijo Ishii started its business as a grocery store selling fruit, canned goods, and snacks in the Seijo area of Tokyo - an area known for its rich culture. Seijo Ishii's buyers travel Japan and the world to discover and create products that are delicious, high quality, safe and secure. Imported wines are Seijo Ishii's specialty feature in which 95% of wines are imported not by a trading company but purchased by buyers and imported by on their own. Also Seiji Ishii mainly imports cheeses and olive oils.
http://www.seijoishii.co.jp/en/

Dean & Deluca:
Dean & Deluca is a chain of upscale, high quality grocery stores which entered the Japanese market in July of 2002. The first shop was established in New York City's SoHo district by Joel Dean, Giorgio DeLuca, and Jack Ceglic in September 1977.
http://deandeluca.co.jp

Queens Isetan:
Isetan Department Store's supermarket, Queen's Isetan, sells high-end groceries to an upscale crowd. Products include top-quality produce, meat and seafood, with a bakery, deli and an ample selection of imported foods.
http://www.queens.jp/pc.html

Kaldi Coffee:
Camel Coffee Co., Ltd. operates grocery shops called "Kaldi Coffee Farm", which specialize in roasted coffee and foods from all over the world. Its stores offer a wide variety of products, from exotic foods and snacks to top quality teas and wines by renowned producers worldwide.
http://kaldi.co.jp/english

National:
National are supermarkets which sell imported food, wines from around the world, groceries, fruits & vegetables, meats, fish, alcohol (beer, wine, spirits), and other miscellaneous goods. National currently has two physical shops as well as a delivery service.
http://www.national-azabu.com/e_index2.php

Nissin World Delicatessen:
Nissin World Delicatessen is an international supermarket which specializes in imported meats, vegetables, fruit, processed food, wines, beer, and spirits as well as health foods.
http://www.nissin-world-delicatessen.jp/

2. Convenience Stores (CVS) $67.1, 14.1% Market Share

Convenience stores continue to expand their market share due to the increase in the number of locations, wide variety of products, and their overall convenience. Other contributing factors to the success of convenience stores include the proximity to consumer's homes and home-delivery services. Despite tax hikes and inflation affecting sales at department stores and supermarkets, convenient stores remain unaffected and their sales remain strong.

Convenient stores constantly provide new services and products; such as fresh brewed coffee, eat-in space, mail service, etc... to appeal to consumer needs. Moreover, the top 3 convenience stores have been dominating sales over their competitors. Seven & I Holdings holds the top sales spot among convenience stores in Japan, and has experienced a strong increase in sales to female and senior customers. Seven & I Holdings recently developed their own private label called Seven Premium, selling bento boxes and other items at prices comparable to supermarkets. The company has also focused on improving service, such as offering morning discounts for coffee and implementing goods to target the senior population who would prefer to shop closer to home.

The sales of Lawson overtook those of Family Mart. Early in 2016, Family Mart merged with Circle K Sunkus and expanded their market, and further merged with UNY Group Holdings in September 2016.

The following table (Figure 8) summarizes the top convenience stores in Japan 2017.

FIGURE 8: Top Convenience Stores 2017 May (Sales and Outlets)

Rank	Company Name	Food Sales(JPY Mil) ($ Billion)	Number of Outlets	Location
1	Seven & I Holdings	3,147,376 ($28.7)	19,422	Nationwide
2	Lawson	1,711,500 ($15.6)	13,190	Nationwide
3	Family Mart	1,238,152	17,001	Nationwide

		($11.3)		
4	Mini Stop	227,449 (2.1)	2263	Nationwide
5	Three-F	43,579 ($0.4)	438	Tokyo Area
6	Poplar	33,604 ($0.3)	472	Nationwide

Source: Tokei Geppou May 2017 pp 50

**Family Mart and Uny Group Holdings Co. Circle K Sunkus merged on September 1st 2016, making it the second largest convenience store chain in 2016.*

3. Department Store Food Sales, $17.3 3.6% Market Share

The basement floor of department stores, known as "depachika", is usually where fresh food stalls are located. The word "depachika" is a blend of the Japanese words "depāto", meaning "department store," and "chika," meaning "basement" or "below ground. Today, ready to eat meals and branded restaurants have become common features of depachika. Increasingly, those food outlets are becoming more sophisticated and offering a wider variety of foods. Since 2015, Isetan Mitsukoshi Holdings Ltd., Japan's largest department store group, has expanded on its "omotenashi" (hospitality) services for foreign visitors on the basis of its new "This is Japan" corporate slogan. This move was timed with an expected increase in visitors from abroad.

a. Sales

Over the last decade, department stores have seen a significant drop in profits for non-food products. However, food product sales have actually seen a growth in department stores due to their premium nature and the presence of *depachika*.

Because department stores often stock their items to appeal to premium buyers, they have become popular for gift purchasers and tourists.

b. **Depachika**

Traditionally, a depachika was a quiet food retail location, but this changed when shops introduced high quality Home Meal Replacement (HMR), creating a new and very popular niche food market in Japan. In addition, famous restaurants became tenants and lent their brand names to popularize depachika. The depachika phenomenon turned the basement floor into an attractive place, bringing additional customers to department stores.

c. Pricing, Quantity and Premium

Department stores usually carry imported, branded food products though typically in small quantities. These stores generally do not have tables and chairs; the food needs to be eaten off site. Many of the items are packaged as take-and-go products due to the proximity to train stations, and the premium nature of the products are used as gifts.

Company Highlights

Listed below are the top 10 department store establishments and their total sales for Japan in 2016.

FIGURE 9: Top 10 Department Stores & Total Sales

Rank	Company Name	Location	Total Sales (Billion Yen)
1	Mitsukoshi-Isetan	Shinjuku-ku, Tokyo	12,872
2	J. Front Retailing (Daimaru)	Chuo-ku, Tokyo	11,635
3	Takashimaya Co.	Chuo-ku, Osaka	9,295
4	H2O Retailing (Hankyu Hanshin)	Kita-ku, Osaka	9,156
5	Seven & I (Sogo Seibu)	Chiyoda-ku, Tokyo	8,818
6	Tokyu Corp.	Shibuya-ku, Tokyo	6,314
7	Parco	Shibuya-ku, Tokyo	2,763
8	Kintetsu	Abeno-ku, Osaka	2,707
9	Marui Group	Nakano-ku, Tokyo	2,458
10	Odakyu	Shinjuku-ku, Tokyo	2,221

Source: http://gyokai-search.com/4-dept-uriage.htm

Section III: Consumer Trends

A. Consumer Trends

Japanese consumers prefer convenience, quality, and single-serving sizes. Each day, an estimated 13.5 million people commute via a combination of train and walking, in Tokyo alone. Therefore, convenience and accessibility are highly valued by Japanese consumers who tend to drive less than those in many other developed country citizens.

Japanese culture places a heavy emphasis on the four distinct seasons - and this is reflected in the changes in consumer purchasing habits and patterns of gift giving throughout the year. A quick breakdown for reference is:

Season	Month	Sales, Promotions, Events & Holidays

Spring	March	High School & University Graduation events White Day (Valentine's Day for women) Sakura (cherry blossoms) travel Fiscal Year begins – job rotation
	April	New school year begin events Entrance ceremonies for companies – sales, promotions
	May	Mother's Day Golden Week – holiday sales, travel, events
Summer	June – July	Father's Day Ochu-gen, summer gift giving
	August	Obon holiday promotions
Fall	September	Respect for the Aged day
	October - November	Oseibo , years' end gift giving, Halloween
Winter	December	Christmas sales New Year's & end of year sales campaigns
	January	Coming of Age holiday Setsubun (end of winter) promotions
	February	Valentine's Day (for men) Fiscal Year ending promotions by companies

Recent trends indicate a burgeoning growth of Private Brands (PB), healthy foods, time-saving foods (i.e. frozen foods), and retailers are under constant pressure to find new concepts to meet the demands of a dynamic marketplace. Prepared foods (Home Meal Replacements- HMR) and desserts have seen strong growth in the past few years. Interest in healthy or functional foods continues to increase.

1. Healthy or Functional Foods

There has been growing demand for healthy and balanced meals with demand led by women and the senior population. This trend has been growing since the mid-1990's and continues to grow. This has led to healthy foods being split into two categories: for Specific Health Use (FOSHU) and health-enhanced food. While there are several distinguishing factors between the two, the most important one is that products marketed as FOSHU require government approval before entering the market while health enhanced foods do not.

2. Ready to Eat Meals

Ready to Eat Meals (REM) offerings have been increasing in every retail area. These foods are ready-to-eat such as *obento* boxes which are popular for school and office lunches. Since 2012, there was a 13% increase in the consumption of REM.

The growth in REM is primarily driven by the increase of two distinct demographic sectors that eat at home. Japan's population is aging faster than any in the world, and many elderly people do not have the ability to drive or travel far to buy groceries. As a result, many get their daily meals from the local convenience stores. Likewise, young adults in their 20s and 30s who lives alone or with roommates do not cook and almost exclusively buy their meals from convenience stores.

The expanding retail presence of delicatessens in supermarkets, department stores, and convenience stores attest to the popularity of the HMR market. Frozen foods have also gained a large presence in the HMR market. Thaw and serve *bento* are lunches that are bought frozen in the morning and are thawed and ready to eat by lunchtime, frozen noodle dishes, *okonomiyaki* (a Japanese-style pancake with meat and vegetables), and cooked rice dishes are examples of traditional Japanese meals that can be brought home frozen, reheated, and consumed.

3. Private Labels (PL)
The majority of major food retailers now feature their own private labels (PL). In 2015, AEON added an organic product line called Topvalu Green Eye. According to AEON's financial report for 2015, sales were up 5.2% due to these improvements.

4. Frozen Foods
In response to an ever increasing desire for convenience and value-priced food, the sales of frozen food in Japan have continued to increase at approximately 3.5% annually. Many new varieties of HMR frozen foods continue to grow as well.

5. Sweets
Convenience stores continuously invent new products depending on the season or events throughout the year, and provide a variety of limited edition sweets and deserts. Lawson has their own Uchi café sweets section, where they present a selection of drinks and desserts, such as mango pudding in the summer.

6. Consumption
Japan is a nation fueled by consumption, imperative for economic growth. Approximately 23% of household expenditure goes toward food, according to the Japanese Statistic Bureau. The two main consumer groups in Japan are the seniors and Young adults in their 20s and 30s.

> **Senior (Age 60 and above) Consumption**
> This cohort is rapidly expanding. They tend to have high levels of saving and demand healthy foods, but have limited mobility. The retail response has come in the form of delivery services; mobile operations; expanded internet shopping; smart phone market integration; promotions; and products developed with this cohort in mind.
>
> **Youth Consumption**
> With such a large senior market, young adults in Japan are often overlooked. But recent indicators show a consumer spending increase among 20 and 30 year olds. They have been delaying marriage and child-bearing in order to focus on their careers. Due to a busy lifestyle, these young people want to avoid the hassle of cooking at home. The rise of the working, single-person households directly supports the rise in sales of ready-made, frozen, take-out, delivery, and restaurant prepared meals.

7. Market Consolidation
Market Consolidating Highlights:
In 2016, Family Mart, Japan's third largest convenience store operator, and Circle K Sunkus, fourth ranked (operated by UNY Group Holdings), merged . When the two chains are combined, the store count surpassed that of Lawson's, and is currently competing with industry leader Seven-Eleven Japan.

SECTION IV: CONTACT AND FURTHER INFORMATION

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

Tokyo	**Osaka**
U.S. Agricultural Trade Office U.S. Embassy, Tokyo 1-10-5 Akasaka, Minato-ku Tokyo 107-8420 Tel: 81-3-3224-5115 Fax: 81-3-3582-6429 E-mail: atotokyo@fas.usda.gov	U.S. Agricultural Trade Office U.S. Consulate General, Osaka-Kobe 2-11-5, Nishi-tenma, Kita-ku, Osaka 530-8543 Tel: 81-6-6315-5904 Fax: 81-6-6315-5906 E-mail: atoosaka@fas.usda.gov

Other websites: http://www.myfood.jp

Additional Reports: Reports from Japan's ATOs, in addition to those from the Agricultural Affairs Office in Japan, can be found using the links provided or by searching from the FAS Japan Reports website at: http://www.fas.usda.gov/scriptsw/attacherep/default .