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Food Service - Hotel Restaurant Institutional

Japan HRI Food Service Sector Report 2014

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Report Highlights:

The \$361 billion food service industry has finally recovered from the negative impacts affected by the Great Earthquake in 2011. Per capita spending (including company spending) for HRI spending has made a significant contribution to the food service industry's step by step growth. In addition, increased tourism has also contributed to the re-invigoration of the industry as HRI outlets are offering more international cuisines throughout the market place. Competition remains intense and the sophisticated Japanese consumer continues to demand high quality food products. U.S. suppliers are well positioned to compete in many products categories provided they are willing to adjust to changing market demand.

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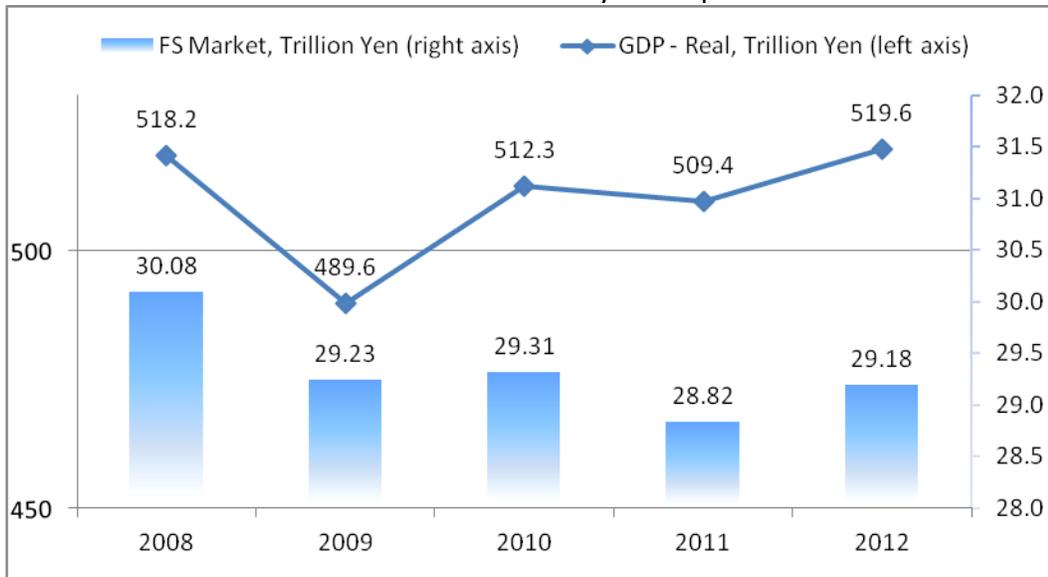
Executive Summary:

I. MARKET SUMMARY

A. Market Volume and Trend

The food Service (HRI) sector was valued at ¥29.18 trillion (\$361 billion) in 2012, up 1.8 %, from ¥28.68 trillion in 2011. HRI sales volume showed a strong recovery due to increasing personal and business spending for dining-out, rebounding from the economic slowdown caused by the Great Japan Earthquake and Tsunami in 2011. Japan’s food service industry is closely tied to the Japanese economy and has closely tracked general economic conditions, as reflected in Chart 1.

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



Source: Food Service Industry Research Institute (Value), Japan Statistic Bureau

The current business condition climate for Japan enterprises of all sizes continues to improve, with strong gains for small enterprises – the highest since December 1991. The Japan HRI industry expects continuous increase in 2013.

Note: In sections I and II, statistics used in this report are primarily expressed in yen, since year-to-year fluctuations in the exchange rate distort the reading of trends.

Chart 2: Annual Average Exchange Rates

Year Average	2008	2009	2010	2011	2012
JP¥ per US\$	104.23	93.52	88.09	79.97	80.82

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

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

Japan FS Market Total	2008	2009	2010	2011	2012
In Trillion Yen (¥)	30.08	29.23	29.31	28.82	29.18
In US\$ Billion (\$)	372.19	361.67	362.66	356.59	361.05

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

The principal reasons for fluctuations in the value of the food service sector in the last five years are attributed to the following.

1. In 2008 and 2009, the economic influence exerted by the economic collapse and subsequent world economic downturn decreased discretionary spending on business meals and receptions.
2. In 2009 and 2010, economic recovery and the corresponding increase in spending both businesses and consumers.
3. 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.
4. Industry sales have recovered slowly since June 2011, three month after the earthquake, but two deadly food poisoning incidents slowed down sales and scared consumers away from dining out temporarily in late 2011.
5. In late 2012, industry sources reported that sales are recovering, especially in the less expensive casual QSR sector and the high-end value restaurant sector.
6. In 2013, industry sales are recovering according to economic upturn. Major chain restaurateurs are trying to focus attention on new-style restaurant developments and human resource cultivations.

Dining out is an important part of the Japanese culture. The sophisticated Japanese consumer demands high quality food products in their meals. Japan's participation in the TPP (Trans-Pacific Strategic Economic Partnership Agreement) talks stimulated business research in food import developments. This favors U.S. suppliers, who are well positioned to compete in many product categories provided they are willing to adjust to changing market demands, in spite of recent unfavorable exchange rate shifts.

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 style chain restaurants. According to the preliminary Census report for 2012, from 1991 to 2012, the total number of outlets

decreased from 846 thousand to 711 thousand, down 15.8 %, and sales also decreased from 29.84 trillion to 29.18 trillion, down only 2.2 % indicating a streamlining in the industry. In addition, as deflation continued in the general economy, there has been pressure to reduce menu prices, while at the same time, imported ingredient costs are increasing.

According to an industry flash report, sales volume in the sector strong registered recovery since 2011. Sales volumes in 2013 have steadily increased in spite of more adverse weather than previous years. Interestingly, the number of customers in September and October 2013 decreased 1.3 % and 3.4 % respectively, but sales volumes did not drop in those same months.

Chart 4: Sales change of 211 major restaurants (with 31,703 outlets) as compare to the same month of the year 2012 through 2013

Month	Total	QSR*	FSR*	Pub Dining	DR*	Coffee & Tea Shop	Other
Oct 2012	-2.1%	-2.3%	-1.4%	-4.8%	-1.9%	1.3%	-1.1%
Nov 2012	0.5%	0.1%	1.0%	-1.7%	2.7%	2.8%	4.7%
Dec 2012	-1.0%	-2.9%	2.9%	-5.1%	1.2%	0.1%	6.0%
Jan 2013	-2.2%	-5.3%	2.6%	-4.4%	1.0%	-0.6%	3.6%
Feb 2013	-1.3%	-3.6%	2.4%	-3.7%	2.8%	-2.4%	5.7%
Mar 2013	1.6%	0.1%	4.7%	-2.3%	4.4%	1.0%	8.3%
Apr 2013	-0.3%	-0.3%	-0.3%	-2.5%	0.6%	0.5%	4.6%
May 2013	3.3%	4.1%	3.1%	-0.1%	3.1%	2.0%	6.0%
Jun 2013	3.6%	3.5%	5.8%	-2.9%	3.9%	0.6%	4.7%
Jul 2013	0.1%	-0.5%	1.7%	-3.0%	-2.4%	0.3%	3.5%
Aug 2013	2.0%	1.5%	4.0%	-2.4%	0.1%	-0.4%	7.9%
Sep 2013	0.0%	0.2%	1.3%	-7.0%	-1.1%	-1.2%	3.7%
Oct 2013	-1.6%	-3.4%	2.2%	-7.9%	0.1%	-0.3%	2.3%

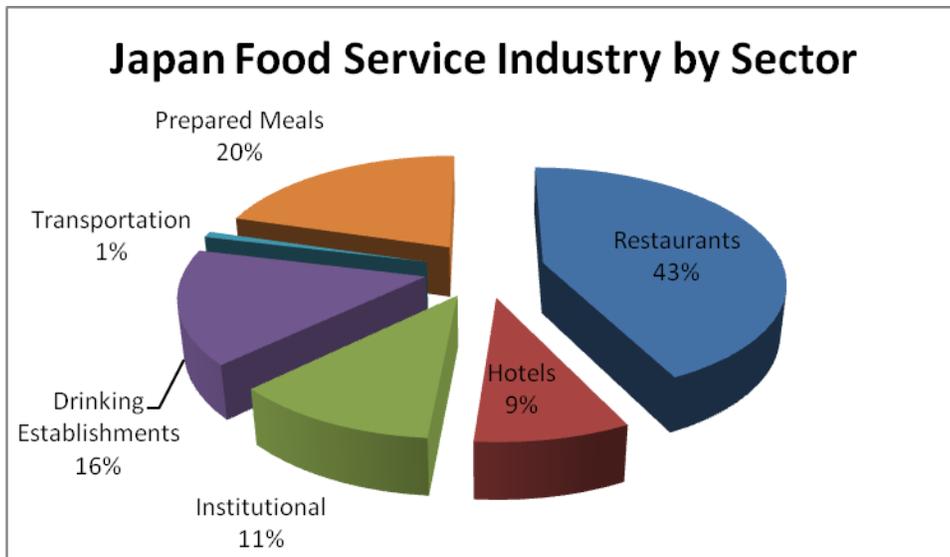
* QSR= Quick Service Restaurant, FSR = Family Style Restaurant, DR = Dinner Restaurant

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

Source: Foodservice Industry Research Institute

B. Sectors

Chart 5: Japan Food Service Industry by Sector



Source: Foodservice Industry Research Institute

The Japanese food service industry, as broadly defined, has six major segments. Among the five traditional food service establishments, in 2012, the largest sector was Restaurants (42.7 % of the market and valued at \$154.3 billion), followed by Drinking Establishments (15.9 % valued at \$57.6 billion), Institutional Food Service (11.5 % valued at \$41.6 billion), Hotels (8.6 % and valued at \$31.1 billion), and Transportation Related Food Service (0.8 % valued at \$3.1 billion).

From 2011 to 2012, the restaurant sector increased by 1.8 % in sales volume. The sales volume of hotel sector jumped up 4.7 % in the same period. These statistics showed strong sales in business among fine dining restaurants. The institutional sector slightly increased by 0.5 % in sales volume. The drinking establishments, mainly pub dining restaurants, decreased its sales volume by 1.1 %. The sales volume of the transportation sector showed an increase of 3.8 % over 2011.

A sixth, separate category that has increasingly grown in importance in Japan is “Prepared Meals Sold at Retail Stores” such as convenience stores, supermarkets and department stores. These foods are ready-to eat, Home Meal Replacement (HMR) type products (Obento lunch boxes at the office are one example) and are classified by the Japan Food Service Association within the Food Service Sector. The value of the “Prepared Meals sold at Retail Stores” sector in 2012 was \$80 billion, accounting for 20.4 % of the total Japanese food service industry. It increased by 2.9 % in sales from the previous year and is estimated that 14 percent of all meals in Japan are prepared meals sold at retail stores. (Note: Total HMR is estimated at approximately 35% of all meals consumed.)

The growth in HMR is driven by two demographic sectors: the elderly and young single professionals. Japan’s population is aging faster than any in the world, and many elderly do not have the ability to drive or travel far to grocery shop. As a result, many get their daily meals from the local “conbini” or convenience stores, such as 7-11, Lawsons, or Family Mart. Likewise, young professional who live alone or with roommates often don’t cook and almost exclusively eat outside food. This may explain why according to the OECD, a low proportion of Japanese (46%) participate in cooking and

cleaning up afterwards, the second lowest in the OECD and much below the OECD average of 64% participation. However, those Japanese who cook do a considerable amount of it, cooking for 1 hour 39 minutes per day, the fourth highest in the OECD after Mexico, Turkey and Portugal and well above the OECD average of 1 hour 24 minutes.

The drinking establishments were the only sub-sector which didn't increase in 2012. This could be attributed to a reduction in alcohol consumption by young people, a trend that has been in play for many years.

Chart 6: Japan HIR Market by Sector by Year

Sector\Year	2008	2009	2010	2011	2012		Change	Share
					¥ Tri.	\$ Bil.	'11 to '12	
Unit	¥ Tri.	\$ Bil.	%	%				
Restaurants	12.84	12.61	12.50	12.22	12.47	154.27	2.0%	42.7%
Hotels	3.07	2.76	2.69	2.40	2.51	31.10	4.7%	8.6%
Institutional	3.36	3.29	3.32	3.34	3.36	41.56	0.5%	11.5%
Drinking Establishments	4.99	4.76	4.73	4.70	4.65	57.56	-1.1%	15.9%
Transportation	0.25	0.25	0.25	0.24	0.25	3.04	3.8%	0.8%
Prepared Meals	5.53	5.57	5.69	5.78	5.95	73.57	2.9%	20.4%
Total	30.04	29.23	29.18	28.68	29.19	361.11	1.8%	100.0%

Source: Foodservice Industry Research Institute

The key factors affecting the food service industry can be summarized as follows:

- A number of economic upturn trends, created by weak yen environment, rising share value and winning of the right to host the 2020 Tokyo Olympics, have promoted increased discretionary spending on both business meals and consumer dining.
- Favorable market response by the HRI industry regarding the progress of the TPP talks may stimulate relaxation of regulations in general.
- Food service industry rationalization by chain restaurants, hotels and food suppliers. The industry has been pursuing mergers and acquisitions that improved industry structure and reduce operating costs, and develop human resources for better and new services.
- Redevelopment projects have been active in Tokyo metropolitan area. These projects have shifted the market players from individual businesses to chains. New pub restaurants and sophisticated casual restaurants are being introduced when older buildings are demolished and replaced by newer buildings. These new restaurants are more likely to target women and affluent young people, who are willing and able to pay for higher quality menus.
- Increased new outlets by new restaurant chains and up-scale hotels and the creation of an attractive new style food business, high in value and quality.
- The trend to identify popular restaurants. TV programs target specific restaurants and have introduced tasty and high value restaurants, both five star class restaurants and casual style

restaurants in both metropolitan areas and rural regions. At the same time, TV programs promote home-grown agricultural products as high-end food products.

- Recent trend of the weak yen exchange rate increased number of tourist from foreign countries in spite of territorial disputes between Japan and China/Korea.

The Japanese food service sector has traditionally been very receptive to the use of imported food products. This is due partly to the fact that;

- Imported food products are often less expensive than their domestic counterparts.
- The food service industry does not require unique specifications for food packages as does the retail industry.
- The food service sector often incorporates new food concepts from abroad, which makes it more receptive to importing items used in the menu.

C. Value of Total Imported Food vs. Domestic Products

According to the statistics of the Japan’s Ministry of Agriculture, Fishery and Forest (MAFF), domestically produced agricultural and marine products accounted total of ¥9.7 trillion (\$119.6 billion) which is equivalent of 39% in calorie terms and 68 % in value terms of all food consumed in Japan in 2011. In 2012, Japan imported about \$86 billion in agricultural and marine products.

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 all food service menu items involve imported food stuffs in one form or another. Imported items such as beef, pork, shrimp, salmon, wine, cheese, frozen vegetables, frozen potatoes and the like are heavily used by the food service sector.

According to the Global Trade Atlas, Japan imported a total of \$81.2 billion agricultural and food products in 2012, increased 0.13 % over the previous year. The total value of food and agricultural imports from the United States was down from a 23.5 % to 22.2 % share in 2012. A group of countries declined the share included Australia, Thailand, Brazil and Netherland. On the other hand, China, Canada and South Korea gained a share during the same period. (See Chart 7)

Chart 7: Japan Food and Agricultural Import Total by Country

Partner Country	United States Dollars, million			% Share			% Change 2012/2011
	2010	2011	2012	2010	2011	2012	
World	65,694	81,057	81,159	100.00	100.00	100.00	0.13
United States	15,640	19,009	18,003	23.81	23.45	22.18	- 5.29
China	8,570	10,103	10,861	13.04	12.46	13.38	7.50
Canada				5.94	6.10	6.28	3.21

	3,905	4,941	5,099				
Australia	4,316	5,025	4,853	6.57	6.20	5.98	- 3.41
Thailand	3,741	4,841	4,780	5.69	5.97	5.89	- 1.26
Brazil	2,607	3,687	3,569	3.97	4.55	4.40	- 3.20
Netherlands	1,840	2,803	2,724	2.80	3.46	3.36	- 2.82
South Korea	1,799	2,241	2,319	2.74	2.77	2.86	3.45
Chile	1,657	2,160	2,203	2.52	2.67	2.71	1.99
France	1,591	1,820	1,878	2.42	2.25	2.31	3.15

Source: Global Trade Atlas (HS Code 02 through 24, except 13 and 14)

The total U.S. export to Japan in the volume and the share slightly decreased in 2012 but were caused by only two products; feed grains and tobacco related products. By examining a breakdown of other major agricultural products exported from the U.S.; meat products, oil seeds, seafood, fresh produce and alcohol beverages showed increases in value in 2012. The total increase in value also demonstrates Japan still has potential for food imports than the previous statistics indicated.

Chart 8: Japan Agricultural Products import from the U.S. by Products

Japan Import Statistics From United States							
Commodity: Food & Ag All (HS 02 thr 24, ex 13 & 14) Otk, For HRI Report							
Description	United States, million Dollars			% Share			% Change
	2010	2011	2012	2010	2011	2012	2012/2011
Total in Value	15,640	19,009	18,003	100	100	100	-5.29
Cereals	4,995	6,784	5,323	31.94	35.69	29.57	-21.53
Meat And Edible Meat Offal	2,498	3,149	3,224	15.97	16.56	17.91	2.4
Oil Seeds Etc.; Misc Grain, Seed, Fruit, Plant Etc	1,908	1,913	1,961	12.2	10.06	10.89	2.5
Fish, Crustaceans & Aquatic Invertebrates	1,214	1,352	1,431	7.76	7.11	7.95	5.87
Edible Fruit & Nuts; Citrus Fruit	833	893	1,004	5.33	4.7	5.58	12.4
Tobacco & Manufactured Tobacco Substitutes	822	1,124	977	5.26	5.91	5.43	-13.1
Food Industry Residues & Waste; Prep Animal Feed	775	807	816	4.96	4.25	4.53	1.03
Prep Vegetables, Fruit, Nuts Or Other Plant Parts	596	642	730	3.81	3.38	4.05	13.78
Edible Preparations Of Meat, Fish, Crustaceans Etc	404	498	546	2.59	2.62	3.03	9.62

Beverages, Spirits And Vinegar	349	408	459	2.23	2.15	2.55	12.42
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Source: Global Trade Atlas

In spite of a shift toward the weak yen exchange rate, U.S. cheese export increased from 21,000 metric tons (MT) in 2011 to 26,000 MT in 2012, an increase of 23.8 % in quantity. In 2013, the total natural cheese export from U.S. to Japan is expected to be 30,000 MT, an increase of 15.4 % in quantity over 2012. Japanese food service companies have shifted sourcing shredded cheese from Oceania countries to the U.S. due to price competitiveness and supply ability of U.S. cheeses have been perceived by Japanese food service industry.

As many industry experts predicted the Japanese food service sector was back on the track to recovery in 2012 and 2013. According to the account of domestically produced agricultural and marine products both in calorie (39 % in 2012) and value (68 % in 2012) terms, imported food become increasingly important in growth of the food service industry in Japan in order to bridge gaps.

D. Advantages and Challenges

The industry is increasingly offering international cuisines throughout the market place and competition is intense. The sophisticated Japanese consumer generally demands high quality food products in their meals and U.S. suppliers are well positioned to compete in many product categories provided they are willing to adjust to changing market demands.

Likewise, the relaxation of the age threshold regarding U.S. beef exports enhances marketing opportunities of U.S. meats export to Japan. The Government of Japan (GOJ) had only allowed imports of cattle aged 20 months or less since December 2005 until the end of January, 2013. As of February 1, 2013, GOJ relaxed the regulation to less than 30 months of age, and revised SRM definitions along with OIE standard.

U.S. Beef imports to Japan increased from 137,800 metric tons (MT) in 2011 to 148,300 MT in 2012, an increase of about 7.6 % in quantity. In 2013, the total U.S. beef imports from January through October jumped up to 181,200 MT, an increase of about 42% in quantity from the same period of the previous year. The 181,200 tons is still less than 60 % of the total imports in 2002 before BSE was detected in the United States. In conjunction with the relaxation of the U.S. beef exports restriction, we expect that U.S. beef export will reach pre-2002 levels soon since Japan's restaurant and institutional industry is the most supportive business community for U.S. beef in the market.

Expansion of U.S. beef exports to Japan has encouraged an increasing number of American Menu Promotions at all kinds of restaurants in Japan. American Menu Promotions enhance use of overall U.S. food and agricultural products for menu development. As a result of U.S. Meat Export Federation and FAS Japan's marketing efforts, a greater number of major city hotels and family style restaurants are currently serving U.S. beef with many other U.S. food products.

Chart 9: Japan Beef Import by Country

Partner Country	Quantity, Metric Tons			% Share			% Change
	2011	2012	2013	2011	2012	2013	2013/2012
World	471,028	481,974	501,675	100.00	100.00	100.00	4.09
Australia	295,789	287,693	256,556	62.80	59.69	51.14	- 10.82
United States	113,104	127,717	181,187	24.01	26.50	36.12	41.87
New Zealand	29,758	31,580	29,715	6.32	6.55	5.92	- 5.91
Mexico	17,103	19,985	19,397	3.63	4.15	3.87	- 2.94
Canada	9,082	10,840	12,544	1.93	2.25	2.50	15.71

Year Ending: November 2012 through October 2013

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

Food Service operators have been dealing with higher domestic rice prices that have thinned profit margins. In 2013, Japan’s domestic rice production increased by 2% in quantity which push down average price of domestic rice about 10% less in October than the same month of the previous year. However, the production cost of Japanese rice is still more than 4 to 5 times than in the U.S.. Currently, the Japan Government levies 778 % tariffs on rice in order to fill the price gap between imported and domestic. The industry appears to be more accepting of imported rice usage, a situation that expands opportunities for U.S. rice in the market.

A brief summary of the advantages and the challenges for U.S. food exporters targeting the Japanese food service sector appears below:

Chart 10: Advantages and Challenges

Advantages	Challenges
The success of U.S. fast food and restaurants chain concepts helps introduce American style food inputs into the general diet.	Many consumers view American food culture as less attractive than European or Japanese counterparts.
American style breakfast and brunch concepts are catching on. The concepts help expand U.S. food product usage in the industry.	Difference between U.S. and Japan in requirements and specifications in value-added food products.
U.S. food producers have a positive image for safety compared to many Asian competitors, especially among the trade.	Most imported food products are viewed by some consumers as less safe than domestically produced Japanese food products.
The U.S. has a reputation and history as reliable supplier of food (both availability and delivery) at reasonable price.	The quality and reliability of Asian exporting countries has been growing as the distribution infrastructure and quality assurance (QA) procedures have improved.
The United States has a wide variety of food products, including fresh & further processed.	Japanese buyers are sourcing from all over the world rather than from only a few countries.

High Japanese farming costs and a weak dollar make imported food products attractive.	The perception of U.S. price competitiveness and quality has declined vis-à-vis other exporting countries.
Japan's new cabinet strategy calls for the country to double its agricultural exports. It may make more space for food imports.	Japanese government policies relating to food safety pose increasing impediments to trade, such as a strict Maximum Residue Level (Positive List), and stringent labeling requirements.

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 is to determine the market access for your products. In particular this means:

- Determine if your product category can currently be imported into Japan. Due to food safety concerns the Japanese government has become increasingly strict in allowing food products into Japan.
- 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 tariff or quota barriers. It's 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. 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. By ascertaining this in advance, U.S. exporters can save themselves much frustration later if it is difficult to reformulate. Sources for this information include:

<http://gain.fas.usda.gov/Pages/Default.aspx>, set your search to select "Country: Japan", and "Categories: FAIRS

Freight forwarders can also be helpful in determining ingredient acceptability.

2. Competitive Analysis

Once it is established that the product can be physically exported 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 opportunity 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 cost effectively introduced?
- 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.
- Utilize resources such as U.S. Foreign Agricultural Service and the local U.S. Agricultural Trade Office (ATO), State Regional Trade Groups (SRTG's) 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.

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:

- Offering price savings that will encourage the customer to give your product a trial.
- Offering a product or form of product that is new to the Japanese market. Every year there are new items that become popular in Japan that newly introduced unique foods. Recent examples include gourmet hamburgers, craft beers, fresh baked pretzel, smoothies, varietal honey, and sparkling wines, to name a few.
- Offering a more convenient form of the product that makes it easier for 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.

- Offering 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. 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, its positioning, packaging, labeling, and custom clearance procedures. There are numerous ways to identify these partners. Some suggestions include:

- Ask the ATO and co-operator groups research 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 freight forwarders, and 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 on-site 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 background in the marketplace?
- 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 of 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, and price. This process working with Japanese clients will also polish your products quality and increase marketing competitiveness. Some basic suggestions include:

- Make sure you are willing to re-formulate the product if necessary to meet relevant Japanese Food Sanitation Laws and Regulations.
- Be willing to 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 space to store items.
- Provide samples on a timely basis, but only upon request of a client/importer.
- Ensure that all documentation necessary to clear customs and quarantine procedures is provided in proper form. Japanese customs always request clarify food ingredients and processing outline to define import tariff rate.
- 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 in order to test the potential supplier. This is especially true for new-to-market suppliers where the risk of something going wrong (clearing customs, wrong documentation, wrong labeling, etc.) is the highest.
- Japanese food service operators are looking 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, Itochu and Mitsui 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-added items. Trading companies function as legal importers of the products and serve a variety of functions including clearing customs, handling documentation, product testing, warehousing the product, 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 use wholesalers. In addition, more food service operators import product directly, but the majority still use trading

companies. One unique aspect of Japanese food distribution, even though food service operators developed import products directly, they contact out supply chain operation including import procedure, inventory and delivery to venders. This is a growing trend toward outsourcing after the venders could streamline their supply chains.

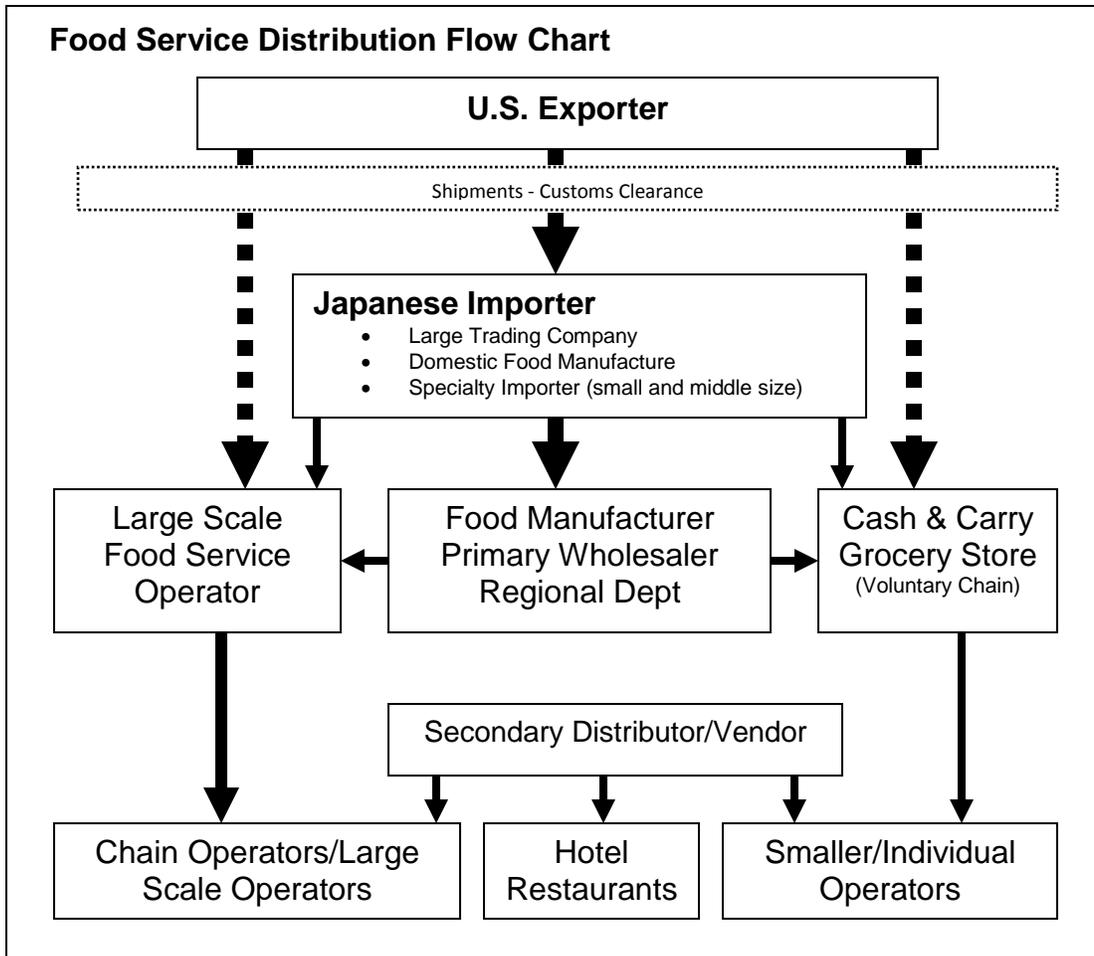
The deflationary environment of the past several years has intensified price competition among food service chains, and has accelerated the trend to eliminate middlemen.

In order to survive in an increasingly competitive marketplace, wholesalers are being forced to consolidate. 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 venders, not manufactures, are responsible for food safety even if they just deliver food products. Food suppliers are required to provide affidavit like assurance to chain restaurants. This causes food service operators to use several distributors in Japan to hedge risks.

The Cash & Carry trade, including wholesale clubs, such as COSTCO, are becoming popular as resource of food products among Japan's smaller size food service operators in order to reduce food costs. The biggest is Gyomu Super (Business Supermarket), which has a total of 600 outlets throughout Japan. Additionally, regional food wholesalers have formed a strategic purchasing alliance and have opened cash & carry outlets in the region. These local outlets substitute historical food vendors for food service operators. Bulk packed meat, seafood, fresh produce, coffee, seasonings/condiments, wine, cheese, frozen vegetables and frozen bakeries are hot selling food products at these outlets.

Chart 11: A diagram of the flow of product from the U.S. exporter



2. Segmentation

Certain segments continue to do better than others, most notably family style restaurants, hotel restaurants and tourist related restaurants. Family style restaurants successfully attracted senior generations with menu development and interior renovation. A discussion of the key trends in the HRI industry that U.S. exporters should be aware of:

i. Large Increase of Foreign Travelers to Japan

According to the statistics of Japan National Tourism Organization, the number of foreign travelers visiting Japan substantially increased from 6.218 million in 2011 to 8.368 million in 2012, an increase of 2.15 million visitors and/or up 34.6 % in quantity due to weak yen exchange rate and easing visa requirements. In 2013, a total number of foreign tourists from January through October also increased by 23.4 % in quantity from the same period of the previous year. The tourists from Malaysia (up 60%), Indonesia (up 64 %), and Thailand (up 80 %) showed large increases. The food service industry targets foreign travelers as a growing category and offers special service, 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 for those travelers to Japan.

ii. Spending More Time at Roadside Rest Areas and Airport Terminals

In terms of domestic travel, new style roadside rest areas are becoming popular. There are over 520 rest areas on toll highways in Japan, and 1,014 roadside stations, so called Michi-no-Eki, on public highways. Most of these facilities have 24 hours food courts that used be a place to just fill the hungry stomachs of drivers. Since the privatization of toll roads in 2005, the private sector has operated rest stops and facilities have been completely modified. In addition, some of these rest areas have theme parks, ski slopes or accommodations targeting traveling families, young groups and/or long-distance drivers. Events featuring local food and cuisine often take place at the new style roadside stations throughout Japan. In much the same way as roadside, major airports have introduced popular restaurants and new style shopping complexes.

	<p>Ebina Service Area (SA) in Kanagawa prefecture is the most popular SA which has over 50 restaurants and shops. A total of 1,100 permanent parking slots are filled up quickly every weekend.</p>
	<p>Inside of Ebina SA that has number of major QSR shops in its huge food court.</p>
	<p>Kariya SA in Aichi prefecture has an amusement park, a hot spring bathhouse, a farmer's market and a shopping mall in the facility. The new rest areas became the destination not a stop for travelers.</p>

iii. New Tastes from America

The variety of menus available in Japan continues to expand. Partly due to the large number of Japanese traveling abroad every year, foods from Europe, Asia, Australia and the Americas are becoming increasingly popular. Japanese consumers are interested in trying new cuisines. Examples of this include Garret Popcorn Shops and the Original Pancake House which have successfully launched new business formats in Japan. New York famous ANGÉLIQUE started to sell its original doughnut shaped fried croissant (puff pastry) in July 2013, and soon became a booming business. The interest in new food ideas opens the door to food exporters to introduce new concepts in to the Japanese market.



Chicago based Garret Popcorn shops became a big hit, and has a long line of customers in front of the shop in Harajuku since its opening in February 2013.



The first Original Pancake House opened in Kichijoji, Japan, in June 2013.

iv. Price Competition

While it can be said that there is an upward trend of eat-out spending in the market, consumers continue to tighten their belts. Saizeriya, the biggest Italian cuisine-family style restaurant with about 930 outlets, introduced authentic Italian cuisine at reasonable prices. For instance, a 500 milliliter carafe of wine is sold at ¥370 (\$3.70) and a bowl of cheese risotto with meat sauce is sold at ¥299 (\$3.00). Saizeriya continued to increase sales by 3.2% in 2012 and has become very popular company in the market.

In order to compete in the market, many other fast food and family restaurants took a similar approach by introducing low cost menus. However, the major beef bowl chains Yoshinoya, Zensho (“Sukiya” brand operator) and Matsuya, have competed by offering lower menu prices but have been outflanked by convenience stores’ mixed HMR merchandising.

v. Convenience Store Gain Power as Food Service Operator

Convenience stores (CVS) keep evolving on food merchandising and became the biggest rivals not only for Japan’s beef-bowl chains but hamburger chains and coffee shop chains. Like beef-bowl restaurants, convenience stores used to heavily rely on male customers. But over the years, they have succeeded in appealing to other customer segments, such as seniors and women, by offering meals in smaller portions and expanding their dessert lineups which customers can buy with their main meal at same store.

CVS chains are also active in the area of take out coffee sales with better quality coffee beans and machines. According to a report of an internet research company in December 2013, 26.8 % of Japanese consumers buy take away coffee at the coffee chains, and a 22.0 % of them buy a cup of take away coffee at the CVS chains which made CVS the 2nd top choice for Japanese consumer.



The shelves filled up with variety of meal boxes before lunch time every day, at a major convenience store, Seven-Eleven. Almost of these bento boxes have gone during lunch time, and CVS will fill up with another batch of meal boxes for dinner time.



A major convenience store chain, Lawson offers special coffee brewed from a scarce variety of coffee beans, Yellow Bourbon, at 180 yen (\$1.80) per a cup for a limited time.

vi. Seniors Hold Key to Spending Growth

Japan's elderly population accounts for an expanding share of total consumer spending. According to Japanese news reports, households headed by people 60 years of age and older spent over 100 trillion yen in 2012, or about 44% of total consumer outlays.

In an effort to attract customers in this group, many food operators have developed high quality breakfast menus for seniors. Royal Host, a family style restaurant chain, sells diversified breakfast menus that have complex recipes, such as Eggs Benedict, pastry with mixed whip cream and/or special Japanese set plates. Other family style restaurants, such as Denny's, Gusto, and Joyful also target senior generations.

Like pizza delivery service, many quick service restaurants, such as MOS Barger, Kentucky Fried Chicken, and others introduced home delivery service in order to reach seniors and consumers who eat at home



MOS Barger offers home delivery service at their 260 outlets.



Joyful's one plate set menu designed for senior generation, menu price at Y499 (\$5.00) with rice, miso-soup and an additional side menu.

vii. Willing to Pay More for Healthy Eating at Breakfast Restaurants

Japanese consumers are increasingly interested in foods that are perceived as healthy. For example, family restaurant chains are including nutritional information on the menu, such as allergen content and calories per serving. Fast food restaurants and casual style restaurants are introducing vegetable/fruits-rich menus, such as cup salad and pancakes with fruit. Freshness Burger kneads pumpkin into buns. MOS Burger offers burgers featuring in-season vegetables.

 <p>HEALTHY FAST FOOD FICO & POMUM JUICE</p>	<p>Domestic fruit wholesaler, Nishino, opened its first smoothie shop, Fico & Pomum, in a new office building in Tokyo in November 2013.</p>
	<p>Mos Burger's newest Vegetable Burger comes with vegetables (lettuce, tomato and onion) and aurora (mayonnaise and ketchup mix) sauce</p>
	<p>Restaurant Bills and a line of people waiting for breakfast at an atmosphere with unconventional living, the restaurant is located in front of Shonan beach.</p>

In addition, breakfast restaurants have gained popularity and consumers are willing to pay more. You often see long queues people waiting in front of restaurants such as Bills from Australia, Eggs and Things from Hawaii, and newly joined Sarabeth's Kitchen from New York. These offer sophisticated authentic western style breakfasts featuring their original ingredients from the region.

viii. Information Technology (IT) and B-class Gourmet

The IT evolution and prevalence of smart phones provide a dynamic to the local food service industry. There are several popular search sites especially designed for finding good restaurants throughout Japan such as Gurunavi and/or Tabelog.

One trend is affectionately called "B-kyu-gurume (B-class gourmet)". Japanese food service operators are introducing new ideas and formats using local food flavors or combinations. B-Class Gourmet is a

new buzzword throughout Japan, meaning cheap, local food, served in local restaurants. Most of menus are everyday home meals, such as fried/soup noodles, deep fried cutlets, and sweets. B-class gourmet establishments have banded together and conduct Japan-wide events that vie with each other for the best B-class gourmet dish.

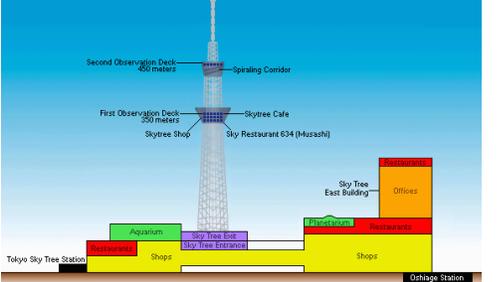
	
<p>Numbers of B-One (Number one B-class Gourmet) contests are held every prefecture in Japan all year round.</p>	<p>A popular Restaurant search site “Tabelogu” (eat-log) spread out the information of 750,000 member restaurants in a map of Japan.</p>

iv. Theme Park Restaurants

In keeping with uptick in overall Japanese consumer spending, the sales into leisure activities have been solid in 2013. Oriental Land Co., the operator of Tokyo Disney Resort saw the number of visitors in the April-September period hit the record high of 15.35 million, an increase of over 2.1 million due to its 30th anniversary celebration events in Tokyo in 2013 and new attraction openings.

Major theme parks in Japan feature U.S. history and culture including Tokyo Disney Land, Tokyo Disney Sea, and Universal Studios Japan in Osaka. Restaurants located in these theme parks often focus on foods from abroad and offer opportunities for U.S. exporters to test their products.

Meantime, Tokyo’s brand-new broadcasting tower “Skytree” is recognized as a new theme park with the “Solamachi” (Sky-town) shopping facility at the bottom of tower. Since its doors opened on May 22, 2012, the entire Tokyo Skytree Town complex had hosted 50.8 million visitors as of its one year anniversary. The Beer Pub – World Beer Museum, features U.S. craft and third country beers, recording the highest sales in the shopping complex in this summer.

		<p>Tokyo Sky Tree town is composed of the tallest tower in the world (634 meters). It includes a shopping and restaurant complex, an aquarium and office spaces and is recognized as the city’s new landmark</p>
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Food buyers there are always looking for original and unique new products associated with the United States (for example, smoked turkey drumsticks and caramel popcorn are two popular items at Disneyland).

x. HMR Prepared Foods

The area of sharpest growth in the food industry has been ready-to-eat products that can be purchased at retail shops. 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. Vendors of these foods have steadily increased the freshness, quality, and variety of the foods they offer, providing a more attractive menu selection to consumers. U.S. exporters that provide the kinds of products that would fit lunchbox-type or HMR items should consider approaching assemblers of these types of foods.

		
<p>Nippon Restaurant Enterprise's, beautifully setout lunch boxes. An idea of authentic Japanese meal and good for vegetarian, retail price at JPY2,100 (US\$21). This bento box is available at both Train station KIOSK and catering.</p>	<p>SeikoMart, Hokkaido based major convenience store chain, with 1157 outlets offers "Hot Chef" which cooks lunch boxes in its stores and serves at fresh/hot temperature. Picture - curry and pork cutlet on top of rice at JPY550 (\$5.50)</p>	<p>In 2013, Seiyu/Wal-Mart Japan launched "Deka-uma" (voluminous-value) lunch box sold at JPY 299 (\$3.00) good for big appetite consumers. This kind of reasonable price lunch boxes became popular and attracted consumers away from QSR industry</p>

Seasonable 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.

xi. Food Safety and Food Mislabeling Scandals

The importance of food safety has risen continuously in consumers' minds over the past decade due to a series of highly visible food scares and scandals. The Government instituted higher standards in response to number of exceeding cesium limit detections in locally grown agricultural products and serious food poisoning events in 2012.

In addition, there has been a spate of food-mislabeling scandals involving big-name Japanese hotels, department stores, and restaurants. Many of major city hotels and 66 % of department stores listed domestic origin foods on their menu, but were actually imported foods. As a natural extension of Japan's food culture, Japanese tend to be highly conscious about origin and willing to pay more prices on locally produced food. Meanwhile, hotel chefs and store buyers are often under pressure from management to cut costs. Usage of imported foods can reduce food cost and can be profitable, but do not have the prestige of domestic foods.

xii. GMO

Even though most of food service operators in Japan still require GMO free food products from suppliers, and some Japanese consumers still do not accept the concept of GMO products, a number of

hotel restaurants and chain restaurants in Japan introduced GMO Hawaiian papaya to their consumers in 2012. As a result of promotional efforts done by State of Hawaii Department of Agriculture and Hawaii Papaya Industry Association, the first GMO fresh fruit, Rainbow Papaya, has been introduced. While many Japanese consumers enjoy GMO papaya, it still has yet to catch on as a regular item. Nonetheless, long-term promotional efforts may pay off if a product has a market potential. See GAIN Report JA3512.

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/ATO%20Japan%20Promotes%20GM%20Papaya%20to%20High%20Profile%20Food%20Service%20Providers_Tokyo%20ATO_Japan_9-13-2013.pdf

C. Sub Sector Profiles

1. Restaurant Sector

The restaurant sector is the largest of the HRI food service segments. Restaurant sales in 2012 were ¥12.5 trillion equivalent to \$154.3 billion, up 2.0 % over the previous year. This represents 53.7 % 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 four major sub-segments. A chart diagramming this segmentation follows:

Chart 12: Japanese Restaurant Sector - 2012

Restaurant Sector ¥12.5 Trill. (\$154.3 Bill.)	General Restaurants (70.7%)	¥8.8 Trillion (\$109.1 Billion)
	Sushi Shops (10.2%)	¥1.3 Trillion (\$15.8 Billion)
	Noodle Shops (8.6%)	¥1.1 Trillion (\$13.3 Billion)
	Other (10.5%)	¥1.3 Trillion (\$16.2 Billion)

Source: Food Service Industry Research Institution

“General restaurants” among the restaurant sector increased 3.2% in value in 2012 from 2011. General restaurant includes, family style restaurant, Japanese, western and Chinese style restaurants. “Sushi shops” and “Other restaurants” decreased 0.7% & and 1.7% in sales volume respectively from 2011.

2. General Restaurants

The category with the greatest opportunity for most U.S. food exporters are restaurants driven by diversified Western, Japanese and ethnic fusion cuisines. These restaurants are composed of casual and family style restaurants which serve mainly Western dishes as well as restaurants specializing in

specific menus such as steak, Hamburg (meat loaf) and pizza/pasta. As a result the menu relies heavily on imported food products to provide authenticity as well as taste. Large family restaurant chains such as Skylark, Royal Host, Denny’s, Saizeriya (Italian style), Coco’s, Jonathans, and Joyful, are major users of imported U.S. foods including items such as beef, pork, frozen potatoes, and vegetables.

Up-scale American-style concepts have taken hold in Japanese market in last five years, such as the Grand Central Oyster Bar & Restaurant, Ruth’s Chris Steak House, Union Square Cafe, Lawry’s, and Oregon Bar & Grill. A popular sector are casual steak restaurant chains that offer free salad, side dishes and cooked rice come with all in one main meal, steak and/or hamburger, at reasonable price (\$10 to \$20). This is an example of authentic American style dishes have been modified and popularized in the industry. These companies use imported foods on their menus extensively.

Reflect the relaxation of imports of beef/cattle aged from 20 months to 30 months in February 2013, traditional steak houses and Yakiniku (Korean style barbecue) restaurants embark on its revival by variety of beef menus, such as T-bone steak, bone-in short ribs and chops. Japanese steak restaurant chain, Suehiro, promoted a U.S. T-bone Steak Fair soon after relaxation. The U.S. is recognized as the quality supplier which can export these special cuts to Japan.

French restaurants have traditionally been popular in Japan and more recently Italian restaurants have also surged 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 foods. Food service chains that come to Japan from the U.S. are perfect targets for U.S. exporters who also sell those food product concepts in the U.S.

(* The census was updated in 2012, however results have not been released at the time this report was written.)

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

Type of Restaurants	2004	2006	2009*	Change '06 to '09
Non-Specialized	73,628	73,298	63,427	-13.5%
Specialized: Western, Other Ethnic Cuisine & Meat	57,034	60,394	61,913	2.5%
Chinese	60,930	59,552	56,541	-5.1%
Japanese	41,963	42,572	50,763	19.2%
Total	233,555	235,816	232,644	-1.3%

Source: Ministry of Economy, Trade & Industry (Based on Census)

3. Sushi Restaurants

Japan is famous for sushi, which is increasingly popular around the world. Japan is the world’s largest importer of seafood products and 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 Tsukiji Fish Market in Tokyo before being delivered to sushi shops

throughout Japan. The U.S. is a major exporter of salmon, salmon eggs, and sea urchin used by sushi operators.

The value of the sushi food service segment was estimated at ¥1.27 trillion in 2012, equal to \$15.8 billion, and has been gradually decreasing in last five years. In 2011, there were an estimated of about 26,450 sushi restaurants, a significant decline of 18.2 % in number of outlets from the five years ago (32,327 sushi restaurants in 2006). This doesn't mean Japanese consumers are eating less sushi. Major sushi chains offer far cheaper prices than traditional sushi bars and increased both sales volumes and number outlets year by year. (See chart 14)

Chart 14: Major Sushi Chains (Conveyer-belt Sushi)

Company	Sales 2012		Difference 2012/11, %	# of outlet 2012	Difference 2012/11, %
	¥ million	\$ Million			
Akindo Sushiro	111,304	1,377	11.5	336	5.3
Kappa Create	31,754	393	0.5	391	0.8
Kura Corporation	78,971	977	6.1	308	8.1
Kiyomura, Sushizanmai	19,200	238	26.3	49	6.5
RDC, Gatten	18,907	234	9	142	7.6

Source: Nikkei Marketing Journal, May 2013

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 two forms. Soba, which are noodles made from buckwheat, and Udon, noodles made from wheat.

In 2012, the value of the soba/udon food service segment was estimated at ¥1.1 trillion or \$13.3 billion. There were estimated 33,005 soba/udon shops in 2009, many of them single proprietorships, but chain operators have increased their number of outlets, typically at shopping malls and roadside stands.

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 will cost only ¥300 - ¥500. It is common for the Japanese 'salaryman' to down a bowl of noodles within minutes during lunch.



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. Since many noodle shops are individual outlets rather than large chains, U.S. exporters' strategy for selling toppings must rely on major food service wholesalers who supply the shops.

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 Chains
- Fried Chicken Restaurants
- Pizza Shops
- Donuts and Ice Cream Shops
- Beef bowl
- Curry & Rice
- Okonomiyaki

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 3,300 units nationwide. The hamburger fast food concept has been one of the most visible and successful segments over the past 40 years. However, McDonald’s sales were down 1.0 % to ¥529.8 billion in 2012 as the company closed number of loss making stores.

Chart 15: Major Hamburger Chains

Hamburger Chains	2012		Change from 2011	
	Name of Company	Sales Volume in ¥ million	Number of Outlets	% in sales
McDonald’s Japan	529,821	3,280	-1.0	-0.5
MOS Foods	95,348	1,431	0.0	1.4
Lotteria	28,721	451	1.3	-0.4
First Kitchen	10,040	129	-3.5	-0.8
Freshness Burger	7,328	174	n/a	n/a

Source: Nikkei Marketing Journal, May 2013

By providing reasonably priced, fast and clean service, the hamburger chain concept has captured a significant share of the youth and family dining out budget.

Because the hamburger chain menu uses concepts originating in the U.S., they are ideal targets for U.S. exporters. For example, McDonald’s Japan has long imported many of its food items from the U.S. including frozen potatoes, pork patties, fresh tomato, and cut lettuce. Hamburger chain sales declined in 2012 as a result of decline in number of customers.

ii. Pizza Chains

The pizza industry has been lead by delivery service companies and has been a bright spot of growth in Japan over the past decade. Fuelled by the launch of Domino’s Pizza in the late 1980’s, pizza delivery

chains have successfully carved out a niche in the food service market in Japan with their promise of rapid delivery. A partial list of some of the top pizza chains includes:

Chart 16: Major Pizza Chains

Pizza Restaurants (delivery)	Number of Outlets		
	2011	2012	% Increase from 2011
Pizza La (Four Seeds Corp.)	542	544	0.4
Pizza Hut (KFC Japan)	359	365	1.7
Dominos	205	225	9.8
Strawberry Cone	203	210	3.4
Chicago Pizza Factory	108	112	3.7
Pizza California (PCS Inc.)	99	100	1.0

Source: Fuji Keizai – Food Service Industry Marketing Handbook 2012

Pizza shops offer a wide variety of choices, many tailored specifically to Japan. In addition to traditional toppings such as pepperoni and sausage, pizzas in Japan feature toppings such as shrimp, squid, scallop, prosciutto, corn, garlic, potatoes and pineapple. The pizza industry has driven a shift of shredded cheese supply from Oceania region to the U.S. due to better value of U.S. products. In addition to sourcing toppings from abroad, pizza chains also source tomato sauce either in chunked and/or paste from abroad.

iii. Fried Chicken Chains

KFC Japan dominates the fried chicken restaurant market with over 1,550 units nationwide. KFC Japan's uses domestic Japanese chicken mainly for regular products and uses imported chicken for diversified seasonal and special menus, including Brazilian and U.S. chicken.

6. Drinking Establishments

The drinking establishment sector had sales worth ¥4.65 trillion in 2012, equivalent to \$57.6 billion. This represented 15.9% of the total food service industry sales. This segment significantly shed both 1.1 % of its market size and 0.5 % of share in the total food service market.

The sector is comprised of four segments: pub dining (Izakaya)/beer pub, coffee/tea house, high end Japanese restaurants (Ryotei) and bar/nightclub food service.

Chart 17: Japan's Drinking Establishments Sector

Sector	2008	2009	2010	2011	2012		Change '11 to '12	
	Unit	¥ Bil.	¥ Bil.	¥ Bil.	¥ Bil.	\$ Bil.		%
Total		4,988	4,756	4,733	4,702	4,652	57.6	-1.1%
Pub Dining		1,061	1,012	1,002	993	978	12.1	-1.5%
Coffee/Tea Shop		1,036	1,005	1,019	1,018	1,020	12.6	0.1%
Roytei		346	328	324	322	317	3.9	-1.4%

Night Club	2,546	2,412	2,388	2,370	2,337	28.9	-1.4%
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Source: Food Service Industry Research Institute

i. Pub Dining

Pub dining restaurants (Izakaya) are Japan's unique drinking pubs where a variety of home-style meals are served with various kinds of alcohol beverages including beer, sake, shochu (Japanese spirits), wine and cocktails. The market share of chain operations have increased more than individually-owned businesses since 2008. The sector has been heavily dependent on company spending, and has rationalized its procurement and distribution system due to competition within the sector. Most of chain restaurants use imported food products in moderation while using regional food products that are popular among consumers.

At pub dining restaurants, consumers order various cooked meals and side dishes together at the same table and share these dishes with colleagues, friends and family. Chain operations are popular because of their reasonable menu pricing and range in food items. Pub dining chain restaurants usually have central buying systems and are looking for new menu ideas. Pub dining operators also modify overseas recipes for their own style and taste. The industry uses fresh oyster, 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.

A list of major pub dining chains in Japan appears below:

Chart 18: Major Pub Dining chains

Rank 2012	Company	Sales (\$ Mil.)	Brand Name, # of Outlets	Location	Purchasing Agents
1	Monterozza	1,795.3	Sirokiya, Uotami, Wara-wara, 1,954	Nation wide	Wholesalers
2	Daisho	971.6	Shoya, 868	Eastern Japan	Wholesalers
3	Watami Food Service	904.3	Watami, 639	Nation wide	Trade firms, wholesalers
4	Colowide East Japan	726.8	Amata-ro, Hokkaido, Hiikiya, 519	Eastern Japan	Trade firms, wholesalers
5	Chimney	713.7	Hananomai/Sakanaya-dojo, Kodawariyama, 687	Eastern Japan	Trade firms, wholesalers
6	Dynac	411.5	Hibiki/Toridori, Sakura, Unoya, 241	Eastern Japan	Trade firms, wholesalers
7	Yoro-no-taki	366.4	Yoro-no-taki, 687	Nation wide	Trade firms, wholesalers, Direct import
8	Sanko Marketing Food	320.3	Toho Kenbunroku, Tsuki no shizuku, 258	Eastern Japan	Trade firms, wholesalers
9	Sapporo Lion	308.6	Ginza Lion, Kakoiya, Agura, Ten, 195	Eastern Japan	Trade firms, wholesalers
10	Marche	280.5	Suikoden/Hakkenden, 610	Nation wide	Trade firms, wholesalers

ii. Coffee/Tea Shops

The coffee/tea shop sector is very popular throughout Japan but the sales volume of the sector has dropped from ¥1,740 billion in the peak year of 1982 to ¥1,020 billion in 2012, a decline of over 40%. This sector has marked a sea change in its structure during this period. In 1980, Doutor Coffee Company opened the first self-service coffee shop in Tokyo and sold a cup of regular/drip coffee at 150 yen which is one half to one third the price of a large majority of conventional style full-service coffee rooms at that time. In 1996, as these self-service coffee shops came into fashion in Japan, Starbucks Coffee achieved distinction in the U.S. and opened its first shop in a center of Tokyo. The new style self-service coffee/tea chains, including both Japanese and Americans, have been waging a long competition to expand their business and have altered the market since then. While these survival battles were going on, the old style full-service coffee/tea shops have been devastated by new style (ie Starbucks style) coffee/tea chains throughout Japan.

A list of major new style coffee/tea shop chains in Japan in 2012 appears below:

Chart 19: Major Coffee/Tea Room Chains

Rank 2012	Company Name	Sales (\$ mil.)	# Units	Location	Purchasing Agents
1	Starbucks Coffee Japan, Ltd.	1,442	970	Nation wide	Trade firms, Wholeslers, Direct Import
2	Doutor Coffee Co., Ltd.	1,099	1,384	Nation wide	Same as above
3	Komeda Coffee	371	501	Central Japan	Same as above
4	Saint Marc Café Holdings	256	300	Nation wide	Same as above
5	Pront Corporation	234	232	Nation wide	Same as above
6	Italian Tomato Café Jr.	244	304	Eastern Japan	Same as above
7	Tully's Coffee Japan (Ito-en)	188	536	Nation wide	Same as above
8	Chat Noir (Veloce)	183	211	Western Japan	Same as above
9	UCC Foodservice Systems Inc. (results in 2011)	165	383	Western Japan	Same as above
10	Pokka Create (Café de Crie)	101	163	Western Japan	Same as above

Source: Nikkei Marketing Journal - May 2013, ATO Japan research

7. Hotel Food Service Sector

The Hotel/Inn sector had food sales worth ¥2.5 trillion in 2012, equivalent to US\$31.1 billion. This represents 8.6 % of the total food service industry sales. After a decade-long decline, the hotel food business showed an increase of 4.7 % in sales volume in 2012.

In a positive environment of increasing number of foreign travelers, a number of new hotel openings by foreign –affiliated companies, Andaz-Hyatt, Aman Resorts and Marriott Hotel, are scheduled in Tokyo in 2013 and in 2014. In response to increasing presence of foreign-affiliates, major Japanese hotels also have scheduled new hotels and/or renovations to accommodate increasing foreign tourists that are estimated to add an additional ¥2 to 3 trillion market in Japan. Most recent statistics in 2013 show continued increase in sales from the previous year.

First class hotels have a large variety of on-site restaurants to choose from including Western, Chinese and Japanese restaurants. Hotels are major users of almost all kinds of foods, particularly imported products. Because they 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. Halal foods are one of typical examples. For the same reason, they are historically more receptive to imported food.

A way to select a hotel in Japan has been diversified due to IT innovation and changing in consumers’ lifestyle. With these circumstances and food related four aspects of Access, Appearance, Breakfast and Something Special, monthly magazine - Nikkei Trendy researched hotels and released an own ranking of most valuable hotels in Japan in 2012. The list appears below:

Chart 20: Most Valuable Major Hotel Chains in 2012

Rank	Hotel	Location
1	Palace Hotel	Tokyo
2	Shangri-La Hotel Tokyo	Tokyo
3	The Peninsula Tokyo	Tokyo
4	Mandarin Oriental Tokyo	Tokyo
5	The Ritz-Carlton Osaka	Osaka
6	The St. Regis Hotel	Osaka
7	Park Hyatt Tokyo	Tokyo
8	The Capital Hotel Tokyu	Tokyo
9	Conrad Tokyo	Tokyo
10	The Terrace Club at Busena	Okinawa

Source: Nikkei Trendy – issue October, 2012

Japan also has many small *Ryokan* or Traditional Japanese style inns, which primarily serve holiday travelers. The menu tends to be limited and features traditional Japanese dishes. *Ryokans* are a less inviting target for U.S. exporters due to their focus on traditional Japanese foods.

8. Institutional Food Service

The institutional food service sector had sales worth ¥3.36 trillion in 2012, equivalent to \$41.6 billion. This represented 11.5% of the total food service industry sales. Institutional food sales slightly increased in 2012 from the previous year. The institutional food service sector was one of the very few sectors that has shown continuous upward trend in last four years since 2009.

The institutional food service sector is comprised of four segments: business/office cafeterias, school lunch programs, hospitals, and welfare facilities. This might be one segment to see growth as Japan’s aging demographic intensifies. Many food service companies are gearing up to service what is called the “silver” market.

Chart 21: Institutional Food Service Sales by Sub-Sectors

Sub-Sectors	2012 Sales		
	¥ billion	\$ billion	Share
Business/Office Cafeterias	1,717.9	21.3	5.9 %
School Lunch	493.0	6.1	1.7 %
Hospitals	860.9	10.7	2.9 %
Welfare Facilities	287.3	3.6	1.0 %
Total:	3,359.1	41.6	11.5 %

Source: Food Service Industry Research Center

A New trend is online (web based) food sales/meal delivery service. According to the Nikkei Distribution Industry newspaper, the total sales volume of top 50 of the meal/food delivery companies was ¥526.4 billion (\$6.5 billion) in 2012, an increase of ¥80.4 billion (about \$1.0 billion) over the previous year. Watami Takushoku, a subsidiary of the top 25 food service company originated from pub dining business, kept continuous high growth in 2012, up 48.1 % in sales volume from 2011, and jumped into the top 9 ranking of the Institutional Food Service Chain in 2012. The online based meal delivery companies target senior generation while offering easy access and researching better taste.

		<p>Photos from the Watami Takushoku website offering health conscious daily special menus, cooked by hand work and delivery hand to hand in chilled temperature</p>
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Reflecting the sector’s upward trend, all of the top 10 companies in the ranking list showed significant increases in sales volume in 2012 from the previous year.

Sales by segment in 2012 were as follows:

Chart 22: Ranking Institutional Food Service Chains

Rank 2012	Company Name	Sales	# Units	Location	Principal Purchasing Agents
		(\$ mil.)			

1	Nissin Healthcare Food Service Co.,	2,289	4,925	Tokyo	Wholesalers
2	AIM Service	1,289	1,367	Tokyo	Same as above
3	Green House	1,079	1,775	Tokyo	Same as above
4	Seiyo Food-Compass Group, Inc.	967	*1,750	Tokyo	Same as above
5	Fuji-Sangyo Co., Ltd.	827	1,989	Tokyo	Same as above
6	Uokuni Sohonsha	758	2,585	Osaka	Same as above
7	Leoc Co., Ltd.	693	*1,859	Tokyo	Same as above
8	MEFOSU Inc.	579	2,263	Tokyo	Same as above
9	Watami Takushoku	481	431	Tokyo	Same as above
10	Nikkoku Trust Ltd.	355	963	Tokyo	Same as above

Source: Nikkei Marketing Journal – May, 2013

* Number of units in 2011

Chart 23: Top 50 Restaurant Company Profile

Rank2012	Company	Sales (\$ Mil.)	Outlet Name, Type, & # of Outlets	Location	Purchasing Agents
1	McDonald's Japan	6,555.6	McDonald's, QSR hamburger, 3,280	Nation wide	Trade firms, wholesalers, Direct import
2	Zensho	4,803.6	Sukiya, Coco's, QSR-beef bowl & various, 4,667	Nation wide	Trade firms, wholesalers, Direct import
3	Skylark	3,608.0	Skylark/Gusto/ Yumean/Barmiyan, FSR, 2,636	Nation wide	Trade firms, wholesalers, Direct import
4	Nisshin Health Food Service	2,289.0	Office/hospital meals, Institutional, 4,925	Nation wide	Trade firms, wholesalers
5	Plenus	2,158.5	Hotto Motto, take-out meals, 2,881	Western Japan	Trade firms, wholesalers
6	Monterozza	1,795.3	Sirokiya/Uotami/Wara-wara, pub dining, 1,954	Nation wide	Wholesalers
7	Kentucky Fried Chicken Japan	1,686.1	KFC/Pizza hut, QSR-delivery meals, 1,550	Nation wide	Trade firms, wholesalers
8	Duskin	1,377.3	Mr. Donuts, QSR, 1,381	Nation wide	Trade firms, wholesalers
9	Akindo Sushiro	1,377.2	Akindo, Sushi-ro, QSR-Sushi, 336	Western Japan	Trade firms, wholesalers, Direct import
10	Reins International	1,303.5	Gyukaku, casual stake house, 1,217	Nation wide	Trade firms, wholesalers, Direct import
11	AIM Service	1,288.6	Institutional, 1,367	Eastern Japan	Wholesalers

12	Saizeriya	1,217.8	Italian FSR/Saizeriya, 929	Nation wide	Trade firms, wholesalers, Direct import
13	Osho Food Service	1,192.9	Gyoza no Osho, Ramen shops, 661	Nation wide	Trade firms, wholesalers
14	Moss Food Service	1,179.7	Moss Burger, QSR, 1,431	Nation wide	Trade firms, wholesalers
15	Doutor Coffee	1,098.7	Doutor, coffee shop, 1,384	Nation wide	Trade firms, wholesalers, Direct import
16	Honke Kamadoya	1,095.0	Kamadoya, take out meals, 1,810	Nation wide	Trade firms, wholesalers
17	Yoshinoya Holdings	1,094.6	Yoshino-ya, Hanamaru Udon, 1,193	Nation wide	Trade firms, Direct import
18	Green House	1,078.9	Institutional, home meal replacement, 1,775	Nation wide	Trade firms, wholesalers
19	Kappa Create	1,011.6	Kappa Zushi, QSR-Sushi, 391	Eastern Japan	Trade firms, wholesalers
20	Matsuya Foods	977.5	Matsu-ya, QSR-beef bowl, 1043	Nation wide	Trade firms, wholesalers, Direct import
21	Kura Corporation	977.1	Kura-zushi, QSR, 308	Western Japan	Trade firms, wholesalers
22	Daisho	971.6	Shoya, pub dining, 868	Eastern Japan	Wholesalers
23	Seiyo Food Compass	967.5	Han/CASA/Itoguruma, pub dining/family style/Institutional, (800)	Eastern Japan	Trade firms, wholesalers, Direct import
24	Seven and I Foodservice	961.5	Denny's, Famil, Popo, FSR/QSR, 844	Nation wide	Trade firms, wholesalers
25	Watami Food Service	904.3	Watami, pub dining, 639	Nation wide	Trade firms, wholesalers
26	Toridoll	897.1	Marukame Seimen, QSR-noodle, 762	Nation wide	Wholesalers
27	Ichiban-ya	864.7	Ichiban-ya, QSR-curry shop, 1,237	Nation wide	Trade firms, wholesalers
28	Fujisangyo	827.1	Institutional, 1,989	Eastern Japan	Wholesalers
29	Four Seeds	773.4	Pizza La, pizza delivery, 952	Nation wide	Trade firms, wholesalers, Direct import
30	Joyful	767.7	Joyful, FSR, 710	Western Japan	Wholesalers
31	Uokuni Sohonsha	758.5	Office cafeteria-Institutional, 2,585	Western Japan	Wholesalers
32	Colowide East Japan	726.8	Amata-ro, WPJ, pub dinings, 519	Eastern Japan	Trade firms, wholesalers
33	Chimney	713.7	Hananomai/Sakanayadojo, pub dinings, 687	Eastern Japan	Trade firms, wholesalers

34	LEOC	692.5	Institutional, (n/a)	Eastern Japan	Trade firms, wholesalers
35	Aleph	683.2	Bikkuri Donkey, FSR, 327	Eastern Japan	Trade firms, wholesalers
36	Nippon Restaurant Enterprise	679.2	American Diner B&G /Ajisai-tei, multi-FS/ restaurants/bento, 460	Eastern Japan	Trade firms, wholesalers, Direct import
37	Rock Field	608.2	RF1, take out meals, 329	Central Japan	Trade firms, wholesalers
38	Mefos	578.9	Institutional, 2,263	Eastern Japan	Trade firms, wholesalers
39	Hokka-Hokka-tei	578.9	Take away lunch box 1,232	Eastern Japan	Trade firms, wholesalers
40	Origin Toshu	628.8	Origin Bento, take out meals, 602	Eastern Japan	Trade firms, wholesalers
41	Fujio Food Systems	561.2	Maido Okini, Japanese style rst, 651	Western Japan	Wholesalers
42	Kisoji	558.2	Kisoji, Japanese style restaurants, 175	Nation wide	Trade firms, wholesalers
43	B-R Thirty-One Ice Cream	542.0	Thirty-One Ice Cream, QSR-ice cream, 1,127	Nation wide	Trade firms, wholesalers
44	Atom	519.1	Steak Miya, FSR/QSR, 391	Eastern Japan	Trade firms, wholesalers
45	Watami Takushoku	480.6	Home delivery/Catering, 431	Eastern Japan	Trade firms, wholesalers
46	Koraku-en	466.0	Korakuen, noodle shops, 509	Eastern Japan	Trade firms, wholesalers, Direct import
47	Royal Host	458.7	Royal Host, Cowboy Family, Shakey's, FSR, (753)	Nation wide	Trade firms, wholesalers, Direct import
48	Green House Foods	426.9	Saboten, Shahoden HMR/restaurant, 582	Nation wide	Trade firms, wholesalers
49	Dynac	411.5	Hibiki/Toridori, pub dinings/restaurants, 241	Eastern Japan	Trade firms, wholesalers
50	Monogatari Corporation	403.9	Yakiniku King, ramen 243	Central Japan	Trade firms, wholesalers

Source: Nikkei Marketing Journal, May 2013

QSR= Quick Service Restaurant, FSR = Family Style Restaurant

Conclusion

The Food Service Industry in Japan is vibrant and expanding. Food is a cultural phenomena and Japanese cuisine (Washoku) was just added to the UNESCO national heritage list. U.S. suppliers can take advantage of this exciting market by offering quality products to this \$361 billion market.

III. POST CONTACT AND FURTHER INFORMATION

Reports from Japan's ATOs, in addition to those from the Agricultural Affairs Office in Japan frequently updated and can be found latest using the links provided or by searching from the FAS Japan Reports website at:

<http://gain.fas.usda.gov/Pages/Default.aspx>

In Japan, the Foreign Agricultural Service has two Agricultural Trade Offices located in Japan.

A. Post Contacts

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Kita-ku, Osaka 530-8543

email: 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.us-ato.jp/> (ATO Japan, B2B web site, English & Japanese)

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

C. Exporters Guides

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://gain.fas.usda.gov/Pages/Default.aspx>

*Please visit the Foreign Agricultural Service's website at <http://www.fas.usda.gov/> and then continue on to the above Reports Website for the available updated versions of the following reports:

Japan Exporters Guide

This is comprehensive document from the ATOs in Japan containing information useful to exporters and U.S. suppliers, considering the Japan market for the first time. These reports are frequently updated and can be found latest using the links provided or by searching from the FAS Japan Reports website at:

<http://gain.fas.usda.gov/Pages/Default.aspx>

Search for Japan, Exporter Guide

D. Regulations & Standards

USDA/FAS GAIN Report, "Japan Food and Agricultural Import Regulations and Standards (FAIRS Country Report)", provide a packaged information about food import regulations and standards.

Reports from Japan's ATOs, in addition to those from the Agricultural Affairs Office in Japan, frequently updated and can be found new one using the links provided or by searching from the FAS Japan Reports website at:

<http://gain.fas.usda.gov/Pages/Default.aspx>