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Global Agricultural Information Network

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Japan

Retail Foods

Retail Sector

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Report Highlights:

Despite a high level of spending from a record influx of inbound tourists to Japan, the Japanese retail sector overall suffered in 2015 in response to lingering effects of the April 2014 consumption tax hike, a relatively weaker yen, and lower consumer spending overall. Competition for shelf space in intense, and convenience stores are a dynamic and powerful player in this sector.

Post:

Tokyo ATO

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Executive Summary

The Japanese yen weakened in 2015, averaging 122.05 yen per 1 U.S. dollar. Consumer confidence rose slightly at the end of the year to 42.6 percent in December, from 39.2 percent at the beginning of the year, however consumption was weaker in 2015 than 2014. This reflected a lingering effect of the first consumption tax increase in 17 years. On April 1st of 2014, the Government of Japan raised the consumption tax from 5% to 8% in order to address high public debt. The consumption tax was set to increase again in October of 2015 to 10%, but that was postponed and is now scheduled for 2019. The major economic bright spot in 2015 was that the number of visitors to Japan increased to 19.74 million, and travelers spent a new record high of 3.48 trillion yen. The average spending per visitor rose 16.5 percent, leading to 76,168 billion yen worth of sales.

Yearly Average Exchange Rate, Yen/USD

Yearly average	2011	2012	2013	2014	2015
JPY per USD	80.84	80.82	98.65	106.85	122.05

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

SECTION I: JAPAN RETAIL FOOD SUMMARY

Structure and Overall Value

The value of all retail sales in Japan in 2015, including food, beverages, general merchandise, fabrics, apparel and accessories, was 69,380 trillion yen. Of this, the value of all retail food and beverage sales was 45,311 trillion yen.

FIGURE 1: Total Retail Sales (billion JPY)

Year	Total	Food & Beverage	General Merchandise	Fabrics, Apparel & Accessories
2012	67,649	44,026	12,681	10,942
2013	68,516	44,619	12,710	11,187
2014	69,911	45,590	12,821	11,500
2015	69,380	45,311	12,798	11,271

Source: METI, Part1 Commercial sales Monthly, Table 1, Report on the Current Survey of Commerce. http://www.meti.go.jp/english/statistics/tyo/syoudou_kakuho/index.html

The food retail market is represented by large-scale conventional supermarkets (including both upscale and discount stores and more recently smaller urban stores), convenience stores, and department stores (where the basement level usually specializes in high-end specialty food, gifts and take-out food). Food sales at both large-scale conventional supermarkets and convenience stores increased in 2015, but department stores sales decreased slightly. Sales from convenience stores increased 0.9 percent in 2015 due primarily to increased sales of coffee and bento (takeout lunch) dishes.

Convenience stores have done a good job adjusting to shifts in Japanese demographics and households. They have stayed on top of these shifts by appealing to the growing population of seniors, singles, and two-income households. Accommodations include online stores to reach busy young customers who are always on the go, creation of ready-to-eat meals for working mothers, and delivery services for the growing senior (60 and above) population.

FIGURE 2: Food Retail Sales of Three Categories for 2012-2015 (Million JPY)

Year	Large-scale Supermarkets & Conventional Supermarkets	Department Stores	Convenience Stores
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2012	8,535,260	1,916,244	5,817,844
2013	8,734,942	1,911,969	6,138,738
2014	9,071,134	1,928,884	6,581,894
2015	9,363,387	1,925,679	7,023,382

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

FIGURE 3: Japan Retail Food Market Share by Type of Outlet

Year	Large-scale Supermarkets & Conventional Supermarkets	Department Stores	Convenience Stores
2012	52.5%	11.8%	35.8%
2013	52.0%	11.4%	36.6%
2014	51.6%	11.0%	37.4%
2015	54.5%	10.5%	38.4%

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

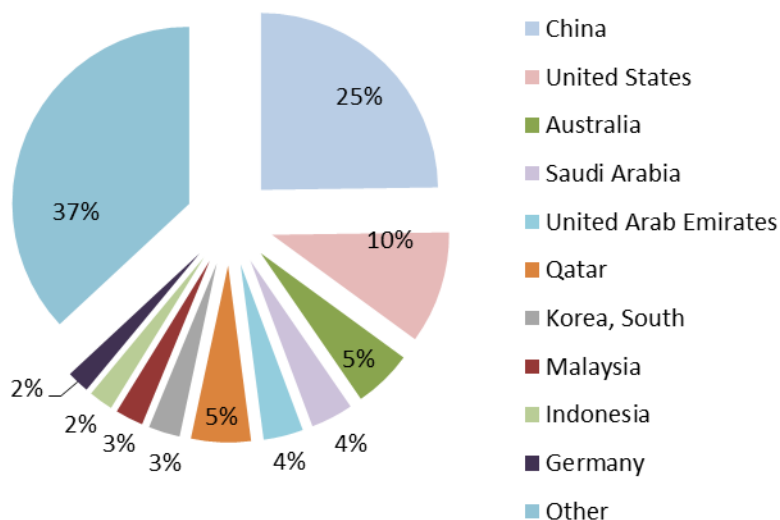
Source: METI, Part 4 Convenience store, Table 1, Report on the Current Survey of Commerce.

International Competition and Food Imports to Japan

China is the number one exporter of good to Japan, and the United States is number two. U.S. products have the advantage of being viewed as safer than Chinese, but prices of U.S. products tend to be higher than some Asian neighbors due to both logistics and cost of production. Therefore, U.S. producers are better positioned to compete with other foreign suppliers by emphasizing their high quality. Australia is also a serious competitor and can compete on both quality and price, especially after they implemented an economic partnership agreement with Japan in January 2015 and started receiving preferential tariffs on many agricultural products.

FIGURE 4: Food Exporters to Japan 2015

Top Ten Major Food Exporters to Japan 2015



Source: Global Trade Atlas

FIGURE 5: Major Food Exporters to Japan in 2015

Ranking	Partner Country	United States Dollars (Billions)			% Share			% Change
		2013	2014	2015	2013	2014	2015	2015/2014
	World	832,627	812,954	648,083	100.00	100.00	100.00	- 20.28
1	China	180,840	181,038	160,624	21.72	22.27	24.78	- 11.28
2	United States	69,824	71,386	66,589	8.39	8.78	10.27	- 6.72
3	Australia	50,989	48,176	34,822	6.12	5.93	5.37	- 27.72
4	Saudi Arabia	49,888	47,521	25,070	5.99	5.85	3.87	- 47.31
5	United Arab Emirates	42,521	41,771	23,516	5.11	5.14	3.63	- 43.70
6	Qatar	37,007	33,575	16,345	4.44	4.13	2.52	- 51.32
7	Korea, South	35,852	33,408	26,815	4.31	4.11	4.14	- 19.73
8	Malaysia	29,778	29,204	21,532	3.58	3.59	3.32	- 26.27
9	Indonesia	28,849	25,656	19,765	3.46	3.16	3.05	- 22.96
10	Germany	23,784	24,140	20,279	2.86	2.97	3.13	- 15.99

Source: Global Trade Atlas: Agricultural Total Group 2

Source: Global Trade Atlas

Retailer Trends Overview

To attract more customers, convenience stores and supermarkets are increasingly experimenting with “eat-in” lounge areas. Some supermarkets have provided convenient access with smaller stores in urban residential neighborhoods, as an alternative to convenience stores. Online shopping has continued to be an emerging lucrative market for grocery stores with some offering home delivery for little to no charge. This has become a hit with seniors, who are now the most active online shoppers. Food and beverages account for 13.7% of e-commerce sales and this share is growing every year.

The supermarket business in Japan is a mature market which is at full saturation levels for standard large-scale and conventional supermarkets. In order to expand to new customers and to compete with convenience stores, many major supermarket chains are investing in smaller city-style stores (smaller urban versions of the large suburban supermarkets) which are usually located in residential neighborhoods of urban areas so customers living there do not have to travel far. They have been a hit with seniors, mothers, and value-conscious customers. City stores offer a wider variety of goods than convenience stores but with a small floor space. City-style stores became increasingly popular at the end of 2014 and this popularity extended into 2015.

Japan’s market continued to fluctuate as the sales tax hike took effect. With stores looking to increase sales, many businesses within the Japanese market looked to discover which consumers to target and appeal to. The most popular demographics that were targeted this year were single youth, seniors, and busy mothers. For consecutive years, the two national brands AEON and Seven & I Holdings have strived to appeal to the aging population. Seven-Eleven entered a partnership with the Fukuoka prefectural government and an organization that checks on seniors in the area. Seven-Eleven is actively hiring senior citizens at its stores. In 2015, they increased their focus on single-portion, healthy ready meals again aimed at seniors. In addition, they have made changes to the shop floor including increasing the font size in point of sale displays. Convenience store chains are keeping a close eye on the potential which the senior market offers. Through strategies that maximize effective cooperation between head office and franchises, they are investigating additional services they can provide. Nippon Suisan Kaisha (Nissui) and Hagoromo Foods, which make shelf-stable food such as preserved fish, fruit and vegetables, have added an easier to peel-off foil as a lid for its metal food cans. Retailers are offering delivery services for seniors and facilitating ordering through non-internet options such as telephone and even door-to-door salespeople with tablets.

Store brands, known in Japan as private brands (PB), have increased. Private-label products help companies stand apart from their competitors and are often sold for lower prices. These private brands can be found in Maruetsu and AEON Topvalu, and have had great success with customers.

Advantages/Challenges Table

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. 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 United States are unfamiliar 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 produces many new products each year.	Some Japanese consumers believe American food cuisine is unhealthy.	While your product may not be a specialty health product, make sure to emphasize any health benefits. Be careful not to make claims unless you have Japanese government approval.
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. They do not like food additives.	Educate your customers about safety information in order to help facilitate communication and provide your customer with transferable knowledge.
Stable Supply	The U.S. is a major supplier of food products all over the world, with a very stable supply.	The West Coast port closure affected Japanese business 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.

SECTION II: ROADMAP FOR MARKET ENTRY

Entry Strategy

It can be difficult to enter the Japanese market. There are many factors to consider, such as strict

regulations on some ingredients and additives, demands for consistency and high quality, and the amount of information that buyers will ask for before making a decision to import. Despite this, the Japanese market has enormous potential. With Japan's changing demographics, demand is shifting and new opportunities are constantly presenting themselves.

Strategies for entering the Japanese market will vary depending on product characteristics, competition, and the market environment. However, Japan is a very competitive market.

At the consumer level, the following trends are driving the way.

Beauty & Anti-Aging: Products that offer beauty or anti-aging benefits have always been popular in the Japanese market.

Health and Functional Foods

Like anti-aging and beauty related food items, food with other health benefits is also highly prized in Japan.

Increasing Purchasing Power of Women

Japanese women have always had a great deal of responsibility for daily purchases for themselves and their families. However, due to the increase in the number of working women in Japan, net household income has risen.

Growth of Convenience Foods

Along with the increase in the number of working women and the overall long hours worked in Japan has been an increase in demand for convenience foods as a replacement for meals made from scratch at home.

Market Structure

Overall, food traditionally enters the retail system via importers, however this is 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.

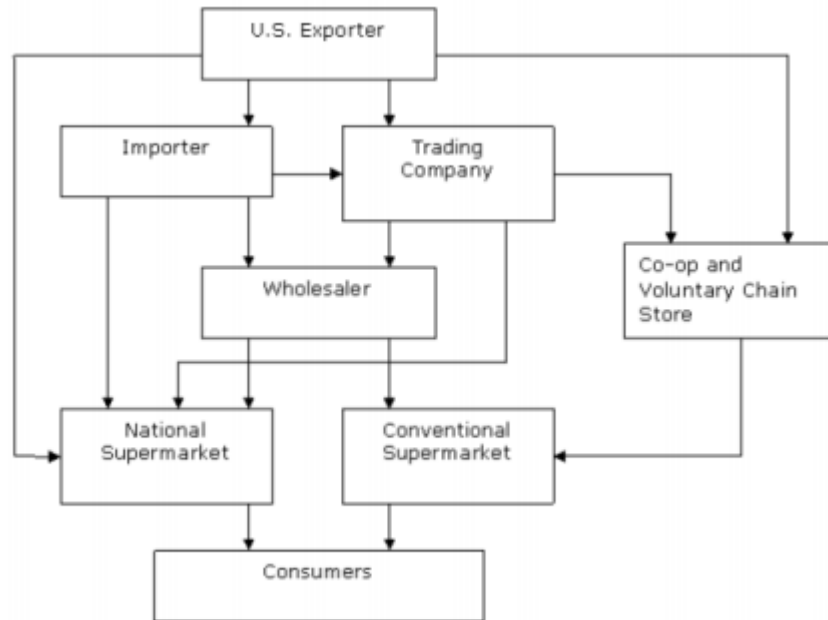
Conventional Supermarkets

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.

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.

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

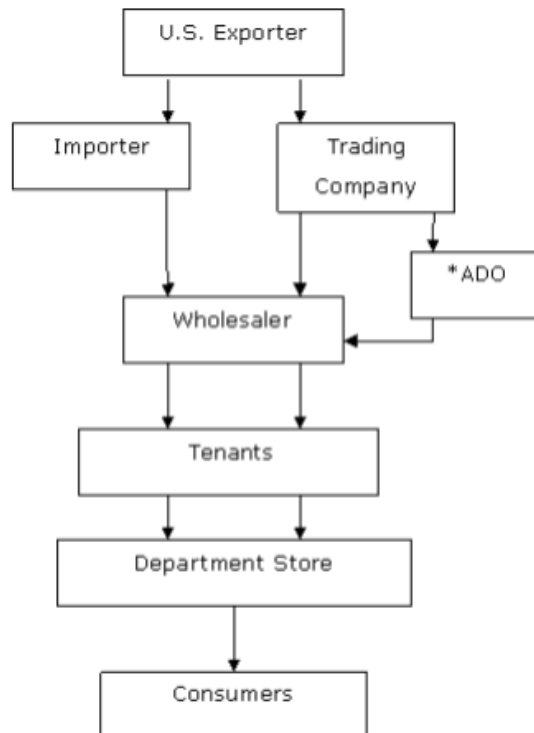
1. Directly from the importers
2. Directly from the manufacturers and processors
3. Wholesalers and distributors



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

Department Stores

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 for trading companies. Tenant merchant companies mainly purchase the ingredients for their products from wholesalers and then manufacture the products to be sold.



Convenience Store Structure

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

1. Modify product taste/specifications to Japanese consumer tastes
2. Shorten delivery time to ensure freshness
3. Update and introduce new products frequently

Specialty and Other Stores

The remainder of the Japanese retail food industry is made of a small, yet energetic group of stores ranging from co-ops and specialty shops to online marketplaces.

1. Co-ops

Co-ops use a variety of sources which include: direct importing, 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 brand products with Japanese food processors and overseas sources to sell to member retailers. Some of these organizations directly import non-branded food products that are “volume” oriented in nature.

2. Traditional Stores

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

3. Specialty Shops

Specialty shops (i.e. foreign foods, discount foods, etc.) also primarily depend on wholesalers. Selected coffee shop chains, discount stores and natural food specialty stores with chain operations may present opportunities for some U.S. food exporters.

4. Online

Online shopping has become popular in Japan. Online sales, include TV mail order business, offers another possible channel which U.S. exporters can consider for food distribution. While the majority of online sales are for non-food items, food and beverage sales are increasingly being purchased online. Japan has a large e-commerce market that generated roughly \$80 billion in sales in 2015. This compares to approximately \$350 billion of ecommerce sales in the U.S. in 2015. China’s 2015 ecommerce sales exceeded \$650 billion. (Source: <http://www.practicalecommerce.com/articles/97054-Ecommerce-in-Japan-Marketplaces-Dominate>)

This growth has dwarfed the growth of the overall retail market. The three largest e-commerce sites in Japan are Rakuten, Amazon Japan, and Yahoo Japan Shopping. Together, these sites account for roughly 50 percent of total Japanese annual e-commerce revenue.

Company Profiles:

A. Superstores, Supermarkets, Clubs, Warehouse Outlets, etc.

The largest retail outlet is Aeon Co. Ltd. In 2015, consumer activity toward daily necessities remained weak in response to the consumption tax hike and rising prices for goods, but AEON Co., Ltd. experienced a moderate recovery. The company took initiatives to establish a price advantage by holding low-price sales promotions for food as well as offering approximately 5,000 lower-priced items through Aeon’s private brand, Topvalu. The second largest retailer in terms of overall sales value is Ito-Yokado. Ito Yokado is part of the Seven & I group that is also successful with its convenience store business.

The well-known U.S. brand retailers Costco and Walmart are also successful in Japan. Costco opened its first membership warehouse club in Japan in 1999. Today Costco operates 25 warehouses. Walmart purchased the Seiyu supermarket chain in 2005, and now Walmart Japan operates 341 retail stores in Japan, using the more familiar Seiyu name.

FIGURE 7: Top Supermarkets by Total Sales in 2015

Rank	Company Name	Total (JPY Mil)	Food (JPY Mil)	% of Total Sales From Food	Number of Outlets	Location of HQ & Stores
1	AEON Retail*	2,177,100	1,074,100	49.3%	388	Chiba
2	Ito-Yokado	1,289,586	601,672	46.6%	182	Tokyo
3	Uny	757,941	501,236	66.1%	228	Aichi
5	Life	629,986	518,178	66.1%	256	Tokyo
6	Izumi	609,032	198,363	32.5%	103	Hiroshima
7	Arcs	501,905	453,561	75.6%	339	Hokkaido
8	York Benimaru	412,977	312,683	75.7%	205	Fukushima
9	Maruetsu*	363,259	336,096	92.5%	285	Tokyo
10	Heiwado	362,509	247,266	68.2%	149	Shiga
10	Fuji	309,716	128,600	41.5%	96	Yokohama
10	MaxValu Nishi Nihon*	275,591	246,701	89.5%	182	Fukuoka
11	Okuwa	264,960	194,560	73.4%	157	Wakayama
12	Kasumi*	249,000	236,838	95.1%	170	Ibaraki
13	AEON Kyushu*	240,314	112,206	46.7%	115	Fukuoka
14	MaxValu Tokai*	216,141	200,934	92.96%	140	Shizuoka
15	MaxValu Chubu*	171,739	151,152	88.0%	112	Nagoya

Source: Tokei Geppou May 2016 pp 56-57, 61 *All affiliated with AEON CO., LTD.

B. Specialty Supermarkets

Specialty supermarkets are important for exported products because these stores carry products with higher prices and are often open to new products. Here is a list and some background information on these specialty supermarkets.

Kinokuniya Co, Ltd. :

Kinokuniya first started out as a fruit shop located in Aoyama in 1910. From there, Kinokuniya branched out to introduce new dietary cultures from around the globe. By bringing items for the first time like freshly baked bread, imported cheeses, etc., Kinokuniya helped incorporate various Western foods into the Japanese diet.

<http://www.e-kinokuniya.com/kinokuniya2.pdf>

Meidi-ya:

Meidi-ya was founded in 1885. Meidi-ya develops specialty processed 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 around Japan and the world to discover and create products that are delicious, high quality, and safe. Imported wines are Seijo Ishii’s specialty feature- they import 95% of their wines directly instead of through a trading company. Seiji Ishii also imports an impressive variety of cheese, processed meat, and olive oils.

<http://www.seijoishii.co.jp/en/>

Dean & Deluca:

Dean & Deluca is an upscale grocery store chain that was established in New York City's SoHo district by Joel Dean, Giorgio DeLuca, and Jack Ceglic in September 1977. It entered the Japanese market in 2002 and has been rapidly expanding across Tokyo in wealthy neighborhoods.

<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 international producers.

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

National:

National supermarkets sell imported food, wines from around the world, groceries, fruits & vegetables, meats, fish, alcohol (Beer, wine, spirits), sundry goods, and other miscellaneous goods. National currently has two physical shops in Tokyo 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 meat, vegetables, fruit, processed food, wines, beer, and spirits as well as health foods.

<http://www.nissin-world-delicatessen.jp/>

C. Convenience Stores (CVS)

1. Overview

Convenience stores continued to increase their market share due to the expanding number of locations, wide variety of products, and overall convenience. Another contributing factor to the success of convenience stores is the proximity to consumers' homes, which creates a sense of community. Many customers can get to know their neighborhood staff- a factor which is important for the elderly population. Some convenience stores offer home delivery such as Seven-Eleven's Seven Meal bento delivery service, as well as their online shopping service "omni7" unveiled this year. Family Mart has a special and unique service that allows delivery staff to check up on its senior customers' well-being. Despite the growth of online shopping and the tax hike that went into effect last year, sales at convenience stores remained strong.

2. Company Highlights

Seven & I Holdings achieved record-high sales for the fourth consecutive year resulting from increased existing store sales and improved gross profit margins. Growth in existing store sales was led by strong fast food sales, centered on hot foods sold at the counter, and improvements made to *onigiri* (rice balls) and sandwiches.

For the fiscal year that ended February 2016, Lawson food sales rose 20%. This growth was led by products targeting health-conscious customers, sales of vegetable-rich green smoothies, as well as chicken salad and other cooked ready-to-eat meals. In addition, the company succeeded in broadening its customer base by expanding the lineups of products targeting women and seniors.

Family Mart's food sales rose by 20% due to product improvements, including new packaging on the chain's packed lunches. Their new 2015 slogan, "Fun & Fresh", helped them to cultivate increased sales of fresh and healthier "just-made" products .

FIGURE 8: Top Convenience Stores in 2015 (Sales and Outlets)

Rank	Company Name	Food Sales (JPY Mill)	Number of Outlets	Location
1	Seven & I Holdings	2,973,709	19,722	Nationwide
2	Lawson	1,646,900	12,570	Nationwide
3	Family Mart	1,175,013	11,431	Nationwide
4	Circle K Sunkus*	523,621*	5,948*	Nationwide
5	Mini Stop	223,661	2,281	Nationwide
6	Three-F	50,190	450	Tokyo Area
7	Poplar	36,652	590	Nationwide

Source: *Tokei Geppou* May 2016 pp 14

*Family Mart and Uny Group Holdings Co. Circle K Sunkus merged on September 1st 2016. This means that during 2016 Family Mart will surpass Lawson, making it the second largest convenience store chain in Japan.

E. Department Store Food Sales

Sales Structure

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

The word “depachika” is a blend of the Japanese words “depāto”, meaning “department store,” and “chika,” meaning “basement”. The basement floor of the department store is where fresh food stalls are located. Traditionally, a depachika was a quiet food retail location, but this changed when shops introduced high quality Home Meal Replacement (HMR) menus, creating a new and very popular niche food market in Japan. In addition, famous restaurants became tenants and lent their brand names to popularize the depachika. The depachika phenomenon turned the basement floor of department stores into an attractive place, bringing in additional customers who sometimes come just for the food.

Because department stores often stock their items with premium products, they have become popular places to buy gifts and souvenirs.

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 (with ice packs) as takeaway products due to their proximity to train stations, and the fact that many of the products are used as gifts.

Tourism-led Growth

Average outlet sales at department stores jumped by more than 10% to 350 billion yen in 2015. The tourism boom has helped Japan’s market value combat decreased domestic that was expected as a result of Japan’s declining population. The Government of Japan made changes to the visa and tax-free shopping rules that has been attracting record levels of tourists since 2014. The Japan National Tourism Organization had aimed to attract 20 million foreign tourists to Japan by 2020, but nearly reaching that goal already in 2015 with a record 19.73 million foreign tourist, up 47.3 percent from the previous year. Overseas tourists visiting department stores rose more than 80% to 1.17 million in the first nine months of 2015. For the first time in 45 years the number of visitors to Japan overtook the number of Japanese people traveling abroad last year. The Government of Japan now aims to attract 40 million by the time Tokyo hosts the Olympic Games in 2020, which could lead to continued strength in department store sales.

Company Highlights

The past four years have seen many changes in the lineup of department stores. Isetan Mitsukoshi Holdings Ltd., Japan’s largest department store group, announced on Sept. 29, 2015 that it would further expand its "omotenashi" (hospitality) services for foreign visitors on the basis of its new corporate message, “This is Japan”, which they released in January 2015. The move is timed to capture business created by the record-level increase in visitors from abroad that started in 2014. Isetan Mitsukoshi received 400 million foreign visitors in 2015, which is more than Japan’s entire population.

Listed below are the top 10 department store establishments and their total food sales for Japan in 2014.

FIGURE 9: Top 10 Department Stores & Total Sales

Rank	Company Name	Location	Food Sales (Billion Yen)
1	Mitsukoshi-Isetan	Shinjuku-ku, Tokyo	13,215
2	J. Front Retailing (Daimaru)	Chuo-ku, Tokyo	11,463
3	Takashimaya Co.	Chuo-ku, Osaka	9,041
4	Seven&I (Sogo Seibu)	Chiyoda-ku, Tokyo	8,691
5	H2O Retailing (Hankyu Hanshin)	Kita-ku, Osaka	5,768
6	Tokyu Corp.	Shibuya-ku, Tokyo	5,162
7	Marui Group	Nakano-ku, Tokyo	4,164
8	Kintetsu	Abeno-ku, Osaka	2,770
9	Parco	Shibuya-ku, Tokyo	2,643
10	Odakyu	Shinjuku-ku, Tokyo	2,223

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

SECTION IV: CONSUMER TRENDS AND BEST PROSPECTS

A. Historical Trends

Japanese customers are a sophisticated clientele with tastes and preferences instilled via cultural, societal and environmental influences. If you are considering developing products or searching for products to export to Japan, please consider these following characteristics of the Japanese market.

1. Demographics

Japan has the fastest growing senior population (over 65) in the world. The roughly 35 million citizens in this generation represent approximately 27% of the entire Japanese population. It is predicted to reach 29% by the year 2020 and 36% by 2040.

Figure 10: The National Institute of Population and Social Security Research predicts the following demographic changes:

Year	Population (Thousands) by Age Group			
	Total	0-14	15-64	65+
2015	126,597	15,827	76,818	33,952
2020	124,100	13,240	70,845	36,124
2025	120,659	13,240	70,845	36,573
2030	116,618	12,039	67,730	36,849
2035	112,124	11,287	63,430	37,407
2040	107,276	10,732	57,866	38,678
2045	102,210	10,116	53,531	38,564
2050	97,076	9,387	50,013	37,676
2055	91,933	8,614	47,063	36,257
2060	86,737	7,912	44,183	34,642

Source: National Institute of Population and Social Research

2. Seasons and Holidays

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:

Figure 11: Seasons and Holidays

Season	Month	Sales, Promotions, Events & Holidays
Spring	March	High School & University Graduation events White Day (Valentine's Day for women) Sakura (cherry blossoms) picnics and travel Fiscal Year begins – job rotation
	April	New school year and related events Entrance ceremonies for new company employees – sales, promotions
	May	Mother's Day Golden Week – holiday sales, travel, outdoor 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 , year end gift giving, Halloween
Winter	December	Christmas sales New Year's & major end of year sales campaigns
	January	Coming of Age holiday Setsubun (end of winter) promotions
	February	Valentine's Day (for men) Fiscal Year ends- related promotions by companies

3. Preferences

Japan is a nation that prefers convenience, quality, and single-serving sizes. An estimated 13.491 million people commute via a combination of train and walking into Tokyo every day according to the Tokyo Metropolitan government. Therefore, convenience and accessibility are highly valued by Japanese consumers who tend to drive less than many other developed country citizens and purchase food fresh daily during their commute.

B. More Recent Trends

As mentioned already in this report, recent trends indicate a burgeoning growth of Private Brands (PB), demand for healthy foods, preference for time-saving foods (i.e. frozen foods), attraction to new and trendy items. Prepared foods (Home Meal Replacements- HMR) and desserts have seen strong growth in the past few years. Interest in healthy or functional foods has also increased.

1. Healthy or Functional Foods

There has been growing demand for healthy and balanced meals with demand led by women and seniors. This trend has been growing since the mid-1990's and has not slowed down. 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. Home Meal Replacement (HMR)

Home Meal Replacement (HMR) 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 HMR.

The growth in HMR 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, people are marrying less and at a later age, so young adults in their 20s and 30s who live 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 attests to the popularity of the HMR market. Frozen foods have also gained a large presence in the HMR market. Thaw and serve *bento* are lunches that are bought frozen in the morning and by lunchtime are thawed out and ready to eat. 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 Brands (PB)

The majority of major food retailers now feature their own private brands (PB). 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 3.3% annually. Many new varieties of HMR frozen foods continue to grow as well. As mentioned above, some examples of these foods include pre-cooked rice dishes, Asian & Western noodles, breads, and fish.

5. Sweets

7-Eleven announced it would start selling doughnuts beginning last year. This resulted in a fierce competition with Mister Donut, a market leader. The 7-Eleven doughnuts look similar to those of its rivals, yet the products have a price advantage. While its products are sold for JPY100 to JPY110, competing products from Mister Donut range from JPY108 to JPY151. 7-Eleven also has strong coffee sales, so donuts give consumers an attractive snack to have with their coffee.

FamilyMart Co., Ltd introduced "Premium W Cream Éclair" in December, 2015. This is a popular product that consumers have praised for its high quality and affordable price. This has further increased the popularity of FamilyMart's "premium" sweets line. Krispy Kreme began selling its "Waffnut" creation, a cross between a waffle and donut. This new product was in response to the recent "Cronut" frenzy that had grown popular worldwide. The Waffnut is available in three flavors: Strawberry, Green Tea, and Almond.

6. Consumption

In Japan, approximately 23% of household expenditure goes toward food, according to the Japanese Statistic Bureau. The two main consumer groups in Japan are seniors and young adults in their 20s and 30s.

Seniors, age 60 and above

This cohort is rapidly expanding. They tend to have a high level of savings but limited mobility. They also tend to demand healthy food. 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 their needs in mind. Seniors will continue to play an integral role in the Japanese market and projections show the 60+ age category will expand from 800 million in 2010 to 2 billion in 2050.

(Source: Euromonitor International)

Youth Consumption

With such a large senior market, the young adults in Japan are often overlooked. But recent indicators show consumption spending increased 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:

At the end of 2015 FamilyMart, Japan's third largest convenience store operator, and fourth ranked operator of Circle K Sunkus, UNY Group Holdings, announced plans to merge in September 2016. When the two chains are combined, the store count will compete with industry leader Seven-Eleven Japan, and surpass second-ranked Lawson.

SECTION V: POST 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:

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