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Market Development Reports

Food Business Line

Periodic Press Translations from ATO Tokyo

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Report Highlights:

From America's largest overseas food and agricultural export market as translated from Japan's mass media and food industry news. This issue includes: In the midst of flat sales in Japan's food market, lead by *Seven Eleven Japan*, convenience store chains offer some good news; new large-scale Japanese supermarket openings are trying to get the jump on the impending arrivals of global retail giants; In addition to reducing the use of additives and preservatives, efforts also continue in Japan's food industry to offer consumers new products tailored to special needs and; *Sapporo Breweries* to contract out to Japanese farmers for 100% of its malt and hops requirements.

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Retail/Wholesale

- It was announced that *Ryoshoku Food Service*, a subsidiary of *Ryoshoku*, a major wholesaler, and *Yukiwa*, a wholesale subsidiary of food manufacturer *Nichirei*, would be merged as of October 1. As a result, the new company, *RY Food Service* is expected to be the largest in its category among chilled and frozen food wholesalers. (b 7/24)
- According to the Japan Economic Newspaper's annual convenience store survey, total sales of *Seven-Eleven Japan* was 2.21 trillion yen in 2002, a 4.7% increase compared to 2001. This was some 500 billion yen above the fiscal year 2002 sales of the supermarket operator *AEON*. *Seven-Eleven* also increased its lead over second-ranked *Lawson* compared to last year. *Seven-Eleven's* total number of stores at the end of fiscal 2002 was 9,743, up 6.9% compared to 2001. (b 7/24)
- According to the Japan Economic Newspaper's annual convenience store survey, total sales of 57 convenience stores increased by 3.2% in 2002 compared to 2001 on a total-store basis. Although sales were sluggish on a same-store basis, the convenience store operators managed to maintain growth by opening new outlets. This allowed them to expand in an otherwise struggling retail sector. (a 7/24)
- In an aim to reduce labor cost and increase efficiency, *AEON* plans to introduce Japan's first self-checkout registers as early as August. (a 7/24)
- Supermarket operators such as *Daiei*, *Ito-Yokado*, and *AEON* suffered a decline in same-store sales in July due to unseasonably cold weather. Sales at food supermarkets also declined. For example, total sales of *Life Corporation* in July declined by 4.8% on a same-store basis, compared to the same month last year. (a 8/7)
- According to the *Japan Department Store Association*, total sales of its member companies in June declined by 2.1% compared to the same month last year. It was the 15th consecutive monthly decline compared to previous year's sales. In addition, total sales of member companies from January thru June 2003 declined by 2.8% compared to the same period last year. (Shokuryo Jyokai 8/7)
- According to a survey of Japanese wholesalers completed by the Japan Economic Newspaper, total sales and pretax profits increased by 1.1% and 12.6% respectively in 2002 compared to 2001. As for food wholesalers, their sales increased by 1.9% compared to the previous year. (a 8/7)
- 400 new supermarkets are expected to open in the second half of this fiscal year with at least 1,000 sq. meters of floor space, up about 40% from last year. This will be the highest increase since the June 2000 implementation of the Large-Scale Retail Store Law. Better performing companies like *AEON* and *Ito-Yokado* are particularly aggressive about launching new, large-scale outlets and expanding their business before *Wal-Mart* and other foreign rivals can fully develop new operations in Japan. (a 8/13)

Food Service

- *Colowide*, an operator of pub dining style restaurant chains, plans to open a Japanese-style restaurant featuring Kabuki in Tokyo, supervised under the famous Kabuki star, Kankuro Nakamura. (a 7/24)
- In a move that acknowledges the trend to offer consumers higher quality in Japan's fast food service establishments, *Mos Food Service* announced that they would start selling high-value burgers at the unit price of 580 - 640 yen, served on a ceramic plate. (a 7/24)
- *Foodx Globe*, an operator of *Tully's Coffee* plans to open a second green tea specialty store in Tokyo on August 12. In addition to various drinks using green tea, light meals such as *sozai* (deli) side dishes and *onigiri* rice balls will be offered. (b 8/5)
- According to the *Japan Food Service Association*, total sales of its member companies during the period of January through June 2002 declined by 0.3% on an all-store basis compared to the same period in 2001. It was a 6.6% decline on a same-store basis. (Shokuryo Jyokai 8/7)
- On August 8, *McDonald's Japan* announced a pretax loss of 537 million yen in the first half of the fiscal year ending on June 30, compared to the year-earlier profit of 2.46 billion yen. The red ink was attributed to weak sales of hamburgers. (b 8/12)
- The appetite for hamburgers appears to be waning among Japanese consumers. Japan Economic Newspaper estimated that the market size for hamburgers shrank by 6.4% to 604 billion yen in 2002, compared to 2001. This is the second consecutive year of decline in the market. (b 8/12)

Food Processing/New Products/Market Trends

- There is continuing evidence that the Japan food industry is tailoring new food offerings according to current trends in consumer demands. Convenience stores are starting to introduce smaller packages of various *sozai* (deli) side dishes and relishes in response to targeted consumer needs. After the liberalization of the liquor sales in September, more consumers are expected to buy smaller portion-size packages of HMR products that are purchased especially to be consumed with alcoholic beverages (*in Japan, this type of meal or appetizer is referred to as 'o-tsumami'*). Also *Family Mart* introduced smaller deli packages that are prepared with a 15% reduction in salt, targeting the elder generation. *Seven-Eleven* is also selling deli packages that contain less artificial flavors and colorings. (a 7/16)
- The non-alcoholic beer market is expanding. Sales of non-alcoholic beer in June skyrocketed to six times the amount sold in the same month last year. (b 8/2)
- *House Foods Corporation* introduced a new retort-packaged food line called "Yasashii Shokutaku" (thoughtful dinner table), targeting the elder generation for ages ranging from 50 to 64. (f 8/4)
- By 2006, *Sapporo Breweries* plans to procure all of their malt and hops from Japanese contract farmers. *Sapporo* will require contract farmers to submit reports on how their crops are grown and, indicate the type and amount of agricultural chemicals and fertilizers used. Switching to contract farming as the sole input source will cost up to 100 million yen a year. However, the company hopes that consumers will appreciate the company's investment on safety and result in more sales of its regular and low-malt beers. *Sapporo* will be the first large-scale brewer in the world to depend solely on contract farmers for the supply of its major beer ingredients. (a 8/5)

- Total imports of frozen vegetables declined by 10.8% from January through June 2003, compared to the same period last year. It is mainly due to the detection of agricultural pesticide residue in Chinese vegetables and declining customers at food service outlets. Imports from China declined by 9.7%, but its import market share went up 0.5%, still keeping the No. 1 position closely followed by the U.S. share of 36%. (f 8/7)

Food Safety/Consumer Awareness

- According to the Japan Economic Newspaper's annual convenience store survey, 86.1% of the responding companies indicated plans or a strong interest in reducing additives in their food products. Companies that already discontinue use of preservatives and artificial colorings increased to 31.4%, while another 42.9% plan to do likewise. While only 20% already use some sort of traceability system, another 48.6% plan to do so in the future. (b 7/24)

ATO/Cooperator/Competitor Activities/Trade Shows

- The President of the *Raisin Administrative Committee* visited Japan and held a press conference on July 1 in Tokyo, to reemphasize the importance of the Japanese market for U.S. raisins. (f 7/21)
- The *Raisin Administrative Committee* held an award ceremony for finalists in its raisin snack menu contest on June 28 in Tokyo. Afterwards, the Committee is planning a special event for the finalist by taking them on a prizewinner's mission to Fresno, California. (f 7/24)

ATO Comments: The ATO attended a dried egg white seminar held by the *U.S. Poultry and Egg Export Council* on July 18 in Tokyo. Approximately 120 people attended, consisting of bakery technicians (95%) and manufacturers/wholesalers/importers/media (5%). Technical analysis for the use of dried egg white was given, followed by the menu introductions and tasting of snacks and confectionery products using dried egg white.

☞ Sources ☞

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|----------------------------------|---|
| (a) The Japan Economic Newspaper | (b) The Nikkei Marketing Journal |
| (c) The Japan Food Journal | (d) The Beverage & Food News Commentary |
| (e) The Japan Food News | (f) The Food Industry News |

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