



International
Markets
Bureau

MARKET INDICATOR REPORT | MARCH 2013

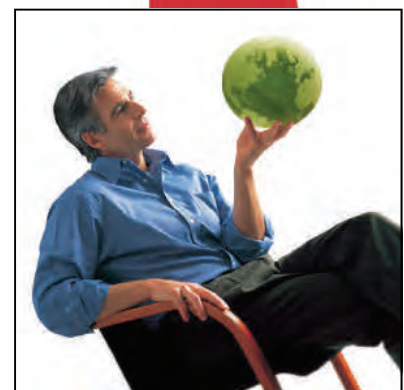
Modern Grocery Retailing in Japan



Source: Planet Retail



Source: Planet Retail





▶ EXECUTIVE SUMMARY

Japan is a high-income member country of the Organisation for Economic Co-operation and Development (OECD). In 2011, the country's total population reached 127.8 million (Euromonitor, 2012), and gross domestic product (GDP) exceeded US\$5.8 trillion with per capita GDP at US\$45,903 (World Bank, 2012). Total consumer expenditure was valued at US\$3.4 trillion with per capita consumer expenditure at US\$27,019 in the same year. More importantly, total expenditure for food and beverages, including alcoholic beverages, reached US\$581.6 billion, accounting for 14.7% of total consumer expenditure in 2011. Per capita expenditure for food and beverages was US\$3,970, and alcoholic beverages expenditure was US\$581 in 2011 (Euromonitor, 2012).

Japan's grocery retailers experienced a decline in sales over the 2006-2011 period. However, total market size remained the third-highest in the world after the United States and China (Euromonitor, 2012). In 2011, approximately 76% of grocery sales occurred within modern grocery retail channels, and the remaining 24% within traditional grocery retailers. Among modern grocery retailers, supermarkets represented the largest share, accounting for 59% of total sales in 2011. The next largest share was held by convenience stores with 40.9%, but this channel recorded the highest growth at a compound annual growth rate (CAGR) of 3.7% from 2006 to 2011. Forecourt stores, hypermarkets, and discounters represent a very small portion of modern grocery retailers in Japan.

As Japanese cities have stretched into more and more rural areas, convenience stores and supermarkets have been expanding in these newly developed urban areas, increasing competition within these two channels. In general, price polarization was a distinctive trend within Japan's retail sector during the 2006-2011 period, and the grocery market was no exception. Japanese consumers prefer high-quality food and beverages, which encouraged grocery retailers to expand their private labels with higher quality products, but at a relatively competitive price compared to premium products. In addition, chained retailers offered premium private label products at a lower price through loyalty card programs. Finally, internet-based grocery retailing also experienced growth over the 2006-2011 period, but remains a small proportion of overall grocery sales in Japan.

▶ INSIDE THIS ISSUE

<i>Executive Summary</i>	2
<i>Socio-Economic Profile</i>	3
<i>Consumer Tastes and Preferences</i>	4
<i>Grocery Shopping Trends</i>	5
<i>Grocery Retail Sector Overview</i>	6
<i>Market Share by Company</i>	8
<i>Distribution Formats</i>	9
<i>Major Grocery Retail Trends</i>	11
<i>New Product Examples</i>	14
<i>Sources</i>	17



Source: Shutterstock



▶ SOCIO-ECONOMIC PROFILE

Country Overview

The Japanese economy was stagnant during the 2006-2011 period. In 2011, the country was hit by the Great East Japan Earthquake, triggering a tsunami that caused further damages to infrastructure in north-eastern Japan. However, the country is slowly recovering from the natural disaster. In 2011, Japan's GDP reached US\$5.8 trillion with a real GDP growth rate of -0.7%. This decline in real GDP growth from 2010 was much more moderate compared to the 2008-2009 economic slowdown, when real GDP growth was -5.5% (World Bank, 2012). The OECD projected that reconstruction efforts following the 2011 earthquake would leverage growth in the country's economy. As a result, the OECD further estimated a 2% growth rate for Japan's economy in 2012, as well as an increase in exports of 2.3% for 2011-2012, and 6.5% for 2012-2013.

Consumer Demographics

The total population of Japan reached 127.8 million in 2011. By 2020, the number of Japanese citizens over the age of 65 years is expected to increase by 20.4%, to reach 35.7 million, or approximately 29% of the total population (Euromonitor, 2012). Due to these growing numbers, the proportion of seniors within the total population will increase by an average rate of 12% over the 2011-2020 period. In comparison, the proportions of other population age segments will see double-digit decreases over the same period, reflecting the burgeoning senior market, as well as the country's low birth rate.

The fact that many Japanese women aspire to fulfil themselves outside of the home, and have more opportunities to do so, has contributed to a low marriage rate, as well as increasing instances of co-habitation without children, and a lower fertility rate. In addition, the number of single-person and two-person households is expected to increase by 13% from 2011 to 2020, reaching a total of 34.3 million, while the number of households with more than three people will likely decline by 11% during the same period, reaching 18.4 million households.

Income and Expenditure

Between 2006 and 2011, annual gross income and disposable income both declined at a CAGR of 0.2%, affected by the stagnant economy and the 2011 natural disaster. Average annual gross income per capita was US\$41,468 in 2011, and average disposable income was US\$30,319 per capita. It is forecast that annual gross income and disposable income will increase by a CAGR of 1.1% during the 2011-2016 period, and per capita gross income and disposable income at a CAGR of 1.3% over the same period (Euromonitor, 2012).

In terms of 2011 expenditures, Japanese people spent the most on housing (23.8% of total expenditure), followed by food and non-alcoholic beverages (14.7%) and transportation (11.6%). These three categories will likely remain the top three expenditures for the 2011-2016 period. Total expenditure for food and beverages, including alcoholic beverages, was valued at US\$581.6 billion in 2011, with estimated per capita expenditure for food and non-alcoholic beverages at US\$3,970, and US\$581 for alcoholic beverages. During the 2011-2016 period, expenditure for food and non-alcoholic beverages is expected to decrease by a CAGR of 0.5%, but expenditure on alcoholic drinks is forecast to increase by a CAGR of 2.2% (Euromonitor, 2012).



▶ CONSUMER TASTES AND PREFERENCES

Food Culture

Traditionally, rice is the center of Japanese food culture, and many dishes are developed to be sided with rice. However, during the last couple of centuries, Japanese food evolved, as many cuisines from other countries and cultures were integrated into the country's traditional cuisine. Nowadays, Japanese cuisine is comprised of traditional dishes made with fresh seasonal and local ingredients, as well as contemporary dishes developed since the mid-19th century by adopting cooking styles from China and many western countries. The main staples in the contemporary Japanese diet are rice, noodles, dairy and bread, with vegetables and seafood used as common components. A typical meal would consist of steamed rice with assorted side dishes and soups that contain meat, vegetables, and seafood, with a few pickled vegetables (The Embassy of Japan to Canada, 2012).

Consumer Tastes

Japanese food embraces diverse types of local and international cuisines. Some cuisines from other countries are well naturalized, integrating a touch of Japanese flare (The Embassy of Japan to Canada, 2012). For example, curry and rice (kare-raisu), originally from India, is quite popular among the Japanese. There are a number of foodservice outlets specializing in curry dishes, as well as many packaged foods, including ready meals, side dishes and snacks, with curry and curry flavour. Another example of this trend is pasta. In general, noodles are popular with the Japanese, whether they are traditional Japanese-style noodles such as soba or ramen, or Italian pasta. In recent years, various types of pasta and pasta sauces were introduced to the market, further establishing pasta's popularity among the Japanese. Other international cuisines that have become popular are French and Korean dishes, which can be easily found at foodservice outlets in the retail sector, and in packaged food products.

Food Preferences

The quality and freshness of food is held in high regard among consumers, and Japan is a leader in the consumption of organic food. Product selection has diversified alongside consumption growth, resulting in a slight decrease in price. However, while Japanese consumers are influenced by price, they are unlikely to compromise the quality and freshness of food products for more affordable pricing. The consumption of organic food and drinks is expected to increase continuously over the 2011-2016 period.

Although Japan remains one of the largest importers of food, genetically modified (GM) foods are not popular in the country. Trust in relation to food is very important to Japanese consumers. In response to consumer expectations, any food product in the Japanese market that contains GM ingredients must be labelled in compliance with local regulations (The Ministry of Agriculture, Forestry and Fisheries of Japan, 2012).

An increase in single-person or two-person (usually couples without children) households, as well as a fast-paced lifestyle, have led to growing popularity of convenient and simple meal options. Therefore, many convenience stores and supermarkets offer diverse selections of chilled ready-meals and noodle soups. Most of these chilled foods are for immediate consumption (within a day or two) since they are made with fresh ingredients. Modern grocery retailers have also developed a wide range of private label meals, meal centres, and side dish items featuring many well-known international cuisines and special regional items, in response to consumers' demand for convenience.



▶ GROCERY SHOPPING TRENDS

Grocery Shopping Trends

Due to confidence in brand names, Japanese consumers have generally preferred to purchase famous brand name food products. However, more consumers have been making their selections based on the quality and price of the product in recent years. In addition, young consumers are less focused on buying grocery products based on brand names. During the 2006-2011 period, private label products, found in many modern grocery retailers, have increased in popularity as consumers seek quality products offered at competitive prices. While many consumers prefer lower-priced quality products, many others demand premium quality. To appeal to these consumer needs, private labels introduced an increasing number of premium products at a slightly higher price than their comparable standard items. Enhanced food safety, quality, and freshness are the main marketing themes for these premium products.

Along with the growing number of single-person households, these changing consumer behaviors in grocery shopping also influenced manufacturers and retailers. There has been increasing demand for packaged food products that are convenient and easy to cook, while ensuring an appropriate portion for individual consumption. In addition, grocery channels such as convenience stores and supermarkets, have become more and more popular in the areas where these consumer segments are concentrated.

Internet-based grocery sales represent a very small portion of the total grocery retail market, though it has become popular among Japanese consumers, as they seek a more convenient alternative to in-store grocery shopping. Internet grocery shops are usually operated by major convenience and supermarket chains under their popular banners. For example, the AEON Group is one of Japan's top grocery retailers, operating 51 banners including the internet grocery shops AEON Shop and AEON Net Super. In 2008, net sales of AEON Shop and AEON Net Super totalled US\$376.8 million*, which more than doubled in 2011, reaching sales of US\$842.1 million.*

During the 2011-2016 period, Japanese consumers are expected to shop more at convenience stores and chained supermarkets, while seeking better quality options with reasonable prices. In addition, due to the aging population and an increasing number of working moms and small household units, portioned products, internet shopping, and delivery services will grow in popularity.



AEON's Topvalu Umeshu Sukkiri Type (Refreshing Plum Liqueur) contains 20% reduced sugar and calories. This product retails in a 2-litre carton, and launched in July 2012.
Source: Mintel, 2012



FamilyMart's Mujirushi Ryohin Keema Curry is a microwaveable curry sauce formulated with sautéed minced chicken and onions based on an Indian Keema recipe. This product retails in a 180-gram stand-up pouch, and launched in July 2012.
Source: Mintel, 2012



Lawson Select Carbonara Fettucine is a premium microwaveable fettucine. This frozen ready-meal retails in a 300-gram plastic tray, and launched in November 2011.
Source: Mintel, 2012

***Note:** This total includes both edible grocery and non-edible grocery sales. Edible grocery includes food, beverage and tobacco products only.



► **GROCERY RETAIL SECTOR OVERVIEW**

Since the mid-1990s, the retail sector in Japan experienced a gradual decline in sales due to a number of socio-economic changes. For example, deflation in the consumer price and stagnant population growth resulted in fewer opportunities for the market to expand. These challenging conditions motivated the modern grocery retailers in Japan to diversify their channels and develop more small- to medium-sized grocery shops in city centres for better outreach to consumers.

As of fall 2012, there were approximately 27 retailers in Japan selling groceries through their various outlet types, under 148 banners. The AEON Group has the largest number of modern grocery retail banners (51), but other major grocery retail groups, such as Seven & I Holdings, the Uny Group and Lawson, also operate multiple banners.

Japan's Grocery Retail Sector Overview by Company in 2011

Company	Number of Banners	Number of Outlets	Average Sales Area (Square Feet)
AEON	51	5,449	20,645
Seven & I	12	14,471	3,701
Heiwado	7	134	62,669
Uny	7	6,460	4,001
Valor	7	231	15,742
H2O Retailing	6	99	44,632
Izumiya	6	109	63,781
LAWSON	6	10,398	1,251
Okuwa	6	175	28,454
Tesco	5	121	3,272
Walmart	5	419	33,680
Don Quijote	3	215	35,071
Doutor Nichires	3	57	401
FamilyMart	3	8,759	1,190
Inageya	3	256	8,554
Isetan Mitsukoshi	3	46	175,447
Izumi	3	102	105,923
J. Front Retailing	3	107	78,395
Beisia	2	675	13,272
Mr Max	2	51	64,560
Costco	1	9	150,899
ExxonMobil	1	50	861
Life	1	225	27,631
Metro Group	1	9	43,056
Sugi	1	150	6,696
SUNDRUG	1	149	8,880
Zen Nisshoku Chain	1	1,782	5,113

Source: Planet Retail, 2012



► **GROCERY RETAIL SECTOR OVERVIEW (continued)**

Japan's overall retail sector experienced a slight sales decline over the 2006-2011 period, as did grocery retail. The country's grocery sales account for approximately 31% of the total retail market, and this proportion will likely remain the same during the 2011-2016 period.

Japanese grocery retailing was valued at US\$392.5 billion in 2011, and contracted by a CAGR of 1.8% during the 2006-2011 period. While a decrease in consumption could have contributed to this decline, the drop in traditional grocery retail sales, which declined by a CAGR of 6% during the 2006-2011 period, was also a significant factor. Meanwhile, some structural changes took place amongst modern grocery retailers. For example, one hypermarket chain operated by the AEON Group was restructured as a mass merchandiser. Taking this into consideration, sales through modern grocery retailers actually experienced a moderate decline over the 2006-2011 period, at a CAGR of -0.2%.

Total sales of modern grocery retailers were valued at US\$298.5 billion in 2011. Convenience stores experienced healthy growth at a CAGR of 3.7% from 2006 to 2011, reaching total sales of US\$122 billion. Supermarkets maintained the highest grocery sales of any retail format with US\$176.2 billion in 2011, despite sales having declined by a CAGR of 2.4% between 2006 and 2011.

During the 2011-2016 period, sales in the total grocery sector will likely decrease by a CAGR of 1.5%, to be valued at US\$363.6 billion by 2016. While sales through modern grocery retailers experienced a moderate decline at a CAGR of -0.8% to reach US\$286.8 by 2016, traditional grocery retailer sales will contract even further, with a CAGR of -3.9% during this period.

Within the modern grocery retail channels, forecourts and supermarkets will also experience a further sales decline at CAGRs of -5.2% and -2.2% respectively over the 2011-2016 period. In contrast, convenience store sales will continue expanding, with a CAGR of 1.1% for the same period, reaching US\$128.8 billion by 2016.

**Japan's Grocery Retail Market Size by Distribution Formats
- Retail Value Sales (Historic/Forecast) in US\$ Billions**

Category	2006	2011	2012	2016	2006-11 CAGR*	2011-16 CAGR*
Grocery retailers total	429.3	392.5	385.6	363.6	-1.8%	-1.5%
Modern grocery retailers	301.6	298.5	295.9	286.8	-0.2%	-0.8%
Convenience stores	101.8	122.0	123.6	128.8	3.7%	1.1%
Forecourt retailers	0.4	0.3	0.3	0.2	-3.5%	-5.2%
Hypermarkets***	0.6	-	-	-	-8.4%**	-
Supermarkets	198.8	176.2	172.0	157.7	-2.4%	-2.2%
Tradition grocery retailers	127.7	94.0	89.7	76.8	-6.0%	-3.9%
Food/drink/tobacco specialists	61.4	40.0	37.6	31.0	-8.2%	-5.0%
Independent small grocers	41.6	32.2	30.8	25.8	-5.0%	-4.3%
Other grocery retailers	24.8	21.7	21.3	20.0	-2.6%	-1.6%

Source for both: Euromonitor International, 2012.

Exchange rate: A fixed exchange rate at constant 2011 prices is applied for both historic and forecast data at US\$1.00=¥ 82.292.

* CAGR: compound annual growth rate

**Note: CAGR for hypermarkets is for the 2006-2010 period.

***Note: Prior to 2011, there were six hypermarket outlets operated by the AEON group. Reflecting AEON's structural changes, these large-scale outlets have since been categorized under mass merchandisers, so no sales are listed for hypermarkets since 2011.



▶ MARKET SHARE BY COMPANY

As the Japanese grocery market contracted over the 2006-2011 period, competition among modern grocery retailers became high. This encouraged the major retail groups to increase their outlet numbers by segmenting geographical coverage per outlet, contributing to the growth of convenience stores. This strategy is expected to continue during the 2011-2016 period, as major grocery retailers are planning to reduce their number of large-size outlets, and instead expand their networks of small-sized stores in urban centres.

The major retailing companies, including the AEON Group, Seven & I Holdings, LAWSON, the Uny Group, and FamilyMart, maintained their top positions within the modern grocery retailing sector over the 2006-2011 period without any significant change in share. Notably, these companies have many convenience store banners that outperformed any other channels within grocery retailing. The distribution share of these companies in terms of edible grocery has been stable in recent years, and it is expected to remain as such during the 2011-2016 period, as convenience stores will likely be the major grocery shopping channel for Japanese consumers. In addition, most of these companies have plans to further grow convenience store channels by renovating outlets and diversifying product ranges, in response to the country's shifting demographic trends.

Japan's Edible Grocery Market Share by Major Companies* - % of Retail Value Sales

Modern Grocery Retailer	2006	2007	2008	2009	2010	2011
AEON	9.3	12.0	12.3	12.3	12.2	12.5
Seven & I	9.5	9.6	9.9	9.9	10.2	11.1
LAWSON	3.4	3.9	4.2	4.1	4.1	4.6
Uny	4.2	4.1	4.2	4.0	4.0	4.1
FamilyMart	2.8	2.9	3.3	3.4	3.8	4.0
Walmart	1.6	1.8	1.7	1.7	1.7	1.7
Life	1.1	1.2	1.2	1.2	1.3	1.3
Zen Nisshoku Chain	0.9	0.9	0.9	0.9	0.9	0.9
Okuwa	0.7	0.7	0.8	0.8	0.8	0.8
Beisia	0.5	0.6	0.6	0.7	0.7	0.7
Isetan Mitsukoshi	1.1	1.0	1.0	1.0	0.7	0.7
J. Front Retailing		0.9	0.8	0.7	0.7	0.7
Heiwado	0.7	0.8	0.7	0.7	0.7	0.7
Valor	0.4	0.4	0.5	0.6	0.6	0.7
Izumiya	0.7	0.7	0.7	0.7	0.6	0.6
Don Quijote	0.3	0.5	0.6	0.6	0.5	0.6
H2O Retailing	0.4	0.5	0.5	0.5	0.6	0.6
Inageya	0.6	0.6	0.6	0.5	0.5	0.5
Izumi	0.5	0.5	0.5	0.5	0.5	0.5
Costco	0.1	0.1	0.1	0.1	0.2	0.2
Tesco	0.2	0.2	0.2	0.2	0.2	0.2
Sugi	0.1	0.1	0.1	0.1	0.1	0.1
SUNDRUG					0.1	0.1
Doutor Nichires		0.0	0.1	0.1	0.1	0.1
Mr Max	0.0	0.0	0.0	0.0	0.0	0.1

Source: Planet Retail, 2012

*Note: Data is based on the percentage share of edible grocery retail value sales, which only includes the total value sales of food, beverage and tobacco products sold within all channels of each company's modern grocery retail stores. The above list only shows major modern grocery retail companies with more than a 0.1% share in edible grocery retail.



► DISTRIBUTION FORMATS

Distribution Format Overview

Japanese grocery retailers focus on the easy accessibility of their stores, taking consumer demographics and needs into consideration. Therefore, convenience stores and supermarkets have expanded to become widely available in many areas in the country, except for very remote rural areas. This geographic strategy enables convenience stores and supermarkets to either improve or maintain their market share, while forecourts and other types of grocery retailers, including discount stores and hypermarkets, become relatively less important. This trend is forecast to continue in the near future.

Convenience Stores

Convenience stores in Japan are different from the North American concept, in that they are more sophisticated grocery retailers, similar to North American supermarkets, just on a smaller scale. They sell a diverse range of packaged grocery products including chilled ready meals, and ready-to-eat packs of fresh fruit and vegetables (they do not usually sell raw produce). In 2011, convenience stores, such as 7-Eleven and Lawson, fared better than any other distribution channel in Japan. Located on almost every street corner in Japan, convenience stores registered positive sales growth of 3.7% during the 2006-2011 period. Since these stores are extremely prevalent in the Japanese market and competition between stores and companies is high, retailers are focused on providing more services and products to meet Japan's changing demographics. The top four leading convenience store retailers in 2011 were 7-Eleven Japan, Lawson, FamilyMart and Circle K Sunkus. The positive growth of these retailers is attributed to an increased number of store openings in 2011. Between 2011 and 2016, convenience stores are expected to grow by a CAGR of 1.1% in value sales. The most popular products in convenience stores are processed foods and ready meals, and many convenience store companies offer diverse private label packaged foods ranging from economy to premium.

In the past, medication could not be sold within grocery retailers in Japan, but the 2009 revision of pharmaceutical laws gave some flexibility for over-the-counter medication, allowing some modern grocery retailers, such as convenience stores, to carry these products. Therefore, convenience store chains and pharmacy retailers began working together to open joint or hybrid convenience/pharmacy stores selling over-the-counter medication. For example, Lawson and Matsumotokiyoshi are undergoing a joint venture integrating the two stores. The AEON Group and RECODS introduced similar shops under their Ministop Co. Ltd., CFS Corp. and Takiya Co. Ltd. banners. This growing trend is expected to become more prevalent in the future, as retailers attempt to maintain competitiveness. For example, many drugstores have already expanded their product selections to include packaged food.

Supermarkets

Supermarkets in Japan are one of the major places for consumers to purchase fresh food, including meat, seafood, vegetables, and fruit, along with many selections of packaged food. In 2011, supermarkets experienced significant price competition, as major chains continued to introduce private label options for consumers, such as Top Value by the AEON Group, and Great Value by Seiyu. Supermarkets have faced obstacles to growth as other retailers have expanded their product options to provide consumers with basic grocery options.

In addition, it is said that Japanese consumption of fresh food products declined after the earthquake in 2011, particularly fresh food produced in areas near the Fukushima nuclear power plant, due to concerns about food safety. This situation, combined with the growth of product options by other retailers, caused a decrease in supermarkets' value sales.



► DISTRIBUTION FORMATS (continued)

Department Stores

Within the total retail sector, department stores have not fared well in Japan over the past ten years. The slow growth of department stores is attributed to competition from specialty stores, hypermarkets, and superstores, which are growing in terms of sales and store numbers in Japan. Additionally, other formats focus on providing consumers affordable prices, while department stores tend to rely more on brand name products to attract customers. However, as department stores sales of consumer goods, such as clothing and household items, have declined, the proportional sales of food and beverage products have slowly increased.

Discount Stores and Hypermarkets

Presently, discount stores, hypermarkets, cash and carries, and wholesalers are not popular grocery retail channels for Japanese consumers. Total food retail within these channels is very limited. In addition, recent mergers and acquisitions within the hypermarket format have largely eliminated hypermarkets from the grocery retail sector in Japan. This structural change is resulting in a growing number of “general merchandise superstores” and “mass merchandisers,” while the hypermarket category becomes obsolete. For example, the former hypermarket Carrefour, was integrated into the AEON Group’s mass merchant brands in 2011.

It is common for discount stores to gain popularity during weak economic periods. However, this is not the case in Japan. Some of the major retail companies, such as Seven & I Holdings and the AEON group, have introduced discount stores in the country, but they have a very limited presence within the grocery retail market. Despite the slow growth of this sector, a discount chain store named Don Quijote has established locations throughout Japan, selling a variety of products including electronics, groceries, clothing, household products, and toys.

Euromonitor (2011) indicated that the AEON Group and Daiei are planning on closing larger-sized retail stores to focus on smaller formats, such as smaller-sized supermarkets in city centers. In response, convenience stores, in order to remain competitive, plan on increasing their variety of private label products.



Lawson Store 100 Supermarket in Japan
(Shin-Okubo, Shinjuku-ku, Toyo)
Source: Planet Retail, 2012



Mini Stop Convenience Store in Japan
(Nakameguro, Meguro-ky, Toyo)
Source: Planet Retail, 2012



▶ MAJOR GROCERY RETAIL TRENDS

Consumer Segmentation

The aging population appears to be the most influential element of Japan's consumer market. However, the increasing proportion of single women and one- or two-person households are equally important consumer demographics. To appeal to these groups, grocery retailers implemented targeted marketing strategies, such as expanding store outlets in easily accessible locations. In addition, single people or couples without children tend to buy less items and smaller quantities per purchase, but shop more frequently. Therefore, Japanese grocery retailers are opening an increasing number of small- to medium-sized stores to ensure full coverage across most cities, except in very rural areas. More and more retailers are expanding delivery services to better accommodate singles and the senior population. Considering heavy traffic in the city centres, outlets in geographically convenient places ensure retailers can offer timely delivery, while increasing accessibility for shoppers.

The other significant consumer trend in Japan's grocery retail sector is a result of changing gender roles in Japan. Although women were the main purchasers of groceries in the past, as women pursue careers their influence upon other retail sectors is increasing. As a result, Japanese companies are focusing marketing strategies on these female consumers. For example, convenience stores introduced premium private label products that were designed to appeal to women and older consumers, who are both perceived to favour higher quality products. Items include chilled ready meals such as bento boxes and salads, as well as desserts and meals that can be boiled in a bag.

Price Polarization - Premiumization vs. Discounting

As income inequality gaps widen in Japan, grocery retailers are introducing products at opposite ends of the price spectrum. This is also evident within private label products, with an increasing number of items claiming to be either premium or economy. The increasing health and safety concerns related to mass-produced food amongst Japanese consumers is in the interest of private label manufacturers, since Japanese consumers normally perceive private label products as safe and of good quality, since they're made by their trusted grocery store. As a result, private label products are not seen as "cheap," but rather, as a range of quality products that are simply less expensive than brand name options. However, among families with children and low-income households, discounted packaged foods are becoming popular.

Even though discount deals have grown in popularity, the word "cheap" is not a preferred marketing campaign among grocery retailers. Therefore, for product marketing, quality is key, which emphasizes the origin of products or ingredients. Furthermore, discounting is often offered through loyalty card programs, a strategy that has been popular among major grocery retail groups in Japan. In recent years, this trend spread to the traditional grocery retail channel as well. Japan's major co-operative wholesalers and independent mom-and-pop shops have launched loyalty card programs that provide customized offers to their members, including discounts and special deals.



▶ MAJOR GROCERY RETAIL TRENDS (continued)

Expansion of Internet-Based Retail

Sales through internet-based retail in Japan expanded significantly, with a CAGR of 12.1% during the 2006-2011 period, reaching US\$44.2 billion in 2011. Total sales of food and drink through internet retail were valued at US\$5.3 billion in 2011, with a CAGR of 6.7% during the 2006-2011 period. Online sales of food and beverage products are expected to increase at a CAGR of 4.4% during the 2011-2016 period, reaching a total value of US\$6.5 billion, while overall sales within Japan's total grocery retail sector are expected to decline.

The development of Japan's internet retail market is due to reliable logistical systems, low internet fraud rates, and overall convenience. In relation to the grocery retail sector, companies are realizing that there is room to grow through the internet-based market, and are taking advantage of these new opportunities. For example, in addition to the existing online shopping banners of major grocery retailers (the AEON group, for example) other grocery retailers such as Seiyu and Daiei are planning to develop internet retail capabilities, and are therefore increasing the number of stores able to accommodate deliveries.

Environmentally Friendly Strategies

Environmental management programs are voluntary in Japan, but many retail companies develop and implement their own strategies and measure performance against their own criteria, to appeal to Japanese consumers' environmental awareness. The major corporate social responsibility activities among grocery retailers in Japan are focused on addressing environmental concerns. Common trends among the major companies reflect their commitment to reducing carbon-dioxide emissions in their stores, production, and logistical activities. Food recycling programs are also common social responsibility initiatives undertaken by Japanese retailers. Recognizing the environmental impact and economic losses generated from food waste disposal, some major grocery retailers, including 7-Eleven, Circle K Sunkus and Lawson, have launched food recycling programs. Under this program, retailers collect food products from their outlets that are close to or past their expiry dates, which are then used to produce animal feed, compost, industrial products, or fuels by external organizations, or the grocery retailers' joint venture companies.

Another example of environmentally friendly strategies adopted by Japanese retailers is the use of energy efficient or recyclable consumable goods within their stores. New stores are built with eco-friendly materials, and older locations are renovated to utilize energy efficient products, or alternative energy sources. For example, in 2010 FamilyMart opened an eco-friendly store which included LED lighting, solar-powered systems, and electric car chargers in the parking lot. Circle K Sunkus is also building eco-friendly stores, with energy-efficient equipment and facilities designed to reduce electricity use. In addition, the AEON Group has been the leading retailer in the development of holistic corporate standards on purchasing policies. These policies provide assessment criteria for sourcing materials to be used in stores or in manufacturing processes (Asian Productivity Organization).



Source for all: Mintel, 2012



▶ MAJOR GROCERY RETAIL TRENDS (continued)

Product Introductions and Packaging

Retailers' environmental initiatives can also be found in new product introductions. For example, the AEON Group sells a selection of products that are certified by the Marine Stewardship Council (MSC). This certification guarantees that fish and seafood products are made of the fish caught in a sustainable way. The line of products includes Alaskan Red salmon, salmon roe, salted mackerel and seasoned cod roe. Additionally, the AEON Group has introduced a brand called Topvalu Kyokan Sengen, which is a line of eco-products marketed as respecting the "4Rs:" reduce, reuse, recycle, and return. This line of products is sold at economy prices, with the purpose of demonstrating to consumers that environmentally friendly products can be affordable (AEON, 2012).

Concerns related to environmentally friendly product packaging are also being addressed by initiatives in Japan's top five retailers. Circle K Sunkus is working towards reducing the use of packaging materials such as cardboard and vinyl, since they are placed in the garbage after products are delivered to stores. Additionally, 7-Eleven Japan is working towards reducing the waste caused by food packing materials. Since 2007, 7-Eleven boxed meals are more often being sealed with tape, instead of completely wrapped in plastic.

Major retailers are also involving consumers in their attempts to reduce the environmental impacts of company activities. In 1991, the AEON Group began a campaign requesting that consumers bring their own shopping bags or baskets, and this campaign was extended in 2000. By 2007, a national campaign to stop giving away free plastic bags was initiated and implemented in approximately 773 AEON Group stores. The AEON Group was motivated to implement these programs in an attempt to reduce the use of petroleum, and reduce carbon dioxide emissions from its activities. Circle K Sunkus has taken a different approach, focusing on reducing the environmental effects of plastic bags by making them thinner, thus utilizing less material (AEON and Circle K Sunkus, 2012).



Topvalu's Salted Namul Mix is a seasoning for vegetable stir-fry that is ideal for Korean-style mixed vegetables with rice. This environmentally-friendly and GMO-free product claims to be produced under the AEON Group's environmental code of conduct. This product retails in a 20-gram flexible, multi-laminate sachet, launched in July 2012.

Source: Mintel, 2012



Circle K Sunkus' Matcha Green Tea & Azuki Mochi Dumplings is a dessert cake packaged in a polypropylene wrapper that generates less toxins when incinerated, and also features water-based ink prints. The product features an environmentally-friendly packaging claim, and was launched in May 2012.

Source: Mintel, 2012



▶ **NEW PRODUCT EXAMPLES**

The following are some examples of new products launched through modern grocery retail channels in Japan between January 2012 and October 2012, from the Mintel Global New Products Database (2012).

Topvalu Ready Meal On Tray Obento Cheese Hamburger Kit



Company: Aeon
Brand: Topvalu Ready Meal On Tray Obento
Category: Meal and meal centres
Launch Type: New variety/range extension
Price (US\$): 3.75
Packaging: Flexible plastic stand-up pouch
Date Published: September 2012
Claims: Microwaveable, economy, on-the-go, easy to use

Ingredients: Cheeseburger patty (chicken meat [domestic], vegetable protein [soybean granules], onion, beef fat, bread crumbs [wheat, soybean, dairy products]), soy sauce, white sugar, wines, salt, spices, tomato ketchup (tomato, onion, garlic, tomato paste), onion paste, vegetable oils, sautéed onion, (pork), chicken seasoning (chicken, soybean, wheat, salt, yeast extracts, white sugar, spices), cheese and cheese products, rice (rice (domestic), sesame seed, vegetable oils), green beans and sesame (mange tout, seasoning (soybean, wheat, eggs), seasoned corn (dried parsley, salt, corn), seasoning amino acids (food acids), thickener (hydroxy propyl distarch phosphate, xanthan gum), celluloses, calcined calcium (eggs, dairy products), herbal extracts

Product Description: Topvalu Ready Meal One Tray Obento Series Cheese Hamburger Meal Kit is comprised of one hamburger topped with tomato sauce and cheese with assorted corn, parsley and green beans. The green beans are flavoured with sesame seeds. The set contains rice and is intended as a lunchbox. This microwaveable product retails in a 289 gram pack.

Smoked Bacon and Potato Curry



Company: House Foods
Brand: House Ibushi No Takumi Kunsei Curry
Category: Meals and meal centres
Launch Type: New product
Claim: Microwaveable

Price (US\$): 2.51
Packaging: Flexible sachet, metallized film
Date Published: August 2012

Ingredients: Deep fried noodles (wheat flour, vegetable oils, starch, salt, vegetable protein, chicken extract), soup (sugars and other carbohydrate sweeteners, salt, starch, sesame paste, rendered bacon fat, vegetable oils), ground sesame seed, dairy products (excluding cheese), chicken extract, miso, pork extract, powered brewed vinegar, soy sauce, essential oils, yeast extracts, toppings (qin gen cai, flavoured minced chicken), flavoured minced pork, bean sprouts, roasted sesame seed, Welsh onion (Wales), hydroxypropyl distarch phosphate, seasoning amino acids (food acids), microcrystalline cellulose (thickeners), calcium carbonate, caramels (food colours), paprika oleoresin (food colours), flavouring substances, lecithin, alkali, gardenia yellow (food colours), vitamin E (antioxidants), herbal extracts, riboflavin, vitamin B1, egg and gelatine

Product Description: House Retort Ibushi No Takumi Kunsei Curry Bacon & Potato (Smoked Bacon & Potato Curry) is a curry with a rich smoky flavour that features curry powder, black pepper, and salt smoked with hickory chips. The bacon and potato variety also features bacon smoked with six types of wood chips including oak and maple. This product retails in a 200 gram pack.

Source for both: Mintel, 2012



▶ **NEW PRODUCT EXAMPLES (continued)**



Kyogetsu Acerola Alcoholic Beverage

Company: Suntory
Brand: Suntory
Category: Alcoholic beverages
Launch Type: New variety/range extension

Price (US\$): 1.59
Packaging: Metal aluminium can
Date Published: March 2012
Claims: n/a

Ingredients: Acerola berry, spirits, honey, sugars and other carbohydrate sweeteners, acidifier, flavouring substances, vegetable colour, safflower yellow (food colours), carbon dioxide

Product Description: Suntory Kyogetsu Acerola Alcoholic Beverage is made with Korean Kyogetsu shochu and acerola juice. The Kyogetsu shochu is made with a natural water base from the mountain range of Seoraksan, Korea. It retails in a 350 ml can.



Genovese Pasta with Prawns and Tomato

Company: Nissin Foods
Brand: Nissin Spao Premium
Category: Meals and meal centres
Launch Type: New variety/range extension

Price (US\$): 3.85
Packaging: Plastic, flexible
Date Published: March 2012
Claims: Microwaveable, premium

Ingredients: Durum wheat, shrimp, cheese and cheese products (natural), diced tomato, rapeseed oil, pesto, salt, white paste, garlic oil, white sugar, spices, basil flavoured edible fats and oils, pork extract, olive oil, parsley, processed cheese, hydroxypropyl distarch phosphate (thickeners), amino acids (food acids), flavouring substances, gardenia yellow (food colours)

Product Description: Reito Nissin Spao Premium Ebi To Tomato No Haitta Genovese (Genovese Pasta with Prawns and Tomato) is formulated with aromatic basil sauce made with extra virgin olive oil, as well as prawns, tomatoes and mozzarella cheese. This product retails in a 251 gram pack.



Seafood Flavoured Oil Sauce for Pasta

Company: Kewpie
Brand: Kewpie 3 Pun Cooking Pasta No Tame No Oil Sauce
Category: Sauces and seasonings
Launch Type: New product

Price (US\$): 2.95
Packaging: Glass bottle
Date Published: June 2012
Claims: n/a

Ingredients: Vegetable oils, salt, shrimp extract, garlic paste, powdered clam extract (domestic), soy sauce, white sugar, onion extract, powdered scallop extract, fish sauce, wines, hydrolyzed collagen (animal origin), spices, seasoning amino acids (food acids), spirits, thickener (hydroxypropyl distarch phosphate, xanthan gum), herbal extracts

Product Description: Kewpie 3 Pun Cooking Pasta No Tame No Oil Sauce Seafood Fumi (Seafood Flavoured Oil Sauce for Pasta) is a convenient oil sauce that can add a seafood flavour to a variety of pasta sauces. It is to be stir-fried with vegetables and seafood, then tossed with cooked pasta. It has the taste of shrimp, clam, scallops and other seafood, with garlic and black pepper seasoning. It can also be used for chow mein noodles and seafood soups, and retails in a 150 ml bottle.

Source for all: Mintel, 2012



▶ **NEW PRODUCT EXAMPLES (continued)**



Fried Chicken Batter Mix with Tartar Sauce

Company: Nagatanien
Brand: Nagatanien Oniku Magic
Category: Sauces and seasonings
Launch Type: New product

Price (US\$): 2.48
Packaging: Flexible sachet, multi-laminate
Date Published: August 2012
Claims: Time/speed

Ingredients: Tartar sauce (semisolid dressing (wheat, soybean, apple), pickle, white sugar, onion, vegetable oils, dried egg yolk, rice vinegar, salt, garlic powder, peppers, chili pepper, seasoning amino acids (food acids), starch (xanthan gum, tamarind), acidifier, vitamin E (antioxidants), spices, flavouring substances, curcumin (food colours)), batter (wheat flour, soybean sauce powder, salt, peppers, seasoning amino acids (food acids), acidifier, sucralose (sweeteners))

Product Description: Nagatanien Oniku Magic Agezuni Dekiru! Chicken Nanban Fu is a set of tartar sauce and batter mix for fried chicken. Cuts of chicken legs are to be coated in the batter, fried in a pan (not deep-fried) and served with the tartar sauce. It only takes 7 minutes to prepare a batch of fried chicken. The product retails in an 84.6 gram pack. Sweet and Sour Pork Batter Mix is also available.



Cholesterol-Free Canola Oil

Company: Circle K Sunkus
Brand: Style One
Category: Sauces and seasonings
Launch Type: New variety/range extension

Price (US\$): 2.58
Packaging: Plastic bottle
Date Published: August 2012
Claims: Low/no/reduced cholesterol

Ingredient: Rapeseed oil

Product Description: Style One Canola Yu Cholesterol Zero (Cholesterol-Free Canola Oil) is a lightweight canola oil claimed to be suitable for deep-frying foods. This product retails in a 400 gram bottle.



Sardine with Ginger

Company: Lawson
Brand: Lawson Select
Category: Processed fish, meat and egg products
Launch Type: New variety/range extension

Price (US\$): 2.8
Packaging: Flexible plastic stand-up pouch
Date Published: September 2012
Claims: Microwaveable, children (5-12), premium

Ingredients: Sardine, white sugar, soy sauce, glucose syrup, fish sauce and juice, salt, ginger, hydroxy propyl distarch phosphate (thickeners)

Product Description: Lawson Select Iwashi No Shoga Ni (Sardine with Ginger) are sardines cooked with soy sauce and ginger. When steamed, the bones will dissolve, making the product safe enough for children. This microwaveable product retails in a 100 gram pack.

Source for all: Mintel, 2012



► SOURCES

- Asian Productivity Organization. "Green Purchasing Initiatives by AEON Co., Ltd." <www.apo-tokyo.org/gp/e_publi/survey_gpp/japan_aeon_case.pdf> Accessed: 07 November 2012
- Aeon. "Environmental and Social Initiatives" <http://www.aeon.info/export/sites/renewal/common/images/en/environment/report/e_2012pdf/e_all.pdf> Accessed: 2012
- Circle K Sunkus. "Corporate Social Responsibility - Environmental Activities" <<http://www.circleksunkus.jp/english/csr/ea/>> Accessed: 2012
- Embassy of Japan in Canada. "About Japan" <http://www.ca.emb-japan.go.jp/canada_e/Cultural_Events/About-Japan.html> Accessed: 22 October 2012
- Euromonitor International. Database, 2012
- "Consumer Lifestyles - Japan" September 2011
 - "Company Profile: Major Retailer Companies in Japan"
 - "Grocery Retailers in Japan" February 2012
 - "Internet-Based Retailing in Japan" February 2012
 - "Mixed Retailers in Japan" February 2012
 - "Packaged Food in Japan" January 2012
 - "Ready Meals in Japan" January 2012
- FamilyMart. (2012). "CSR - Environmental Protection Activities" <<http://www.family.co.jp/english/csr/environmental.html>> Accessed: 22 October 2012
- KPMG. "Grocery Retailing in Asia Pacific" <<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/Retailing-Asia-Pacific-200610.pdf>> Accessed: 22 October 2012
- Lawson. (2012). "Corporate Social Responsibility" <<http://lawson.jp/en/csr/>> Accessed: 22 October 2012
- Mintel Global New Products Database, 2012
- The Ministry of Agriculture, Forestry and Fisheries of Japan. "Labeling Standard for Genetically Modified Foods" <<http://www.maff.go.jp/e/jas/labeling/modified.html>>
- The Organization for Economic Co-Operation and Development. "Japan—Economic Forecast Summary (May 2012)" <<http://www.oecd.org/japan/japan-economicforecastssummarymay2012.htm>>
- Planet Retail. "Data - Japan Retailing." Accessed: 22 October 2012
- Seven & I Holdings. (2012). "Corporate Social Responsibility Report." <http://www.7andi.com/dbps_data/template/user/SITE/localhost/res/en/csr/csrreport/pdf/2011_all.pdf> Accessed: 22 October 2012
- The World Bank. "Data by Country-Japan." Accessed: 30 October 2012.

The Government of Canada has prepared this report based on primary and secondary sources of information. Although every effort has been made to ensure that the information is accurate, Agriculture and Agri-Food Canada (AAFC) assumes no liability for any actions taken based on the information contained herein.

Modern Grocery Retailing in Japan

© Her Majesty the Queen in Right of Canada,
represented by the Minister of Agriculture and Agri-Food (2013).
ISSN 1920-6615
AAFC No. **11964E**

Photo Credits

All photographs reproduced in this publication are used by permission of the rights holders.

All images, unless otherwise noted, are copyright
Her Majesty the Queen in Right of Canada.

For additional copies, to request an alternate format, and for all other inquiries regarding this publication, please contact:

Agriculture and Agri-Food Canada, Global Analysis Division
1341 Baseline Road, Tower 5, 4th floor
Ottawa, ON
Canada K1A 0C5
E-mail: infoservice@agr.gc.ca

Aussi disponible en français sous le titre :

Le marché de l'alimentation de détail moderne au Japon

Reproduction or redistribution of this document, in whole or in part, must include acknowledgement of Agriculture and Agri-Food Canada as the owner of the copyright in the document, through a reference citing AAFC, the title of the document and the year. Where the reproduction or redistribution includes data from this document, it must also include an acknowledgement of the specific data source(s), as noted in this document.

Agriculture and Agri-Food Canada provides this document and other report services to agriculture and food industry clients free of charge.

Canada 