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MARKET ACCESS SECRETARIAT
Global Analysis Report

Functional Foods and Beverages
in Japan

April 2016

EXECUTIVE SUMMARY

Functional foods and beverages are products that have added health ingredients and that usually claim to provide health benefits beyond their nutritional value.

Although Japan's population is in a prolonged state of contraction, retail sales of functional foods have been increasing over the past five years. This may be due to Japan's growing middle-class and increased per capita spending power. Additionally, Japan's large aging population is increasingly health conscious and may be more inclined to splurge on products that claim to have added health benefits.

While functional foods as a whole have been gaining popularity, the most significant segment has been the dairy segment. Its main subcategory, probiotic dairy-based yogurt, is expected to increase 19.7% in retail value from 2016-2020.

Although retail sales of functional beverages have been stagnant over the past five years, it is anticipated that these products will see growth during the forecast period (2016-2020), particularly the energy drinks subcategory, which is expected to increase 20% in retail value from 2016 to 2020.

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ECONOMIC TRENDS

The population of Japan was 126.8 million in 2015, a 1% decrease since 2010. This decline in the population is expected to continue during the forecast period (2016-2020), with the population projected to drop to 124.5 million by the year 2020. In addition, the Japanese population is aging and it is estimated that 30% of the population will be over 65 years of age by 2025.

Japan's extended period of economic stagnation has resulted in Japanese consumers becoming increasingly price conscious. This trend was further encouraged when the government increased the sales tax from 5% to 8% in April 2014. According to a survey conducted by the Bank of Japan in March 2015, 60% of respondents reduced their consumption of goods and services after the sales tax increase (Euromonitor International, 2015).

Despite a shrinking and price conscious population, Japan has the highest per capita spending power in Asia (BMI Research, 2015).

MARKET CHARACTERISTICS

Functional food and beverage products have added health ingredients that would not be found in non functional alternatives. Packaging for these products typically includes claims for providing added health benefits. Although the Japanese population has been shrinking, the retail value of the functional food and beverage categories has been growing.

Functional packaged food in Japan had a retail value of US$8.5 billion in 2015, an 8% increase from the US$7.8 billion retail value in 2010. The functional beverages sector, however, has been large but stagnant for the past five years, with a retail value of US$7 billion in 2015.

According to the Japan Food and Drink Report by BMI Research, Japanese consumers display a high degree of local loyalty, which can put importers into Japan at a disadvantage if they are not working with local partners. Although the target consumer segment of functional foods and beverages is generally health-conscious consumers, manufacturers can have mass appeal when functional products are launched under popular brands.

RETAIL SALES

The top three segments in in the functional packaged foods sector for 2015 were dairy, confectionery, and bakery products. The oils and fats category saw the most significant decrease from 2010 to 2015, with a 20% decline in the value of retail sales. This drop may be due to Kao Corporation's decision to halt sales of their Econa brand products in 2009 because of possible concerns regarding the safety of glycidol fatty acid ester. Dairy saw the most growth from 2010 to 2015 with a 21% increase, and compound annual growth rate of 3.9%. The dairy segment is expected to continue to develop, growing 14% by 2020.

The top three segments for the functional beverages sector in 2015 were sports drinks, energy drinks, and carbonates. Fruit and vegetable juices saw the most growth from 2010 to 2015 with a 47% increase and a compound annual growth rate of 8%. The Fruit and vegetable juices segment is expected to continue increasing throughout the forecast period (2016-2020), but at a slower compound annual growth rate of 2%. Instant coffee experienced the most significant decline in retail sales from 2010 to 2015 (-79%), but is expected to increase by 9% from 2016 to 2020. Retail sales for the functional beverages sector as a whole are expected to increase by 7% during the forecast period (2016 to 2020), reaching US$7.6 million by the year 2020.

Retail Sales of Functional Packaged Foods in Japan, by Segment
Historic Retail Value in US$ Millions and Period Growth (%)
Current Prices – Fixed 2015 Exchange Rates

Categories	2010	2011	2012	2013	2014	2015	% *CAGR 2010-15
Dairy	4,363.8	4,463.5	4,596.0	4,776.6	5,043.4	5,283.9	3.9
Confectionery	1,665.4	1,645.2	1,539.5	1,464.6	1,431.9	1,405.6	-3.3
Bakery Products	528.8	556.4	557.2	563.3	585.1	611.6	3.0
Snack Bars	540.1	502.6	505.7	512.8	537.3	556.0	0.6
Baby Food	583.8	538.0	496.1	475.8	483.0	488.9	-3.5
Oils and Fats	149.5	161.9	146.3	152.8	127.8	120.0	-4.3
Soup	13.9	13.4	13.9	14.0	14.3	14.8	1.3
Total Functional Packaged Foods	**7,845.3**	**7,881.0**	**7,854.7**	**7,959.9**	**8,222.8**	**8,480.8**	**1.6**

Source: *Euromonitor International, 2016.*
**CAGR: compound annual growth rate*

Retail Sales of Functional Packaged Foods in Japan, by Segment
Forecasted Retail Value in US$ Millions and Period Growth (%)
Current Prices – Fixed 2015 Exchange Rates

Categories	2016	2017	2018	2019	2020	% CAGR 2016-20
Dairy	5,560.6	5,825.2	6,086.1	6,331.8	6,562.0	4.2
Confectionery	1,400.8	1,401.4	1,405.9	1,413.5	1,423.4	0.4
Bakery Products	598.5	595.6	591.0	593.8	600.9	0.1
Snack Bars	575.9	596.1	614.6	630.9	644.7	2.9
Baby Food	500.0	511.6	522.8	533.1	543.0	2.1
Oils and Fats	116.1	113.9	113.1	113.3	114.3	-0.4
Soup	15.3	15.9	16.6	17.1	17.5	3.4
Total Functional Packaged Foods	**8,767.2**	**9,059.7**	**9,350.1**	**9,633.5**	**9,905.80**	**9.9**

Source: *Euromonitor International, 2016.*
**CAGR: compound annual growth rate*

Retail Sales of Functional Beverages in Japan, by Segment
Historic Retail Value in US$ Millions and Period Growth (%)
Current Prices – Fixed 2015 Exchange Rates

Categories	2010	2011	2012	2013	2014	2015	% *CAGR 2010-15
Sports Drinks	3,082.9	2,747.1	2,806.7	3,067.0	2,841.5	2,791.5	-2.0
Energy Drinks	1,446.9	1,569.9	1,602.2	1,703.0	1,905.8	2,014.5	6.8
Carbonates	732.3	795.2	1,045.2	1,065.1	944.6	861.3	3.3
Bottled Water	1,183.1	1,017.9	868.3	762.7	673.7	651.8	-11.2
Fruit/Vegetable Juice	231.0	172.5	225.7	313.1	328.8	339.8	8.0
Asian Speciality Drinks	210.3	189.1	214.8	263.5	248.6	239.7	2.7
RTD Coffee and Tea	53.2	52.2	51.5	107.8	84.4	73.7	6.7
Concentrates	79.7	74.1	65.9	67.9	55.5	50.5	-8.7
Other Hot Drinks	25.8	25.5	25.0	24.9	25.1	25.2	-0.5
Instant Coffee	5.2	2.0	1.1	1.0	1.1	1.1	-26.7
Total Functional Beverages	**7,050.4**	**6,645.5**	**6,906.4**	**7,376.0**	**7,109.1**	**7,049.1**	**0.0**

Source: *Euromonitor International, 2016.*
**CAGR: compound annual growth rate*

Retail Sales of Functional Beverages in Japan, by Segment
Forecasted Retail Value in US$ Millions and Period Growth (%)
Current Prices – Fixed 2015 Exchange Rates

Categories	2016	2017	2018	2019	2020	% CAGR 2016-20
Sports Drinks	2772.7	2807.6	2837.1	2856.0	2880.4	1.0
Energy Drinks	2133.8	2265.8	2378.3	2474.5	2558.7	4.6
Carbonates	831.0	818.0	811.9	810.8	815.4	-0.5
Bottled Water	629.3	614.9	603.4	593.6	587.1	-1.7
Fruit/Vegetable Juice	346.7	356.9	365.4	371.5	377	2.1
Asian Speciality Drinks	237.0	238.9	240.4	240.5	241.4	0.5
RTD Coffee and Tea	68.4	66.7	65.5	64.5	64.1	-1.6
Concentrates	48.5	47.5	46.6	45.5	44.7	-2.0
Other Hot Drinks	25.4	26.0	26.6	26.9	27.3	1.8
Instant Coffee	1.1	1.1	1.1	1.2	1.2	2.2
Total Functional Beverages	**7093.9**	**7243.4**	**7376.3**	**7485**	**7597.3**	**1.7**

Source: *Euromonitor International, 2016.*
**CAGR: compound annual growth rate*

KEY FUNCTIONAL FOOD AND BEVERAGE CATEGORIES IN 2015

The following section provides information for the three key categories within functional packaged food; dairy, confectionery, and bakery products; as well as the three key categories within functional beverages; sports drinks, energy drinks, and carbonates. The information in this section has been sourced from Euromonitor International (2016).

Functional Dairy

In 2015, the functional dairy segment had US$5.3 billion in retail sales. This represents about 29% of non-functional dairy in Japan. It is expected that this category will continue to see growth over the next five years at a compound annual growth rate of 4.23%, reaching a retail value of US$6.6 billion by 2020.

Main Subcategories

- Functional dairy-based yogurt was the most significant subcategory in 2015, representing 85% of the entire functional dairy segment. Retail sales of functional dairy-based yogurt increased 5.4% from 2014 to 2015.
- Retail sales of functional milk in 2015 were worth US$695.9 million. Functional milk is most commonly fortified with calcium for bone health.
- The functional powdered milk subcategory decreased 2.5% from 2014 to 2015, with a retail value of US$42.8 million.
- Functional cheese increased by 2.5% from 2014 to 2015.

Main Brands

- The Yakult brand led functional dairy in 2015 with 16% market share, followed by New Yakult (8%) and R-1 (7%).
- The New Yakult brand saw the most growth from 2014 to 2015 with a 7% increase in retail sales, followed by Yukult (6%), and R-1 (4%).

Forecasts for 2016-2020

- Retail sales of functional dairy-based yogurt are expected to increase 19.7% from 2016 to 2020, reaching a value of US$5.7 billion in 2020.
- Functional cheese is expected to reach US$14.2 million in retail sales by the year 2020.
- Retail sales for functional powdered milk are expected to decline by 0.5% during the forecast period (2016-2020).
- Functional milk is expected to increase by 7.7% from 2016 to 2020.

Functional Confectionery

Although the functional confectionery segment declined in retail sales by 15.6% from 2010 to 2015, it remained the second most significant segment within functional food in 2015.

Main Subcategories

- Chewing gum was the largest subcategory within the confectionery segment in 2015 with a retail value of US$752.4 million. In 2014, the most common functional ingredients in functional chewing gum for oral health were xylitol for cavity protection (51.6%), followed by caffeine (12.8%) and mint (11.8%).
- Although sugar confectionery saw a slight decline of 0.7% from 2014 to 2015, it remained the second largest subcategory with a retail value of US$609.1 million. Key functional ingredients in sugar confectionery included herb extracts (52.5%), menthol (11%), and xylitol (10%).

- Chocolate confectionery experienced the most growth from 2014 to 2015 with a 7.6% increase in retail sales, reaching US$44.1 million. Polyphenols (54.7%) and Amino Acids (45.3%) were the main functional ingredients in functional chocolate confectionary in 2014.

Main Brands

- The Xylitol brand led functional confectionery in 2015 with 20% market share, followed by Xylish (8%) and Black Black (7%).
- Although retail sales for the Xylitol brand decreased by 10% since 2010, in has increased by 1.2% from 2014 to 2015.

Forecasts for 2016-2020

- Chocolate confectionery is expected to increase by 28.1% from 2016 to 2020, reaching US$60.6 million in retail sales.
- Although it is anticipated that chewing gum will experience a decline in retail sales during the forecast period (2016-2020), it is expected to remain the largest subcategory with US$720.3 million in retail sales by 2020.
- Sugar confectionery is expected to grow by 4.8% over the next five years, reaching US$642.6 million in 2020.

Functional Bakery Products

Retail sales for functional bakery products increased 4.5% from 2014 to 2015, reaching US$611.6 million. This segment is expected to experience a decline and fall to a retail value of US$600.9 million in 2020.

Main Subcategories

- Breakfast cereals represented the most significant subcategory with a retail value of US$276.4 million in 2015, followed by biscuits with a retail value of US$174.1 million, and breads with a retail value of US$161.1 million.

Main Brands

- The Kellogg’s Granola brand led the functional breakfast cereals subcategory with 13.6% market share in 2015, followed by Ciscorn (8.9%) and Kellogg's Frosties (8.2%).
- Kellogg’s Granola saw a 353.3% market share increase from 2010 to 2015.
- The Bisco brand led the functional biscuits subcategory with 31.7% market share in 2015, followed by Smart Body Diet Biscuit (10.7%), and Gerblé (7.5%).

Forecasts for 2016-2020

- It is anticipated that functional breakfast cereals will see a 9.8% decline in retail sales over the next five years.
- Functional biscuits are expected to grow 11.6% over the next five years, reaching a retail value of US$198.2 million by 2020.
- Retail sales of functional bread are expected to increase by 4.4% during the forecast period (2016-2020).

Functional Sports Drinks

Although the sports drinks segment experienced a slight decline of 1.8% from 2014 to 2015, it remained the top segment within functional beverages with US$2.8 billion in retail sales.

Main Subcategories

- This segment does not contain subcategories.

Main Brands

- The Aquarius brand led functional sports drinks in 2015 with a 43% market share, followed by Pocari Sweat (23%) and Green Dakara (14%).
- Pocari Sweat was the only brand that increased in retail value from 2014 to 2015 (3.9%). From 2014 to 2015, Aquarius decreased by 5.5% in retail sales, and Green Dakara decreased by 1.8%.

Forecasts for 2016-2020

- It is anticipated that functional sports drinks will experience a slight decline in retail sales during 2016 and maintain moderate growth for the remainder of the forecast period (2016-2020), reaching a retail value of US$2.9 billion by the year 2020.

Functional Energy Drinks

Retail sales for functional energy drinks in Japan experienced 39.2% growth from 2010 to 2015. From 2014 to 2015, retail sales increased 5.7%, reaching US$2 billion.

Main Subcategories

- This segment does not contain subcategories.

Main Brands

- The Oronamin brand led functional energy drinks in 2015 with a 24% market share, followed by Red Bull (16%) and Real Gold (11%).
- While Oronamin experienced a slight decline in retail sales over the past five years (-1.2%), Red Bull saw the most growth, increasing by 234.5%.

Forecasts for 2016-2020

- Functional energy drinks are expected to see continued growth in retail sales over the forecast period (2016-2020), reaching US$2.6 billion in retail sales by 2020.

Functional Carbonates

Although the functional carbonates segment experienced an 8.8% decline in retail sales from 2014 to 2015, retail sales increased by 17.6% during the entire review period (2010-2015), reaching US$861.3 million in 2015.

Main Subcategories

- Functional non-cola carbonated beverages represented 74.5% of the functional carbonates segment in 2015 with a retail value of US$641.4 million. In 2014, key functional ingredients for non-cola carbonates included vitamin C (74.5%), Polyphenols (13.2%) and Fibre (5.5%).
- Functional cola carbonates, including low calorie and regular fortified cola, saw a decline of 15.3% from 2014 to 2015, dropping to US$219.9 million in retail sales.

Main Brands

- The CC Lemon brand led functional carbonates in 2015 with a 28% market share, followed by Kirin Mets (14%) and Match (13%).
- From 2014 to 2015, retail sales for all three brands decreased: CC Lemon by 8.9%, Kirin Mets by 9.6%, and Match by 4.5%.

Forecasts for 2016-2020

- Functional non-cola carbonates are expected to experience a slight decrease of 1.4%, dropping to a retail value of US$632.4 million in 2020.
- Similarly, functional cola carbonates are expected to decline 16.8% from 2015-2020.

TOP COMPANIES

Thanks to its strong presence in probiotic drinking yogurt, Yakult Honsha was the leader in functional packaged foods, holding a 23% market share in 2015. Meiji was the second largest (13%), followed by Lotte Group (7%). Coca-Cola Japan had a strong presence in functional sports drinks with its Aquarius brand and was the leader in functional beverages with 21% market share in 2015. Otsuka Holdings Co. Ltd. had 19% market share, followed by Suntory Beverage and Food Ltd. with 14% market share.

HEALTH CLAIMS

According to Euromonitor International, in the past, manufacturers had to obtain approval from Japan's Ministry of Health, Labour and Welfare in order to print claims of health benefits on packaging for functional foods and beverages. However, a new functional food labelling system, introduced in 2015, enables manufacturers to claim health benefits for foods and beverages more easily than the former regulations. Although the new system reduces the regulatory burden for manufacturers, the lack of proof may affect consumer trust regarding certain health claims.

RETAIL OUTLETS

Most functional food and beverage sales in 2015 came from modern grocery retailers such as convenience stores and supermarkets. In 2015, 63% of sales were from modern grocery retailers, 50.8% was from supermarkets, and 19.6% was from other grocery retailers. Non-store retail outlets, which include vending machines, home shopping, internet retailing and direct selling, accounted for 17.3% of sales.

CONCLUSION

Japanese consumers have the highest per capita spending power in Asia. This combined with the growing size of its aging population and the new functional food labelling system has created an opportunity for premium functional products, particularly those with health claims targeting an older demographic.

Probiotic dairy-based yogurt has been a popular functional product in Japan and is expected see continued growth over the next five years, creating opportunity for innovative products within this subcategory. It is also anticipated that there will be opportunity for manufacturers of functional energy drinks, as sales are expected to increase 20% in retail value from 2016 to 2020.

Canadian manufacturers should note consumer loyalty to Japanese brands and seek opportunities for partnerships with Japanese companies.

FOR MORE INFORMATION

International Trade Commissioners can provide Canadian industry with on-the-ground expertise regarding market potential, current conditions and local business contacts, and are an excellent point of contact for export advice.

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RESOURCES

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