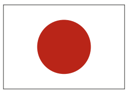
CONSUMER INSIGHTS

January 2019

AHDB

COUNTRY FOCUS REPORT: JAPAN



Japan is an affluent and highly urbanised country with a rapidly ageing population. It is the eleventh biggest country in the world by population and the third biggest economy. Japan lacks sufficient agricultural land to feed its population so relies on imports for around 60% of the food it consumes and is the fourth largest export destination for EU agricultural products.

Japan's economy has suffered slow growth and recurrent contractions since the 2008 financial crash and consumers remain cautious spenders. The OECD expects GDP to grow by 1.25% in 2018 and 2019, buoyed by exports, business investment and private consumption. Though unemployment is low, wage growth remains sluggish.

127 million
Population

USD $38,428
GDP PER CAPITA

94%
% of population in urban areas

27%
% OF POPULATION ABOVE THE AGE OF 65

CONSUMER TRENDS

Drive for convenience

Japan is a highly urbanised society whose members lead busy lives. A 2016 report by the Japanese government estimated that one in five workers works 49 or more hours a week. Long commuting and working hours, as well as higher female employment, drive an appetite for convenient formats and solutions.

Price conscious

Although Japan is a high-income country, years of sluggish economic growth and flatlining wages have made Japanese consumers cautious spenders. When consumers were asked about their top priority when choosing meat or dairy products, price was their top answer (AHDB/ICM). However, the concept of enjoying small luxuries as a reward, known as Gohoubi shouhi, exists. A Gohoubi shouhi product is often an upscale and more expensive version of an existing product, sometimes only available for a limited time.

Table 1. What are your priorities when choosing the products you buy?

Age (years)	Dairy	Meat
18–34	Price	Price
35–54	Price	Price
55+	Food safety	Food safety

AHDB/ICM International Consumer Perceptions Research November 2017 for Japan

Rise in solo living

Japanese people are waiting longer to get married and 35% of households comprise only one person (Statistics Japan 2017). In major cities, solo dwellings now make up almost half of all households, with the majority driven by urban singletons, as young people stay single for longer than previous generations. This group is targeted with convenient, single-portion meals that can be prepared easily. Japanese consumers will tend to buy small portions of food, due to smaller families and a lack of storage space. Because of this, imported products are often repackaged into smaller quantities.

Ageing population

A declining birth rate and the world's highest life expectancy mean Japan has one of the oldest populations in the world, with one in four people aged over 65. This unusual demographic has implications for patterns of consumption, economic growth and labour markets. Targeting product lines at older consumers means thinking about health benefits, smaller portions, easily opened packaging and food that can be chewed easily.

Focus on health

Increasing interest in health and well-being is being seen across many categories as consumers become more educated on the importance of diet in long-term health. Functional foods are popular, with certain products approved by the government as being Foods for Specialised Health Uses (FOSHU) and permitted to be sold with health claims, for example blueberry smoothies containing lutein, which is recognised as improving eye health.

The registration process for such products is costly and time-consuming with some products waiting up to three years for approval (USDA). A further two categories have since been introduced to widen the availability of functional foods. Foods with Nutrient Function Claims (FNFC) and Foods with Functional Claims (FFC) do not require prior registration with the Consumer Affairs Agency and may be labelled with certain health claims, provided they meet set criteria.

MEAL FOCUS

A traditional Japanese home-cooked meal tends to centre around a main protein dish, with several additional vegetable dishes to accompany it, usually eaten with steamed rice, miso soup and pickles. Seasonal ingredients are highly prized and the peak season of prized ingredients is eagerly anticipated each year. A lot of attention is given to ensuring a variety of ingredients, textures, flavours and colours, with the aim being to enhance the flavours of the ingredients, rather than overwhelm them with spices and sauces.

Japanese meal of breaded and deep-fried pork cutlet (tonkatsu), served with rice, miso soup and pickles

Meat, which was not traditionally consumed in Japanese Buddhist culture, has grown in popularity, while the consumption of fish has waned with rising prices. Beef and pork are usually minced or prepared off the bone, in thin slices or cutlets, although beef steaks are becoming more popular. Most traditional dishes are suited to thin cuts with a fast cooking time.

Lamb is not widely consumed, partly due to its strong taste but also to a lack of familiarity and availability. However, it is used in some regional cuisines such as 'Genghis Khan', a dish native to Hokkaido, which is based on grilled mutton.

Gyudon, thinly sliced beef simmered with onions and served on rice

Fat content of meat does not have the same negative connotations as in the West. According to AHDB/ ICM research, only 23% of Japanese consumers said the leanness of a cut of meat made them think it was healthy. Beef such as Wagyu that is highly marbled with intramuscular fat is prized for its texture and flavour, commanding a premium price.

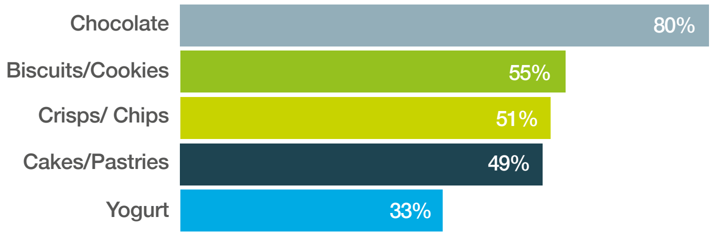
Highly marbled Wagyu beef

Wagyu is typically appreciated for special occasions and fine dining experiences but leaner, cheaper and often imported meat is used in everyday cuisine and food service. Younger generations are driving an interest in lean meat (akami), and show a preference for less fat in their diet.

Cooking techniques

AGEMONO	Deep fried foods, e.g. tempura, karaage
MUSHIMONO	Steamed foods such as vegetables and eggs
NIMONO	Boiled. Meat and fish can be sim-mered in a flavoured broth
YAKIMONO	Broiled foods, often marinated meat or fish, e.g. yakitori, teriyaki, teppanyaki

While traditional Japanese cuisine highly values freshness and natural ingredients, modern diets contain a high proportion of processed foods, driven by busy lifestyles. Nearly three-quarters of consumers (73%) said their preferred approach to a meal is to cook from scratch, while 20% prefer a ready-made meal. Consumers who say they enjoy snacking between meals is 79%. The top snacking period is between lunch and dinner, with chocolate the most common snack of choice (GlobalData).



Which of the following do you typically snack on?

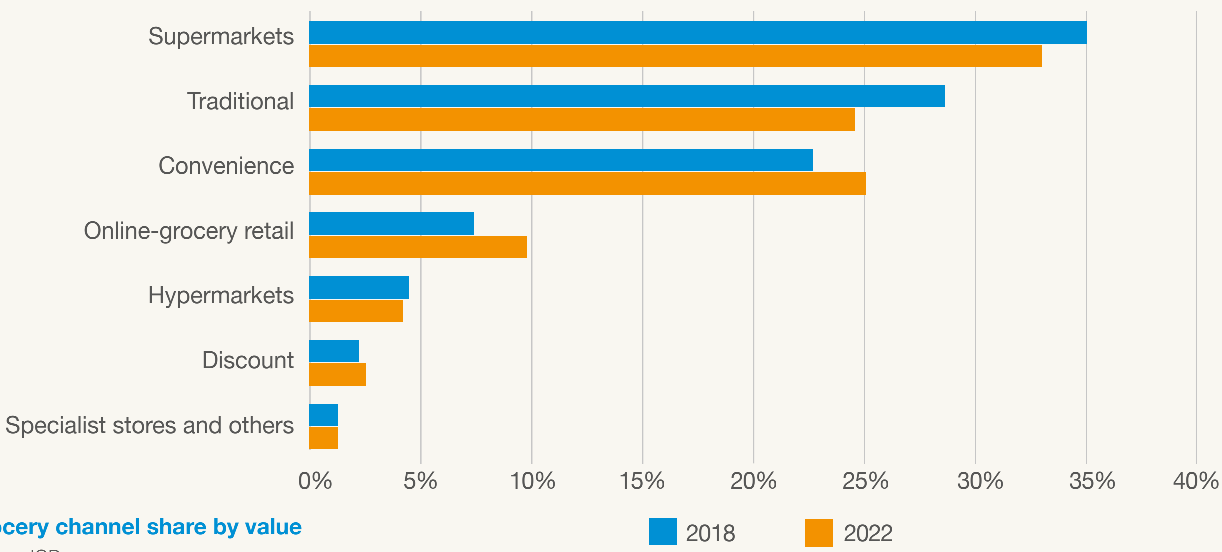
Source: GlobalData

RETAIL CONTEXT

The Japanese retail market is highly fragmented with many strong regional players. Competition and the weak economy is driving consolidation, especially in Tokyo. Consumers are price-sensitive, driving the growth of private label and discount formats and move away from fluctuating high-low prices to everyday low prices.

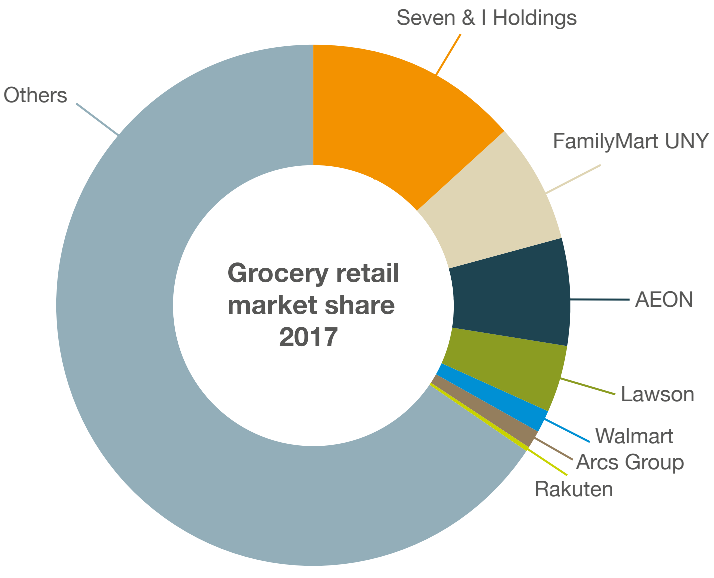
When asked which factors are most influential when choosing where to do their grocery shopping, 64% of Japanese consumers cite low prices. Among consumers aged over 65, this rises to 71%. Proximity to home/work is also an important factor, cited by 57% of consumers, rising to 70% of the 65+ demographic (GlobalData).

The older demographic is becoming an increasingly important market; supermarket chain AEON recently announced plans to remodel and open 100 stores, specifically adapted for senior citizens. These stores will offer events such as exercise classes and gatherings, food products with health benefits for older citizens and general items such as reading glasses and canes.



Grocery channel share by value

Source: IGD



Source: IGD. ‘Others’ includes traditional retail formats such as open-air markets, bakeries, and other modern retailers

Channel focus

While supermarkets have the largest share of the grocery market in Japan, convenience and online channels are expected to grow over the next four years. The convenience (konbini) market is highly developed and innovative, targeting urban consumers with long working days and older consumers, who have limited mobility. A range of pre-packaged snacks, hot foods and boxed lunches (bento) are offered to capture consumers at all times of the day.

Often open 24 hours a day, this format is vulnerable to growing labour shortages and is increasingly experimenting with labour-saving technology such as automation, unmanned stores and RFID-tagged goods.

Typical Japanese convenience store fast food set in Tokyo. Nikuman steamed buns, oden broth winter foods and choice of fried meats

‘Ready-to-eat meals’, which are sold in convenience stores, supermarkets, department stores and food service outlets are the fastest growing food service sector, growing in value by 2.2 per cent between 2016 and 2017 (USDA). This market growth is driven by young, single professionals and the elderly. Young people who live alone tend to eat outside of the home, on the go, and enjoy convenient options close to their home or place of work. The elderly, who aren’t able to travel far to purchase groceries, can rely on convenience outlets for meals. Products that fit into such prepared meals are in demand.

Ready-to-eat meal from a Japanese convenience store

MARKET OPPORTUNITIES

Eating out

Foodservice is a rapidly growing market in Japan and poses a number of interesting opportunities: 29% of consumers find eating/drinking out of home appealing because of a superior taste/quality and 12% because of the greater variety of dishes/cuisines available (GlobalData).

Table 2. Trade and consumption of meat and dairy in Japan

Sheep meat	Beef	Pig meat*	Dairy
Total consumption			
21,070	1,191,580	2,490,810	4,871,560
Total imports			
21,735	572,940	1,191,555	339,666
Exports from UK to Japan			
No access currently	No access currently	2,911	102

Source: Consumption (carcase weight equivalent) - OECD, Total Imports – IHS Maritime & Trade – Global Trade Atlas®/ Japan Ministry of Finance, UK Exports – HMRC, 2017, tonnes *Includes processed and offal

Restaurants, which represented 42.8% ($126.3 billion) of the foodservice market in 2016 (USDA), are opportunities to expose consumers to new and unfamiliar meal formats, some of which they may embrace. An example of this is steakhouses, which have introduced Japanese diners to larger cuts of red meat than are traditionally used in Japanese cooking. Hamburger chains are well established and now familiar to Japanese consumers.

Foodservice outlets often rely on imported food products to compete on price, meaning there are opportunities for exporters who can supply them. For instance, Japanese consumption of potatoes is switching from fresh potatoes to processed potato products such as croquettes, French fries, crisps and reformed savoury snacks. Of Japan's frozen potato products, 93% are imported, 91% of which are French fries (USDA). These are not only sold in hamburger restaurants but as a side dish in sushi restaurants and some convenience stores.

Focus on health

Focusing on health can capture a growing interest among Japanese consumers, particularly the elderly. Interest and familiarity with functional food is well established, and packaging that features a Food with Function Claim (FFC) or Food with Nutrient Function Claim (FNFC) is likely to spark more interest and perceptions of health-giving properties.

A third of dairy products sold in Japan in 2016 already featured a health and wellness claim (note: this includes lactose-free, all-natural and reduced/low-fat messaging, as well as fortified or functional claims), with some categories such as yogurt and milk having much higher penetration than others. Probiotic claims are popular with many Japanese consumers, who are concerned about gut health and promoting a healthy gut environment. Meiji, a food manufacturer with a major share of yogurt sales, launched a probiotic series, which, by 2014, made up 53% of its total yogurt sales.

Only 0.3% of cheeses are sold with health and wellness claims, which leaves opportunities for low-fat and low-lactose cheeses to increase market share. While Japanese consumers have historically preferred mild

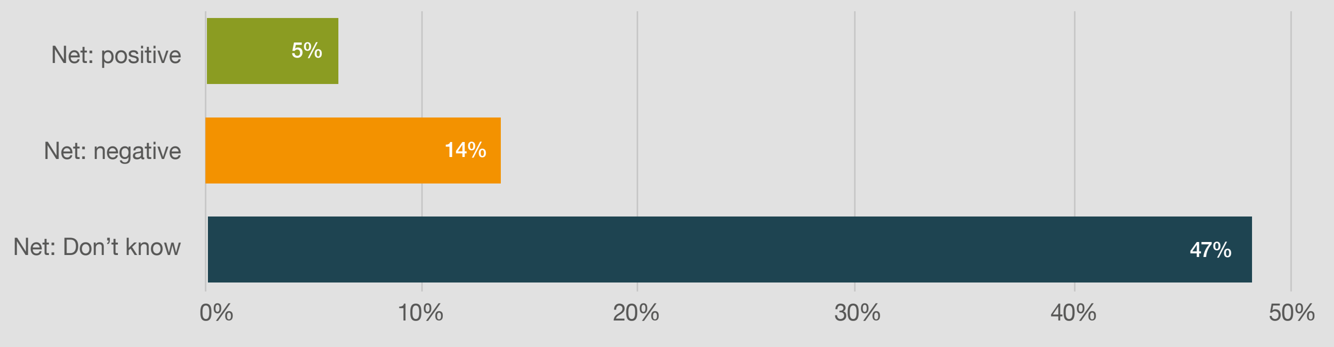
and processed cheese, natural cheese has seen product innovations to give it a Japanese twist. With a growing perception of health benefits and good flavour, natural cheese has become the fastest growing dairy segment and is forecast to grow by 8% during 2016–2021 (GlobalData).

Japan's food market is dynamic, with customers who are open to innovative formats, flavours and ideas. Products that satisfy some or all of the key consumer demands are best poised to succeed in this highly competitive market.

British context

British food products have a story to tell. The key selling point to the Japanese market is our highly regulated and safe food chain, as well as the tradition and heritage of British agriculture. Marketing safety and assurance, e.g. antibiotic-free, is a key strategy of competing exporters. Foods imported into Japan are often competitive on price as the cost of local production is comparatively high.

Currently, Japanese consumers show little familiarity with Brand Britain when it comes to food, which is unsurprising, given the small scale of exports to the country. Messaging that centres on safety and heritage and doesn't rely solely on the Union flag is more likely to communicate well to Japanese consumers.



Thinking about British food, what words and phrases come to mind?

Source: AHDB/ICM International Consumer Report November 2017

AHDB's export team works collaboratively with government, industry organisations and other levy boards to secure access to new markets which have the potential to provide our farmers, growers and exporters with a variety of opportunities overseas. The team travels the world promoting beef, lamb, pork, dairy products, cereals and oilseeds, and potatoes through a coordinated and targeted export programme. Working closely with AHDB's Consumer Insight enables the export team to not only identify emerging and priority markets but also gain a better understanding of the needs of different markets, consumer eating habits around the world and buying behaviour – all of which helps industry capitalise on lucrative markets.

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AHDB's Retail and Consumer Insight team actively tracks, monitors and evaluates consumer behaviour, reporting on the latest consumer trends and picking out what they mean for the industry and agriculture. To read more on consumer trends, go to **ahdb.org.uk/consumerinsight**

Ask the analyst

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