The Japanese food market:

Strategic insight, tactical guidance and real-life examples of how to succeed

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16 November 2022

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Key contribution

- Most market reports focus on the overall development of the market and macro trends – or on the more technical aspects such as legislation and import regulations etc. that govern the market.
- This webinar, however, aims to
  1. identify trends and business opportunities; and
  2. deliver strategic insight, tactical guidance and real-life examples of how to seize the opportunities.

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Why target the Japanese food market?

- Close to 126 million sophisticated consumers with high purchasing power make Japan the third largest consumer market in the world.
- Japan is the third largest food market in the world after the U.S. and China.
- Changes in the Japanese distribution system.
- Competition for customers has intensified among the main sales channels and the stores are using directly imported European products to diversify themselves in the competition.

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Why target the Japanese food market?

The Flying Geese paradigm:

A stepping stone to Asia

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Part 1:
Trends and business opportunities in the market: sales channels

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The Japanese food market

- Revenue in the Japanese food market amounted to almost EUR 690bn in 2021.
- The market is expected to grow annually by nearly 2% (2022-2027).
- The largest segment is confectionery/snacks with a market volume of nearly EUR 238bn in 2021.
- In the Japanese food market, 6% of total revenue was generated through online sales in 2021.

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Changing consumer preferences

Traditional characteristics:	Quality
	Product packaging
	Storytelling
	Convenience
	New products and variations
Increasing attention to:	Competitive pricing
	Health oriented products
	Sustainability
	Organic products

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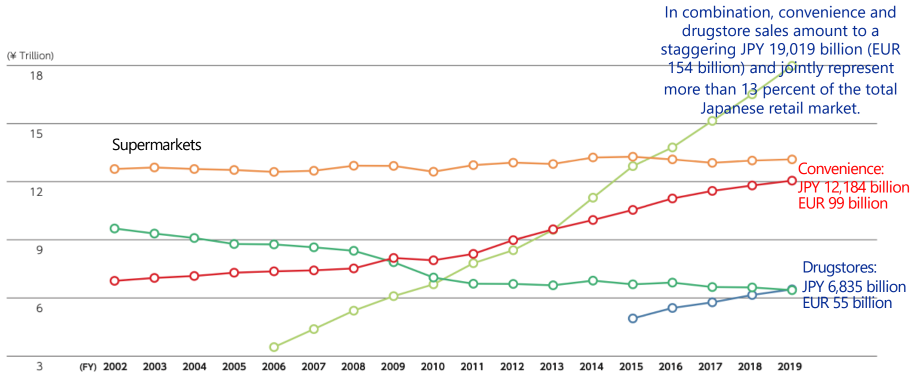
Trends in the Japanese retail market



Source: Ministry of Economy, Trade and Industry Japan (2020)

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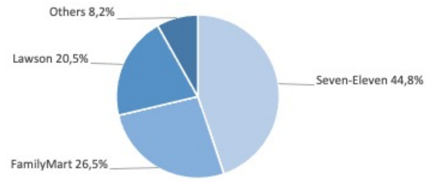
Trends in the Japanese retail market

- Japan has close to 60,000 convenience stores and well over 20,000 drugstores which have been thriving under the Covid pandemic.
- Food and beverage sales accounts for more than 30 percent of the total sales in Japanese convenience/drugstores - and the share is increasing further under the Covid pandemic.
- Competition has intensified among convenience/drugstores and especially in the food category, major Japanese chain stores are using e.g. imported European products to diversify themselves in the competition.

Convenience versus drugstores

	Convenience stores	Drugstores
Number of stores	60,000+	20,000+
Total sales 2019 (billion JPY)	12,184	6,835
Food and beverage share of sales	33%	32%
Image	'Close and convenient'	'Cheap and convenient'
Competition strategy	Differentiation	Low price
Chain store operators	Very few: Three largest chains account for 92% of the market	Relatively many: Seven largest chains account for 34% of the market

The convenience stores



Source: Own model based on annual reports from Seven-Eleven Japan, Lawson, FamilyMart and Japan Franchise Association's Convenience Store Statistics Investigation Monthly Report, October 2020.

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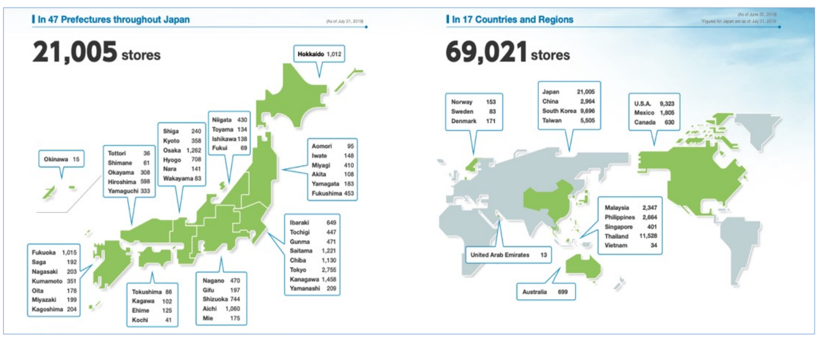
Seven-Eleven

Seven-Eleven, the largest convenience store operator in Japan boasts 25 million store visits every day in Japan



Source: Seven-Eleven Corporate Outline FY 2020

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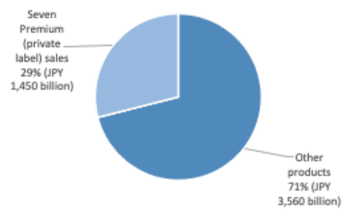
Seven-Eleven

- Apart from having the largest network of stores both in Japan and world-wide, Seven-Eleven is differentiated from competitors by focusing strongly on a private label strategy.



Source: Own model based on Seven-Eleven Corporate Outline FY 2020

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Lawson

Lawson has the third largest network of shops in Japan. The total number of Lawson stores in Japan is 14,805 and in addition to this the company operates 2,210 stores overseas.

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Lawson

- Lawson also operates a sub-brand, Natural Lawson (146 shops) in Japan.
- The shops are located in business districts of large Japanese cities to cater to especially working women.

- Natural Lawson shops focus on carefully selected healthy, low-calorie foods, snacks and drinks made from select ingredients, and environmentally friendly detergents and cosmetics.

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Japanese drugstores: total sales and trends

(EUR 81 billion)

	FY2013	FY2018	FY2025 estimated
Market scale	6.0 trillion yen	7.3 trillion yen	10.0 trillion yen
Share of top ten companies	53%	70%	
Total number of stores	17,563	20,228	30,000

Source: Welcia Holdings Co., Ltd. Integrated Report 2021, based on Japan Association of Chain Drug Stores (JACDS) data.

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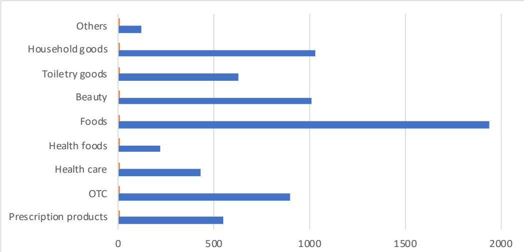
Drugstore sales by category

One of the main drivers of growth for the drugstore sector in Japan has been a steady increase in food sales (totally 32%)



	Prescription products	OTC	Health care	Health foods	Foods	Beauty	Toiletry goods	Household goods	Others
Share	8,1%	13,2%	6,3%	3,2%	28,4%	14,7%	9,2%	15,0%	1,8%
Total sales	552	900	433	222	1942	1008	629	1027	122

Source: Own model based on Shōgyō dōtai tōkei. Ministry of Economy, Trade and Industry Japan (2020)

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Top drug store chains in Japan

Sales ranking	Drug store chain	Latest full-year sales	Profile
1	Welcia	950,280	One of the leading drug store chains in Japan. An Aeon group company. Has strength in running pharmacy business and 24-hour stores.
2	Tsuruha	841,036	One of the leading drug store chains in Japan. Originally based in Hokkaido, expanded Coverage southward to now include Okinawa.
3	Sundrug	617,769	Drug store chain based in Tokyo, emphasizing low-cost operations. Operates discount stores mainly in West Japan.
4	Cosmos	611,137	Drug store chain based in the Kyushu region. Has expanded business with area-dominance strategy opening multiple large stores in small trade areas and emphasizing low pricing.
5	Matsumoto Kiyoshi	590,593	Pioneer in city-type drug store business. Operates nationwide, centring on the Kanto region
6	Sugi	541,964	Based in the Tokai region. Operates Sugi Pharmacies, a chain of drug stores with pharmacies.
7	Cocokara Fine	403,875	A major drug store chain. Born and expanded out of M&A, starting with consolidation of Seijo in the Kanto region and Segami in the Kansai region

Source: based investor relations material from each of the companies, and analysis by Shared Research based on Japan Company Handbook 2020

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Opportunities under Covid

- The Japanese convenience and drugstore chains are generally doing well under Covid.
- The chain stores are looking for products to differentiate themselves in the increasingly fierce competition.
- International travel, trade fairs and the normal channels for the search and sourcing of new product are under constraint, so drug store buyers may be unprecedentedly open for direct contact and discussions.
- There may be an opportunity to circumvent some of the traditional and costly intermediaries in the value chain.

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Part 2:
Rethinking strategy for Japan

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Traditional ways of market entry

- Traditionally, market entry to Japan has been a question of choosing 'the right partner',– often an importer or wholesaler.
- A push strategy implies that the Japanese partner assigned by the foreign brand will 'push' the company's products through all the market intermediaries needed to reach the end-customers in Japan.

Push strategy

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Case studies

Different companies and products – but the same experiences:

1. Trade fairs and government supported export promotion programmes.
2. Contact with importers, distributors and wholesalers.

Push strategy

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Case studies

Experiences with importers, distributors and wholesalers show that:

1. retail prices become too high;
2. profitability is too low for all parties involved;
3. branding and storytelling is diluted; and
4. information and business development opportunities become limited.

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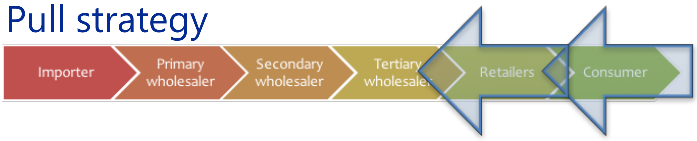
Rethinking strategy for Japan

Pull strategy



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The merits of a pull strategy

•	First of all, **the fixed costs remain very low**, whilst most of the costs (kick back fees for influencers, shipping costs etc.) are fundamentally variable costs, in the sense that they only occur once a product sale is made.
•	Second, the company will get **valuable information and knowledge** from the direct interaction with end consumers which can later be used in marketing and product development.
•	Third, **the company does not get sucked into the complexities** of working with a wholesaler to push products through the long chain of intermediaries. Rather, with a pull strategy, the company retains the flexibility to freely navigate and pursue the best opportunities that may arise from the promotional activities among end consumers.
•	Fourth, the company is in full control (or at least in as much control as possible) to handle and influence the communication of the brand, and the successive **brand building** activities in Japan.
•	Fifth, the **retail price level will be strategically set** to secure the highest possible revenue (as opposed to a retail price level which automatically becomes too high if profitability for all the traditional market players has to be included.

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Key recommendations

Create a pull strategy.

- Step 1: Define the spearhead product for the brand in Japan.
- Step 2: Define your target retail chain for direct business (i.e. circumvent the intermediaries). Secure the product/market fit upfront (price points, packaging etc).
- Step 3: Create the pull effect (identify influencers, network and actions to help make the product visible for the right stakeholders).

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Q&A

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