JAPAN Food Outlook　2005

Structural Change of Food Retail Sector and It’s Impacts

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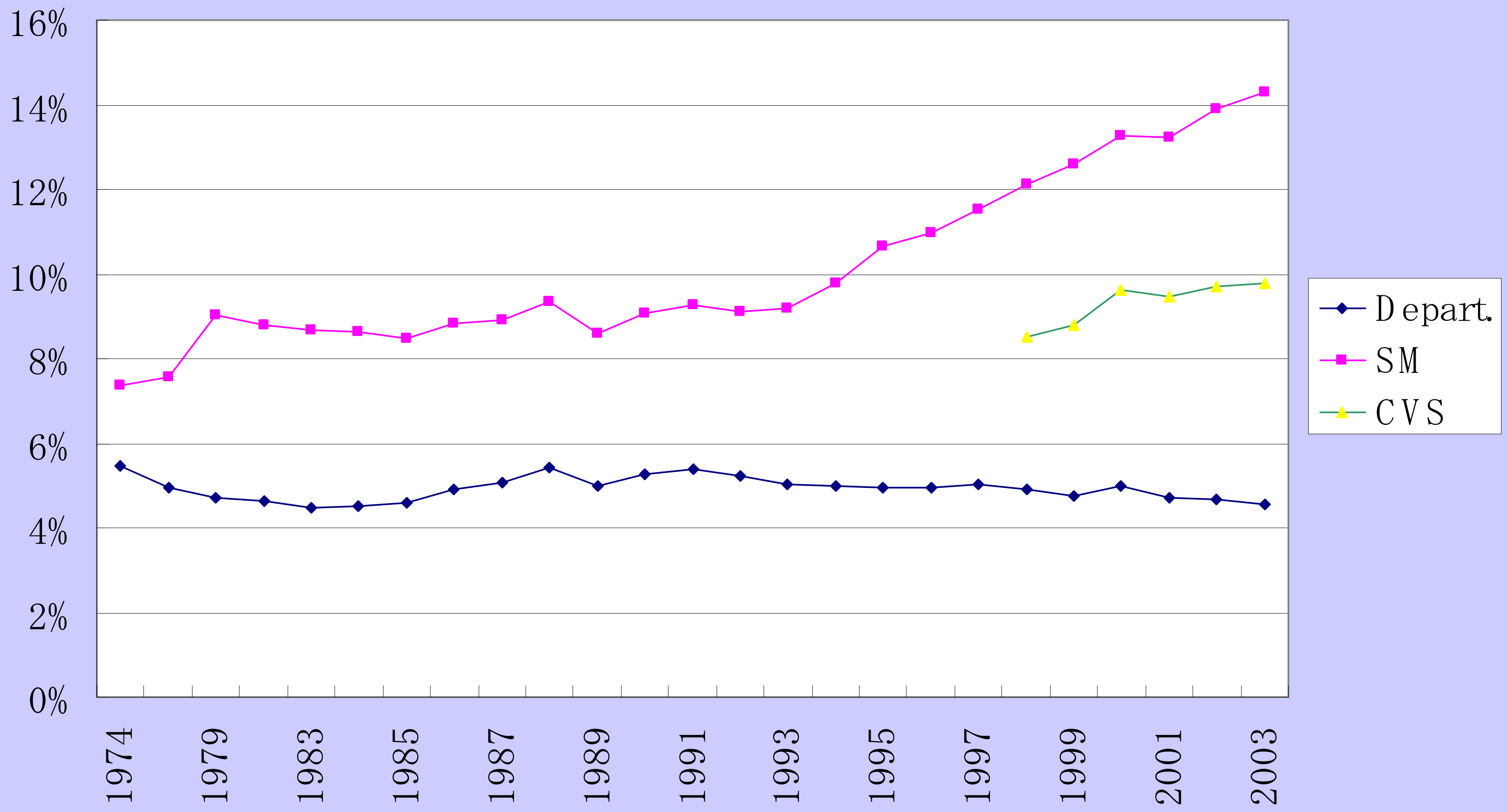
Food Sales Share of Retail Stores and Shops



Source: MIT, "Statistical Survey of Commerce"

Why is the share of SM low ?

- "Sales Floor of 1500m^2" or more is used for the definition of SM in the previous figure.
- What is SM ?
- SM share depends on the Definition of SM in Statistics.
  - Self Service Retail stores in 1960s
  - 3000m^2 or more (first category) 1000m^2 or more (second category) in the Large Scale Store Law of 1973?
  - 500m^2 or more in the Revised Large Scale Store Law of 1979?
  - 1000m^2 or more in the Large Scale Store location Law of 2000?

Table **Changes in the composition of the food retail market in relation to business form**

	1985	1994
(1) Food supermarkets	12.4	14.8
(2) Convenience stores (CVS)	8.6	14.3
(3) Other supermarkets	16.1	14.9
(4) Food speciality shops	25.6	22.1
(5) Shops centering around food items	22.3	17.6
(6) Department stores	5.2	5.4
(7) Variety supermarkets	7.8	9.1

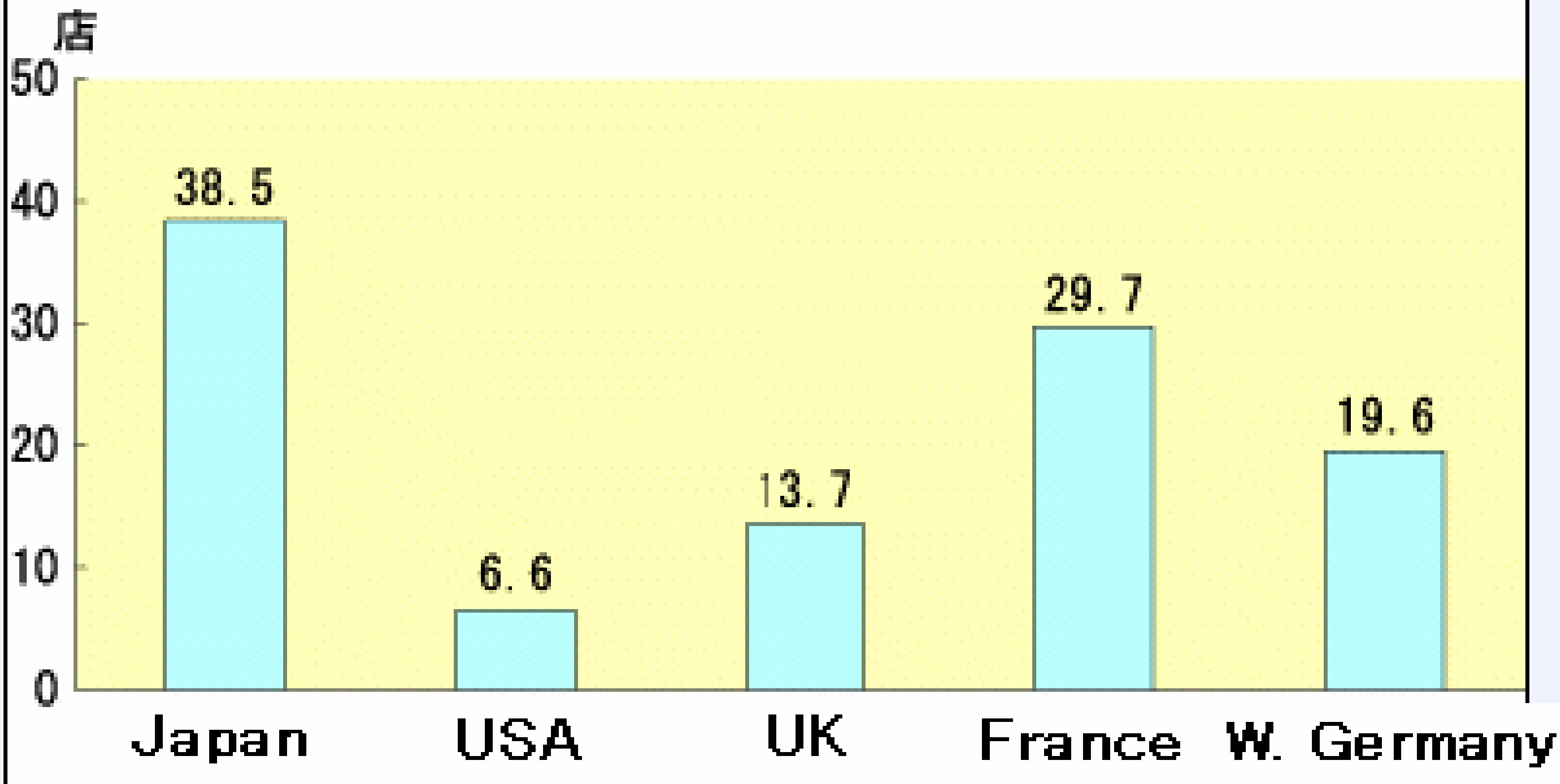
Source: "Statistical Survey of Commerce, Statistics by Form of Business", MITI.

Notes:
1) Percentage of the sales of respective business form against total food retail sales.
2) (1)-(5) are the business forms constituting food retail industry. Definitions of the business forms are:
(1) Self-service system. Service area above 500 ㎡. Food items constitute over 70 % of merchandise.
(2) Self-service system. Service area above 50 ㎡ less than 500 ㎡. Open more than 12 hours a day or close after 9 p.m.
(3) Self-service stores other than (1), (2), (7).
(4) Non-self-service stores where food items constitute more than 90 % of the merchandise.
(5) Non-self-service stores where food items constitute more than 50 % of the merchandise.
(6) Non-self-service stores with more than 50 emplyees.
(7) Self-service stores with more than 50 emplyees.

Small size of Retailers

- Compared with other developed countries, the retail industry of Japan is often criticized of its surplus number of small retailers. The competition among them does not function well, resulting in higher price level. This is particularly so in food retailing business.
- As is repeatedly criticized and widely known, food prices are significantly higher them in other countries.
- The density of food retailing shops is still high, but it is steadily going down, suggesting that a great structural change in food retailing business is proceeding, too.
- The share change in the composition of food retail shops is caused by the increase of supermarkets and CVS, while shares of retailers specializing in one of the three items of fresh foods (meat, fish, fruit/vegetables) had decreased.
- Small retailers forced to close their shops or to change into small SM, CVS.

Food Retail Shos per 10 thou. population



Souce: Japan, MAFF "2003 Annual Report

Note: Japan:1999, USA:1997,UK:1992,
Farnce & W.Germany:1990

Large Scale Retail Store Law

- SM appeared and increased rapidly in 1960s.
- Department Store Low enacted in 1956 couldn’t cover the SM
- The Large Scale Store Law was introduced for the procedure to get public permission for the opening date, open hours, holidays and sales floor area covering SM of more than 1000 m^2 in 1974.
- The Large Scale Store Location Law was introduced for the procedure to inform and get public acceptance of clearing the environmental conditions to avoid traffic jams, noise and to properly dispose garbage covering SM of more than 1000 m^2 in 2000.

Why Large Scale Stores faced difficulties ?

- “Sogo” went into bankruptcy.
- “Daiei” went into financial difficulty
- “ Wal-Mart” has been forced to change its American way of running SM.

Well established agricultural supply system

- Most food producers organized in agricultural or fisheries cooperation
- Wholesalers and small scale retailers also well organized in whole sale market and retail market for a long time.
- Small retailers and consumers as well relied on the food distribution system
- Retailers have to adjust to ever changing sophisticated consumer groups who not always choose cheep food.
- The share of commercial margin has continuously increased.

Structural Changes in the Food Retail Market

- Decline of speciality shops and growth of variety shops
- The sales per shop is smaller in food retailing sector than in retail industry as a whole.
- The gap between the food retailing and whole retail industries is widening after 1985 in respect of the area of service floor of the shop.
- The structural change in food retailing sector strengthened the efficiency of service area rather than the expansion thereof.
- The growth of CVS (Convenience Stores) was primarily responsible to this structural change.

Table Structural changes in the retail market of foods and beverages

	Unit	1974	1985	1994
Number of shops	10,000	72.1	67.1	56.9
Number of shops with 1-2 employees	10,000	48.5	40.4	30.3
Amount of sales	Trillion yen in nominal value	11.6	65.7	43.0
Density of shops	Number of shops per 1,000 population	6.5	5.6	4.6
Size of shops	Service area per shop in m²	34.6	48.4	64.3
Ratio of sales per food shop to that of all retail shops	1)*	0.62	0.76	0.79
Ratio of average service area per food shop to that of all retail shops	1)*	0.79	0.83	0.79

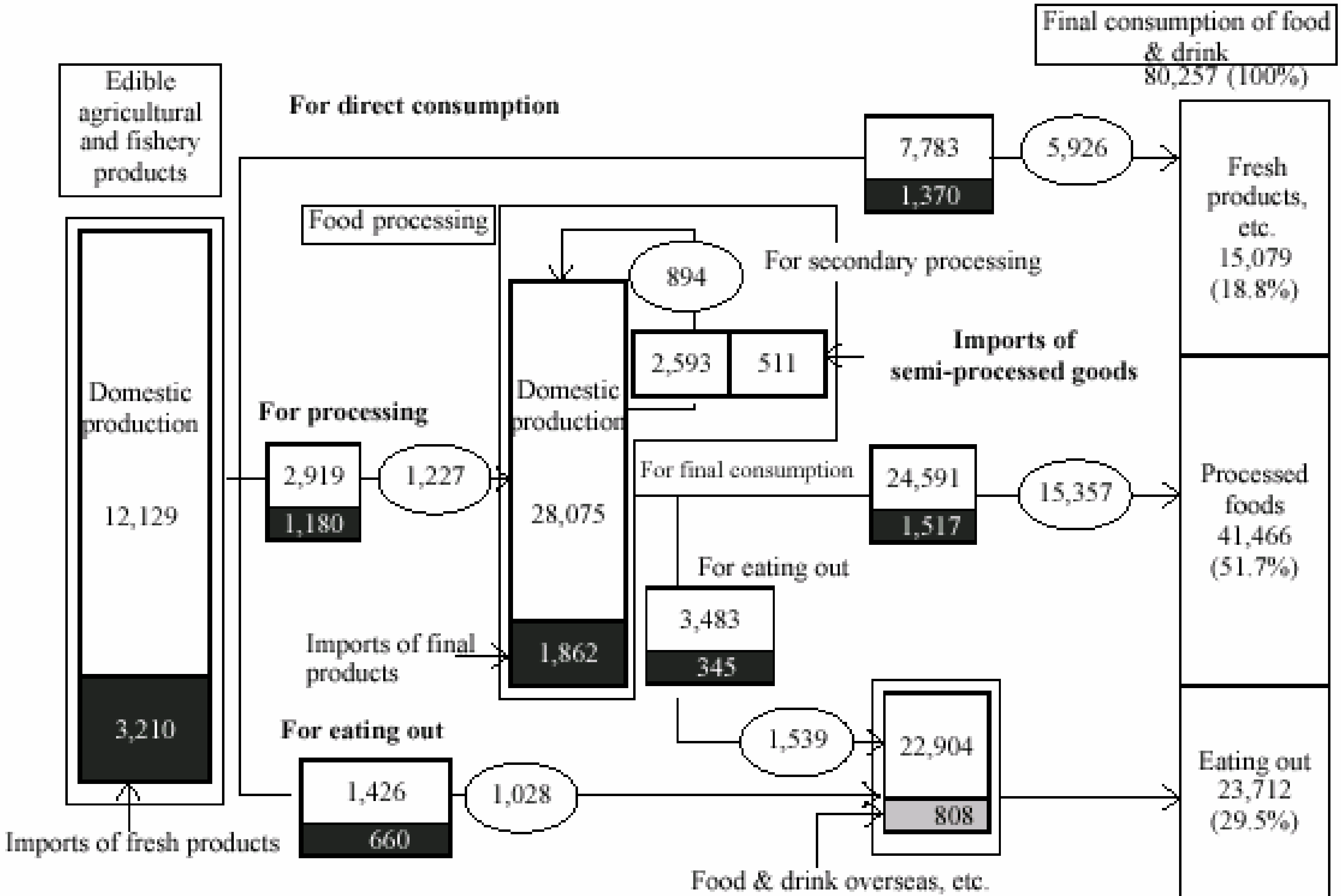
Source: "Statistical Survey of Commerce", Ministry of International Trade and Industry (MITI).

Notes: 1) * indicates the ratio to the figure for all retail stores (1.0).

2) Figures given for 1994 in the table are not continuous in a strict sense with those for preceding years, because the survey used the new classification revised in 1993. There were also changes in the conditions for grading of the kinds and types of business. However, the discrepancies caused by these changes are not significant.

Fig. Flow of Food & Drink Expenditure until Final Consumption

(unit: billion yen)



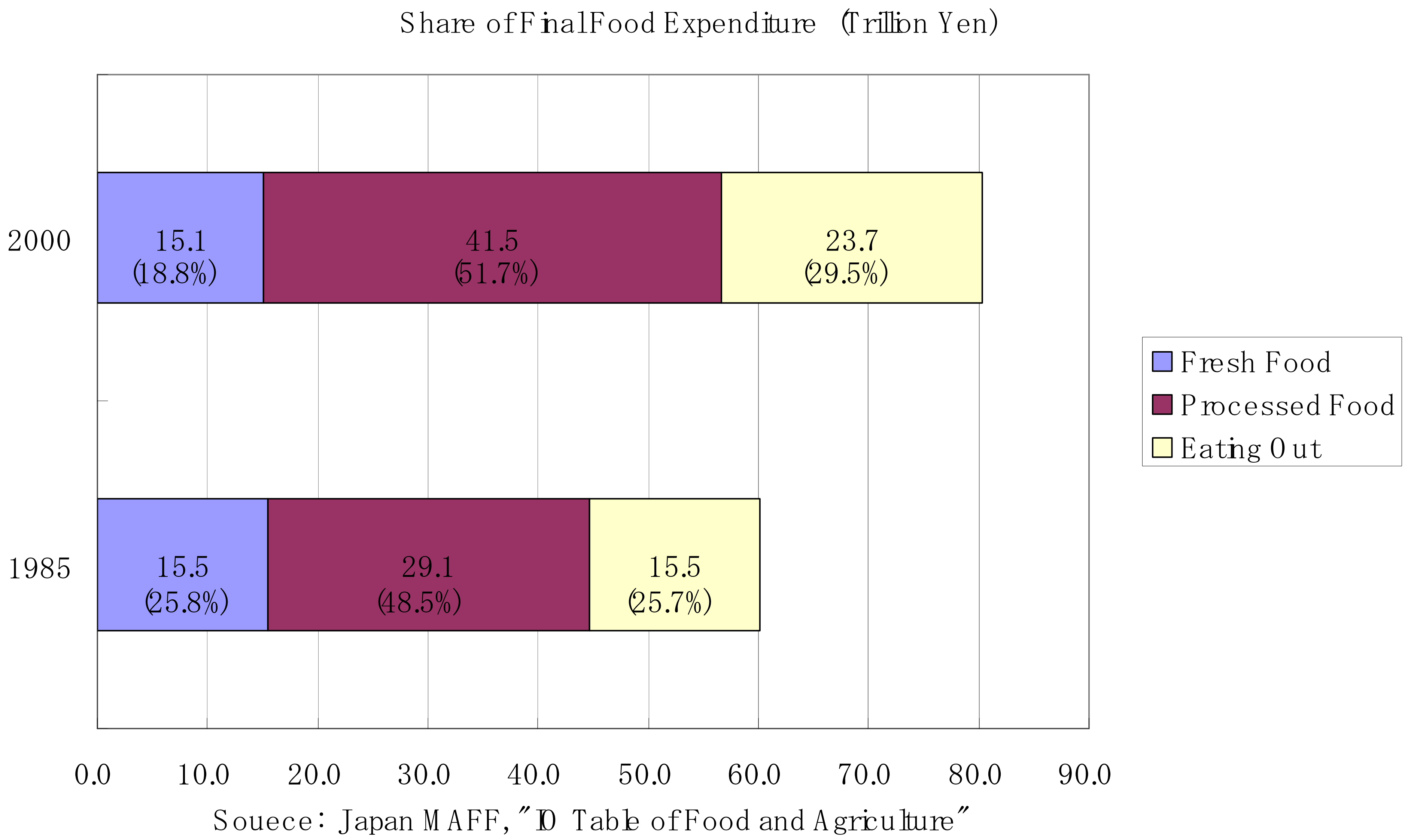
Notes 1) The table shows the flow of food & drink expenditure up to the final consumption value of ¥80.3 trillion.

2) Circled figures are associated distribution costs (trading margin and freight charges).

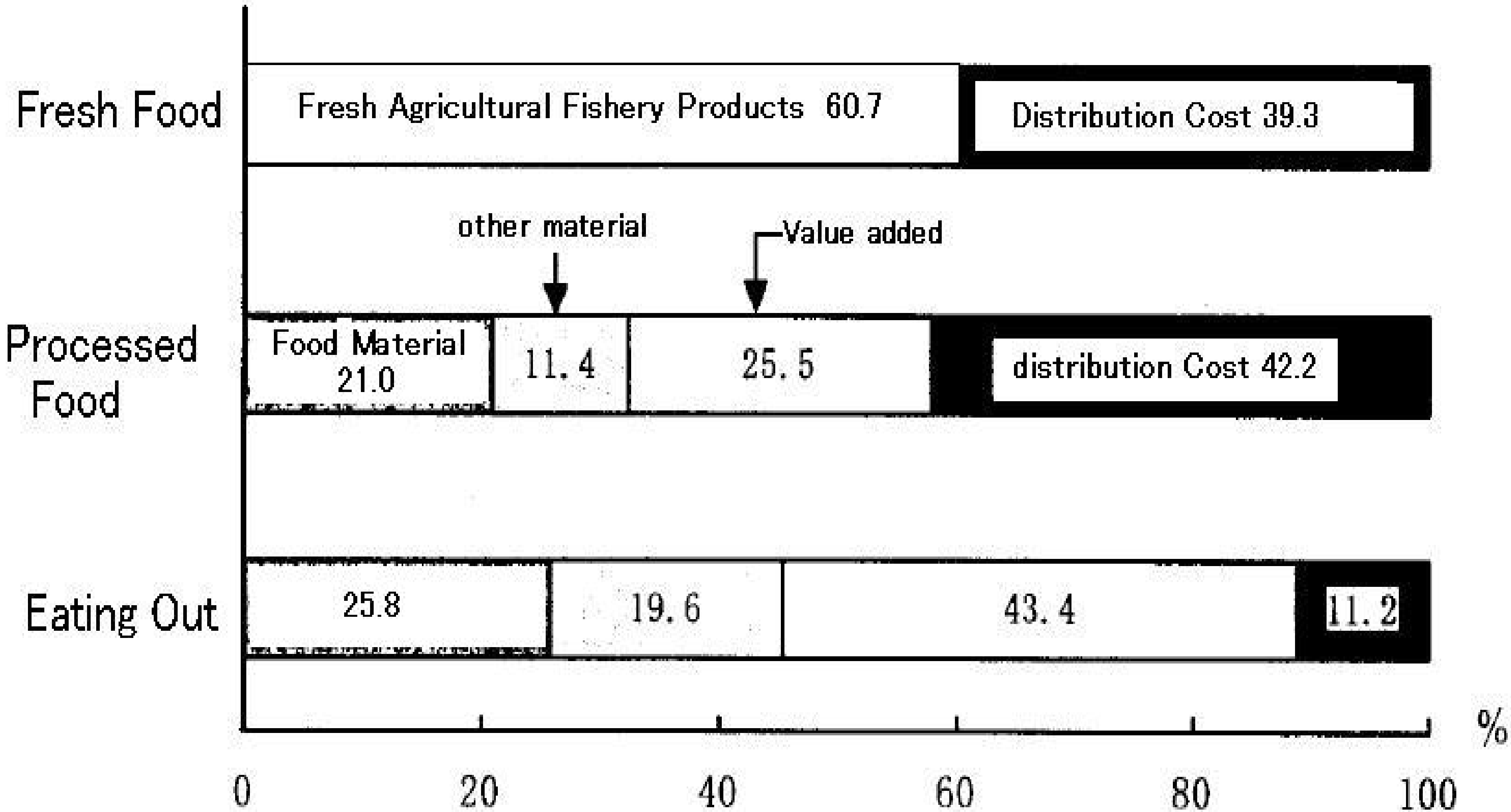
Value Added Share of Food Industries

Year	Food Expenditure Total	Agriculture & Fisheries	Import	Processing	Wholesale and Retail	Eating Out
1985	100.0	23.6	6.1	27.9	25.6	16.8
2000	100.0	15.1	8.0	26.6	32.4	17.9

Source: Japan MAFF, "I-O Table of Food and Agriculture"


Share of Final Food Expenditure (Trillion Yen)
2000
15.1
(18.8%)
41.5
(51.7%)
23.7
(29.5%)
1985
15.5
(25.8%)
29.1
(48.5%)
15.5
(25.7%)
0.0
10.0
20.0
30.0
40.0
50.0
60.0
70.0
80.0
90.0
Fresh Food
Processed Food
Eating Out
Souece: Japan MAFF, "IO Table of Food and Agriculture"

Inputs for Food Consumption



note: Calculate from 2000 I-O Table by MAFF

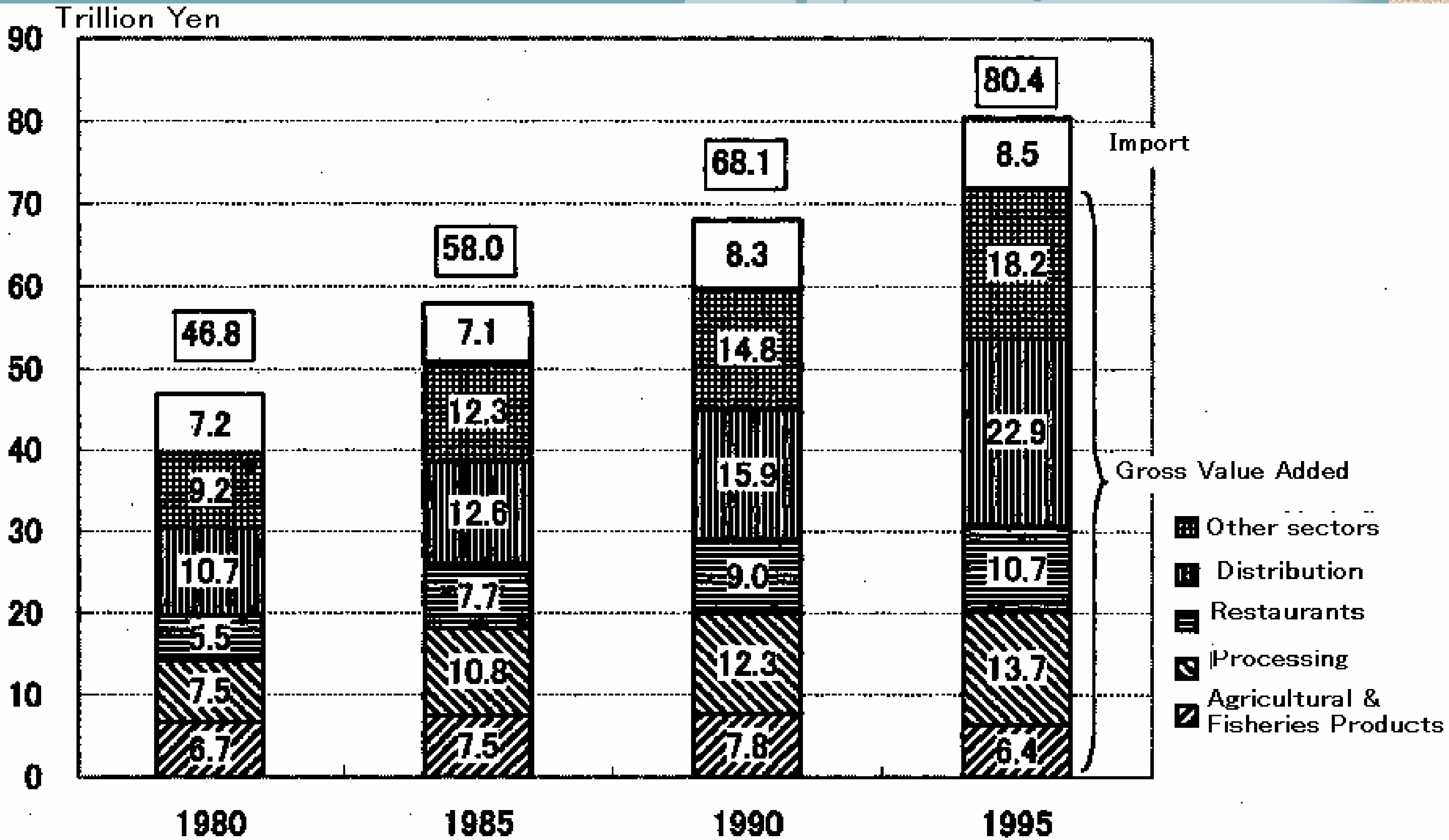


Chart 2 Gross Value Added by Sectors & Import in Food Expenditure

Note: japan,MAFF, "I-O Tables for Food and Agriculture"

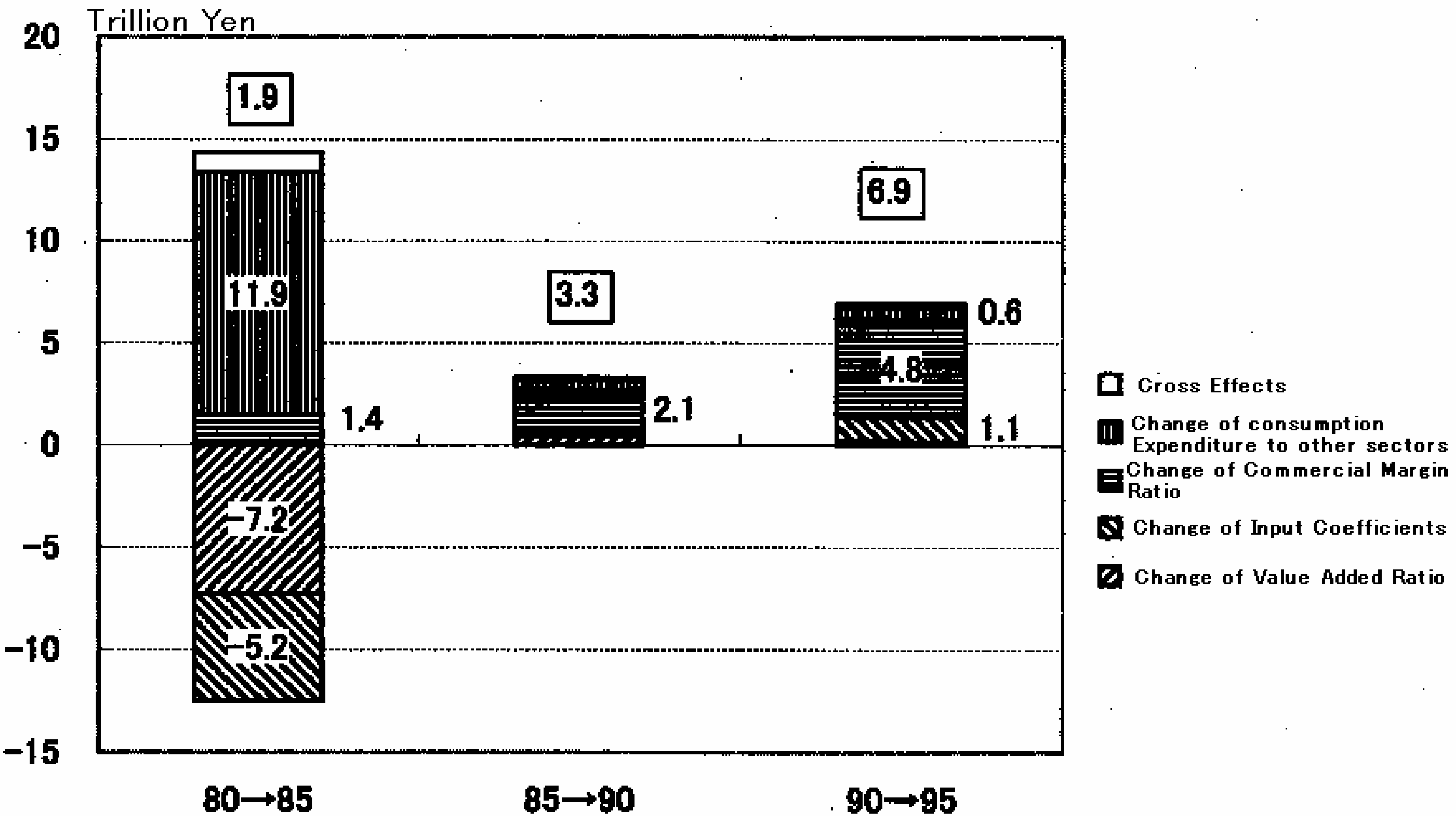


Chart 4 Factors for Value Added Change of Distribution Sectors

Note: T.Yakusiji," Commercial Margin of Food StJapan,Maff, ",2004

Table Characteristics of business forms (1994)

	Stores with 1-2 workers	Individual (unincorporated) stores	Sales per shop	Sales per service floor area
	(%)	(%)	(¥10,000)	(¥10,000)
(1) Food supermarkets	0.5	1.8	124,221	117(121)
(2) Convenience stores (CVS)	14.1	46.7	17,220	128(124)
(3) Other supermarkets	37.7	47.0	13,205	103(108)
(4) Food speciality shops	54.0	70.3	3,964	119(124)
(5) Shops centering around food items	62.6	78.9	5,083	104(101)
(6) Large-scale variety supermarkets	-	-	593,333	79(86)
(7) Middle-scale variety supermarkets	-	-	285,271	103(106)

Source: "Statistical Survey of Commerce, Statistics by Form of Business", MITI.

Notes: 1) Figures in parentheses are those for 1991.

2) Among self-service stores with more than 50 employees, those with service floor over 3,000 ㎡ are classified into (6), and those below 3,000 ㎡ into (7) (for stores in special wards and designated cities, 6,000 ㎡ is applied for demarcation instead of 3,000 ㎡).

Business form maturity as a key for Survival

- CVS recorded the highest growth, showing nearly 6 point increase during the period from 1985 to 1994. The largest decrease was in the Share of variety shops centering around, but not specialized in, food items. These Shops are not well established or developed in respect of their business form.
- Although they carry a variety of merchandise somewhat similar to that of small CVS, they do not operate the store on a self-service basis which characterizes CVS.
- Retailers were most liable to be affected by CVS and supermarkets.

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Possibility of a Large-scale SM in the food retail market

- Under the prolonged economic recession and the Stabilization of the yen value at a high level, price competition in retail market became increasingly severe from about the beginning of the 1990s.
- As a result of this intensified price competition, sales efficiency in terms of sales amount per unit area of service floor decreased in all forms of retail business except CVS. The decrease in this respect was the largest in large-scale variety supermarkets.
- The development of various forms of discount houses such as so called "power center" and large-Scale discount supermarket, with competition in business expansion and branching of stores, are becoming a focal point of interests in retail industries.
- The relaxation of Big Retail Store Law in 2000 also assisted this tendency.
- They intend to set up large stores on suburban area covering wider geographical sphere of business and thereby to attain low-cost management.

Do Japanese Consumer Change ?

- Large-scale supermarkets and department stores carry food items
- The proportion of foods in the total sales of these stores is very large, compared to other countries like the United States.
- The development and growth of large-scale retail establishments specialized in foods are far behind of other countries.
- Large-scale retail business based on wider geographical area for low-priced merchandise is not suitable to Japan where consumers' preference of quality and freshness prevails over prices.
- Is the pursuit of larger scale of business a key to win competition in food retail market in Japan ?
- Consumers in Japan are not always conscious the low-price.
- Do Japanese consumers consciousness changes their consumption and purchasing behavior ?

Table **Degree of automobile use and frequency of shopping**

	Shopping frequency		
Use of automobile	Almost every day	2-3 times a week	Once a week
Total	30.1	42.2	21.2
Often	26.2	45.0	24.3
Occasionally	34.5	39.9	19.4
Don't use	38.3	37.0	11.1

Source: "Survey by inquiries on how city life and commerce should be", Urban Research Center, Fukuoka, 1996.

Notes: 1) The use of automobile indicates the degree or frequency of use by the owners for daily life.

2) Figures indicate the weight of each category of shopping frequency as percentage of total responses to the inquiries for each type of automobile use. Figures for category of frequency not specified are not shown.

Table **Relation between the time required and means of transportation for shopping**

	~5 minutes	~10 minutes	~20 minutes	~30 minutes	~40 minutes
On foot	52.9	30.4	13.1	0.5	-
By bicycle	47.9	40.7	8.8	-	-
By private car	42.1	31.2	21.1	3.4	0.2

Source: Same as Table IV-11.
Note: Figures indicate the weight of each category of the time required as percentage of total responses to the inquiries for each type of transportation. Figures for other category of the time required are not shown.

- It is generally understood that motorization of people'$ life promotes the development of large-scale retail business.
- It is questionable, however, whether large retail facilities with large parking area can really receive overwhelming support of consumers. A consumers survey conducted in Fukuoka City (1.2 million population) summarized in Tables IV-11 and IV-12 gives some clues to this question.
- The Survey was designed to clarii5r the relation between the use of automobiles and shopping activities of the citizens in a local city where motorization deeply penetrated in daily life of the people. It is interesting to note from the survey that as many as 70 % of respondents who use the car frequently for their daily life go to shopping more than 2 times a week (Table IV-11). This may mean that wider use of car does not necessarily lead to decrease in shopping frequency or increase in bulk purchase. The survey indicates that car-Shopping does not necessarily mean long-distant shopping. Table IV-12 Shows 73 % of car-shoppers go to the store within 10 minutes drive and those driving within 5 minutes account for 42 %. Consumers can visit nearby stores either on foot or by car. Even in Fukuoka City which is one of local cities of Japan, 5 minutes drive is less than 1 km in distance. For those reasons, it is hard to expect that large-scale retail facilities with large parking space mainly located in suburban areas attract many consumers from wider areas. In addition to the disadvantage of distance, the suburban large-Scale stores might be too big in area for consumers to go-around shopping. Traffic jam, very common in and around cities, is another bottleneck. Furthermore, existing supermarkets and CVS may develop strategy to keep their customers' Shopping pattern of frequent visits on foot or by bicycle. For these reasons, the possibility of big-scale suburban facilities to become a strong power in retail market seems to be small.

Table **The share of food items in the sales of big supermarkets and department stores (1995)**

(Unit: %)

Supermarkets	Department stores
46.6 (45.3)	23.0 (21.6)

Source: "Statistics on Commercial Movement", MITI, and information provided by Japan Chainstore Association and Japan Department Store Association.

Note: Figures in parentheses are derived from information provided by the associaition.

Future Direction

- A big structural change toward the 21st century in retail markets is generally expected
- Large-scale SM will strengthen their prominent position.
- Large SM are not always superior in all aspects of retail trade.
- Intensified competition for the size of stores and parking lots among big retailers.
- Pricing will crucial. Big Stores and retail chains may suffer from decrease in sales.
- The price competition among big retailers may act adversely on small and medium retailers eventually reducing their sales.
- There will be two directions toward the 21st century. One direction is in pursuit of increase in sales and the other is the development of linkage with local and regional society.
- In the course of these competing two types of development, there may emerge a new vision for the food retail trade in the 21st century.

Value Share of Expenses by Processing and Restraunts (Billion Yen)

	1985	1990	1995	2000
Domestic Food	4,649	4,762	4,317	4,345
	63%	57%	52%	51%
Imported Food	2,708	3,588	3,981	4,214
	37%	43%	48%	49%
Total	7,357	8,350	8,298	8,559
	100%	100%	100%	100%

Source: Japan MAFF, "I-O Table of Food and Agriculture"

The End

Thank you for your attention.