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Ethical Food Trends
in Japan

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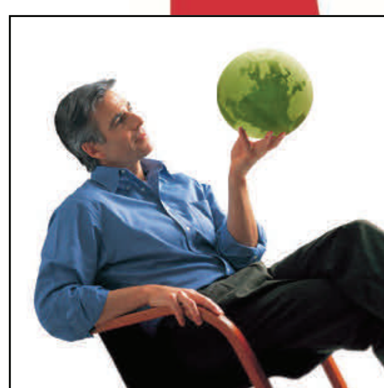

Growing Forward 2

Canada

EXECUTIVE SUMMARY

Consumers across the globe are growing increasingly concerned about the origins of the food they eat. Interest in the local food economy, food safety, environmental impacts, and the complexity of the entire food supply chain, has led to the creation of new labels to differentiate food products, such as "ethical" or "green." These labels are broad, and within them, foods are more specifically classified as: prepared naturally, organically, without harming the environment, locally, or under fair trade practices, to name a few. This report will explore the attitudes and behaviours related to the influence of such ethical* food and beverage purchases in Japan.

Two annual surveys conducted by Euromonitor (2011) found that the majority of Japanese respondents were not willing to pay more for ethical foods. However, the survey also found that half of Japanese respondents do consider products' ethical attributes when making their purchase decisions, but not all claims are created equal. Japan has a broad middle- to upper-class consumer base, and shoppers are very selective in deciding which ethical issues take priority.

Ethical products are expected to see increased demand in the near future as environmental awareness amongst Japanese consumers continues to grow. This trend is expected to be seen in nearly all product categories, but will likely have a significant impact on the food and beverage sector, with organic items seeing particularly increased demand.

The release of radioactive materials at an east coast Japanese power plant, following an earthquake and tsunami in March 2011 resulted in reduced domestic production of fresh food, allowing foreign suppliers to pick up the slack. Foreign industry players provided immediate disaster relief, and in doing so, increased awareness of their brands. Prior to the 2011 disaster, Japanese consumers believed domestic rice, meat, and fresh produce to be far superior to imported foodstuffs. Many Japanese consumers also believed that purchasing domestic food products and promoting local agriculture was an act of public service. However, with ongoing radiation concerns, consumer perceptions have somewhat reversed, giving imports a popularity boost. This increased demand for imports is creating many opportunities for foreign food exporters who can provide ethical products.

**For the purposes of this report, the definition of the term "ethical" reflects the parameters used by the Mintel database. While not necessarily synonymous, Mintel classifies all organic, environmentally friendly, all-natural, GMO-free, or socially beneficial (fair trade) products under the broader category of "ethical," for the purposes of product analysis and comparison.*

INSIDE THIS ISSUE

TREND OVERVIEW

In Japan, consumption patterns have begun to reflect what is being referred to as the era of "three S'," which consists of:

- **Social** – an ethical ideology that an entity has an obligation to act to benefit society at large;
- **Shareable** – improved resource management through group, as opposed to single, ownership; and
- **Sustainable** – a lifestyle that attempts to reduce individual or societal use of resources (Novick, 2011).

The social and shareable qualities have long been instilled in Japanese culture, and consumers generally continue to prefer products that benefit their environment, their country, and their individual communities. Furthermore, in the aftermath of the 2011 earthquake and tsunami, many Japanese began seeing wealth beyond quantitative terms (how much something costs or how many one owns), and instead, in terms of how the item or service makes them feel in a holistic sense. Stemming from this, the sustainability agenda is becoming particularly important as consumers look beyond saving money for personal benefit practicing sustainable purchase behaviour for the well-being of their broader environment (Novick, 2011). This trend is especially influential amongst young consumers, and a growing number of older Japanese as well. The mounting emphasis placed on this broader social awareness, along with a global shift towards health and wellness, form the basis of consumer demand for ethical food products, and will see their consumption rise in the years to come.

To both satisfy and further promote these preferences, the Japanese government and industry have already taken steps to address many of the ecological effects of consumption, and to focus marketing efforts on locally made and natural products. As well, major retailers are increasingly advertising not only the price and quality of the goods they offer, but also the corporate responsibility credentials of the manufacturer. This helps attract consumers seeking ethical products, while positioning their brand in a way that promotes the continued health and prosperity of Japan as a whole.

However, it is imperative to recognize that Japanese consumers are very discerning when it comes to ethical-related claims and product labelling, as illustrated by two Euromonitor surveys from 2011. Average consumers from Japan, the United States, the United Kingdom, India, Germany, France, China and Brazil were polled on their buying preferences and motivational factors when making purchases. The first portion of the survey included questions dealing with product claims ("green/environmentally friendly," "fair traded," "sustainably produced," "supports local community," and "organic"). Japanese participants indicated that, of these, "green/environmentally friendly" was the most important feature to them with almost 40% of respondents citing this claim as important or very important when purchasing a product or service. Following close behind was "sustainability" with 35.5%. Yet, of the countries surveyed, the Japanese were the least motivated overall by ethical claims. This may be partly attributable to their inherent culture that has long held the value of quality local foods, as opposed to products labelled with particular ethical claims.

The same survey also asked respondents how trustworthy they consider ethical food labels to be. The questions in this grouping focused on labels related to how or where the food was grown (such as "free range," "natural," and "locally sourced"). Again, traditional preferences became evident, with locally sourced foods deemed the most trustworthy by Japanese respondents. In contrast, "free-range" labels warranted the least amount of trust by Japanese consumers. This may be due to the limited availability of land that could restrain "free-range" farming within Japan, coupled with overall preferences for domestic products.

TREND OVERVIEW (continued)

Survey participants were also asked questions related to pricing tolerances for ethical purchases. Results showed that all Japanese participants felt most strongly about willingness to pay more for locally sourced food compared to other ethical-related claims, and were least motivated by fair trade foods. Over 40% of Japanese respondents did indicate they would be willing to pay more for carbon-neutral, locally sourced and organic foods, but overall, Japanese respondents consistently showed significantly lower motivation to pay more for ethical purchases compared to the other global survey participants. However, the Japanese respondents who indicated they trust green labels and put a high value on ethical features, were willing to pay a premium for such products. Thus, as the importance placed on such product characteristics becomes increasingly widespread, higher price points will not necessarily deter sales growth.

Within the ethical foods market, manufacturers need to cultivate consumer trust through clearly defined claims and labels, and by promoting the ultimate potential benefits of these products on a larger scale. Japanese marketing initiatives through both cooperatives and businesses, could be effective in increasing general awareness of this still-growing market. The following sections of this report will highlight two key ethical product categories that are currently on the rise in Japan. Organic and fair-trade foods currently represent small markets in Japan, but with increased exposure and consumer awareness, they both carry potential for significant future growth.

ORGANIC FOODS

Organic food products are created without the use of chemicals, genetically modified or otherwise enhanced ingredients, and are therefore perceived as nutritious and safe. Organic is one of the more recognized claims among ethical foods, and it is being implemented more and more as a marketing strategy in Japan.

Market Trends

- The retail value of organic packaged food and beverages in Japan was US$900.6 million in 2012, up from US$895 million in 2011.
- Organic food value sales increased 11.6% from 2007 to 2012. Organic packaged food represents a large majority of these sales, but in that same five-year time period, organic beverages experienced the highest growth of the two, with 12.6%.
- According to Euromonitor, Japan has the highest consumption rate for organic food and drinks in the Asia-Pacific region. The country's sales of organic consumables accounted for 72% of all organic sales within the Pacific Asian region in 2012, a region home to many other large countries like China and India.

Sales of Organic Food in Japan – Retail Value in US$ millions

	2007	2008	2009	2010	2011	2012
Organic foods	807.0	828.6	873.3	889.5	895.0	900.6
Organic packaged food	611.4	616.3	645.1	659.8	669.5	680.5
Organic beverages	195.6	212.3	228.1	229.7	225.6	220.1

Source: *Euromonitor International, 2012*

ORGANIC FOODS (continued)

Consumer Trends

- Japanese consumers are well educated and knowledgeable about the food they consume, are in-tune with seasonal food freshness, and are very health conscious. Combined, these factors suggest that organically grown foods have the potential to become a much larger market in this country.

- An organic market survey in Japan concluded that the large middle class and higher-income earners form the primary clientele for organic products. The following trends were also highlighted:
  - amongst the 30 to 40-year-old participants, 32% buy organic products at least once per week;
  - 65% of the surveyed Japanese consumers have eaten organic products in their lifetime;
  - 60% of intensive buyers of organic products, who purchase organic products several times per week or almost every day, are over 50 years of age;
  - 20% of households who buy organic products frequently have incomes of more than US$128,000 per year, and 33% have incomes between US$51,000 and US$90,000; and
  - cooperatives are the second-most popular place for purchasing organic products, after supermarkets (Kreisel-Gebhard, 2012). One such cooperative is Japan's Seikatsu Club Consumers' Cooperative Union, which produces a growing range of organic products. The club boasts over 300,000 members and approximately 30 regional cooperatives across the country. The club estimates there is a range of approximately 3,000 organic products available to their members.

- However, this market will not be without some challenges. Less than half of Japanese consumers who buy natural or organic food products, are willing to pay more for organic products (Euromonitor International, 2012). Furthermore, the same survey concluded that only 25.7% of Japanese respondents felt they could trust the label "organic."

Outlook

- Healthy food products are undeniably trending in both Japan and the world. Organic foods that were once reserved for niche markets are now becoming more mainstream and with increased exposure comes increased competition. Due to burgeoning demand and growing availability, Japanese unit prices for organic food are expected to decline over the next couple of years, giving the consumer more buying power and subsequently boosting sales.

- Sales of organic packaged food and beverages in Japan are expected to climb to US$987.4 million by 2017. This represents value growth of almost 10% over the 2013-2017 forecast period.

Forecast Sales of Organic Food in Japan - Retail Value in US$ millions

	2013	2014	2015	2016	2017
Organic foods	910.2	924.0	942.8	964.6	987.4
Organic packaged food	693.1	707.6	724.8	744.0	764.0
Organic beverages	217.1	216.4	218.0	220.6	223.4

Source: *Euromonitor International, 2012*

FAIR-TRADE FOODS

Fair trade is an alternative approach to conventional trade and is based on a partnership between producers and consumers. Fair trade gives producers a better deal and improved terms of trade, which helps them develop skills and resources that will ultimately improve their lives. Products that are marked as 'fair-trade' are gaining popularity among today's consumers, although not as quickly as some other ethical food categories.

Market Trends

- The fair-trade market in Japan is quite niche, and in limited sectors such as chocolate and coffee.

- The Fairtrade Label Japan (FLJ) group estimated the market volume for fair-trade products at almost US$10 million in 2009. When it comes to individual spending, Japanese consumers spent just US$0.19 per person on fair trade products in the same year. The public and private sectors both have different theories for this according to the American Chamber of Commerce in Japan (ACCJ). The government blames the low fair trade spending on the lack of product supply while manufacturers and suppliers blame it on a lack of government support and low consumer interest (ACCJ, 2012).

- Japan's complicated supply chain raises the cost of fair-trade products, and its complexity makes monitoring very difficult. Limited consumer awareness and thus, limited demand, are also partially to blame for the low incidence of available fair-trade foodstuffs (Usugami, 2012).

- Of total Japanese consumption in 2012, Euromonitor calculates that the following volume sales proportions of each product category were labeled as organic or fair trade*:
    - 23.1% of meat;
    - 29% of fish and seafood;
    - 11.4% of fruit;
    - 8.7% of nuts; and
    - 10% of vegetables.

- The ACCJ estimated there were 80 Japanese importers selling a total of 250 fair trade products in 2009. This remains the most recent statistic available, but both importers and fair-trade products have likely increased in number since.

- The Japan External Trade Organization (JETRO) is currently a driving force in the fight for fair trade. JETRO began a program in 2007 to support Japanese companies conducting fair trade business in Africa, providing them with up to 5 million yen to aid in fair trade projects. More than 30 companies have participated thus far (Matsutani, 2012).

- There are essentially two well-known accreditation bodies for fair trade in Japan: Fairtrade Label Japan, a Japanese unit of German-based Fairtrade International, and the Dutch-based World Fair Trade Organization. However, these organizations are still bypassed by many corporations. Many companies prefer to set their own fair trade standards and market accordingly, rather than pay for external accreditation (Matsutani, 2012). This causes confusion as to which products are actually fair trade and what fair trade means, in a market where consumers are already skeptical about this trend.

**Euromonitor does not measure the categories of "organic" and "fair trade" separately when analyzing such proportions.*

FAIR-TRADE FOODS (continued)

Consumer Trends

- According to a Euromonitor survey, only 19% of the Japanese survey participants felt fair trade was an important purchasing attribute, compared to the 81.6% in China, and over 70% in the U.S., Brazil, and India (2011). However, another survey conducted by Goo Research indicated that when grouping Japanese respondents by age, younger consumers were more knowledgeable of fair trade, representing growing awareness in the sector (Yasumoto-Nicolson, 2010).

- The primary fair trade consumer is also an organic consumer. However, if fair trade products also fulfilled other claims of importance to Japanese consumers, such as environmental and/or wildlife protection, they could appeal to an increasing number of ethical consumers.

Outlook

- Consumer demand for low prices is seen as a persistent obstacle to market growth by fair trade producers.

- The lack of a unified fair trade system in Japan will also pose continuing challenges to this market. With no clear definition, it is difficult, if not impossible, to calculate the entire market (Matsutani, 2012). Also, large corporations often do not keep track of fair trade sales figures. In this climate, overall market interest and growth will remain difficult to gauge (Matsutani, 2012). More cooperation and support is needed between central/local authorities and fair trade-related organizations before there will be a substantial growth in the movement.

NEW PRODUCT LAUNCHES

From December 2011 to December 2012, Mintel reports that Japan saw the following new food and drink product launches in the ethical food category:

- 8 organic
- 82 GMO-free
- 18 environmentally friendly
- 394 natural
- 1 carbon neutral

The following tables break down each ethical product group into sub-categories.

New Organic Product Launches in Japan – December 2011 to December 2012

Category	# of Products
Dairy-based frozen products	1
Instant noodles, pasta and rice	1
Nuts	2
Oils	1
Poultry products	1
Vegetable snacks	1
Carbonated soft drink	1

New GMO-Free Product Launches in Japan – December 2011 to December 2012

Category	# of Products
Bakery	1
Breakfast cereals	2
Dairy	5
Processed fish, meat & egg products	1
RTDs (ready to drink)	1
Sauces & seasonings	6
Side dishes	2
Snacks	64

New Environmentally-Friendly Product Launches in Japan – December 2011 to December 2012

Category	# of Products
Desserts & ice cream	2
Hot beverages	1
Meals & meal centers	2
Processed fish, meat & egg products	2
RTDs (ready to drink)	9
Snacks	1
Sports & energy drinks	1

New Natural Product Launches in Japan – December 2011 to December 2012

Category	# of Products
Baby food	78
Bakery	45
Breakfast cereals	3
Chocolate confectionery	9
Dairy	17
Desserts and ice cream	18
Fruit and vegetables	1
Meals and meal Centres	17
Processed fish, meat and egg products	24
Sauces and seasonings	51
Side dishes	2
Snacks	101
Soup	2
Sugar and gum confectionery	24
Sweet spreads	1

***Source for all:** Mintel GNPD, 2012*

NEW PRODUCT EXAMPLES

The following are some examples of the new products launched in Japan from November 2011 to November 2012 using ethical claims, from the Mintel Global New Products Database (GNPD).

Product Name: Budweiser Beer
Company: Kirin Brewery
Brand: Budweiser
Date Published: July 2012
Pack Size: 350 ml
Price: US$2.56
Positioning: All natural

Kirin Brewery repackaged the 350 ml Budweiser cans with a more stylish look, consistent with the design used worldwide, for a stronger shelf presence. This all-natural product is said to be made with the choicest hops, rice and barley malt.

Product Name: Cheese Flavoured Corn Snacks
Company: Frito-Lay
Brand: Frito Lay Q-B-B
Date Published: November 2012
Pack Size: 60 g
Price: US$1.30
Positioning: GMO-free

These GMO-free snacks have been developed with Q-B-B cheese, and claim to replicate the taste of the brand's plain cheese, appealing to all generations, from children to adults.

Product Name: Bitter Choco Wafers
Company: Aeon
Brand: Topvalu (private label)
Date Published: November 2011
Pack Size: 6 x 7.3 g
Price: US$1.64
Positioning: Ethical – human

Topvalu Bitter Choco Wafers consist of wafers coated with fair-trade chocolate, certified by the Free Trade Labelling Organization.

Product Name: Chestnut Ice Cream Sticks
Company: Kracie Foods
Brand: Kracie Amaguri Muichaimashita
Date Published: October 2012
Pack Size: 6 x 55 ml
Price: US$3.70
Positioning: Organic

This limited-edition product features moderately sweet chestnut ice cream with chestnut puree filling. It is made with 100% organic chestnuts and was available only during the 2012 autumn and winter seasons.

Product Name: Japanese Deli Assortment
Company: Nippon Suisan Kaisha

Brand: Nissui Shizen Kaito De Oishii!
Date Published: November 2012
Pack Size: 6 x 17 g
Price: US$2.15
Positioning: Environmentally friendly

This assortment features two cups each of cooked hijiki seaweed, cooked vegetables and cooked freeze-dried tofu, flavoured with natural tamari soy sauce. These frozen delicatessens are to be put in a lunchbox in the morning, and naturally defrost by lunchtime.

Product Name: Consommé for Babies (aged 5 months to toddlers)
Company: Wakodo
Brand: Wakodo Tedukuri Oen
Date Published: October 2012
Pack Size: 10 x 2.3 g
Price: US$2.87
Positioning: No additives/ preservatives

This product consists of soup granules made by slowly simmering domestically raised chicken and vegetables. It is simply to be dissolved in hot water and contains no added colourants, preservatives, flavourings or chemical seasonings.

Source for all: *Mintel GNPD, 2012*

CONCLUSION

Claims such as "ethical," "eco-friendly," and "green" are certainly not new to the food and beverage market, yet they are only just beginning to take root in Japan. This is likely attributable to the Japanese preference for fresh, local, high-quality foods as a standard, rather than products with particular social claims. Surveys found that Japanese consumers were among the least trusting of ethical product claims, but they did show an increased incentive to buy food products that were labelled as "green/ environmentally friendly," and they were willing to spend more money on products that claimed to be "organic" or "carbon neutral." This signals both a very discerning consumer when it comes to ethical food labels, and also one who is willing to spend more on products they perceive to genuinely address issues of importance to them. Following the earthquake and tsunami that hit the country in 2011, products that advertise sustainable-related claims have become of particular interest. Growing awareness and willingness to spend positions Japan as a market of growing opportunity for ethical food and beverage products.

Consumer education regarding ethical product claims remains quite inconsistent in Japan, largely due to the lack of national standards and limited product availability. Falsified or inconsistently defined claims have created an overall mistrust of ethical labels, so companies and brands will have to earn consumers' trust in bringing such characteristics to the mainstream. Consistent, clear, and nationally adopted definitions for claims such as "sustainable" or "fair trade," would reduce consumer skepticism and increase market potential. Further consumer education as to what these labels represent would also empower consumers to choose products that address the issues of most importance to them.

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