Food shortages and spoilage abound

Although the government continues to assess the damage, it is clear the March 11 earthquake and tsunami that devastated northeastern Japan took a heavy toll on agriculture, fisheries, and forestry. Contaminated produce and food shortages caused by disruptions in the country’s food supply chain, which range from closed roads to shutdown railways, continue to plague many regions of the country. At the same time, restrictions or outright bans on the import of Japanese food products are negatively affecting exports.

Overview: Food & beverage industry

Japan remains a net importer of food and fisheries products. Imports totaled ¥4.6 trillion in 2010. The agriculture and fisheries industries account for less than 2% of the country’s annual GDP.

Despite the concentration of agriculture and fishing operations in the most affected regions, the impact on Japan’s GDP should be minimal.

Before the natural disaster, Japan was the second-largest packaged-food market in the world, following only the United States. Estimates of the impact on the retail market have not been assessed.

Shortages and spoilage

The slow removal of debris from shipping routes and ports is preventing consistent delivery of perishable food items. Related food shortages are occurring throughout Japan but are most serious in the northern regions.

Conserving electricity

Efforts to conserve strained energy supplies are prompting companies to increasingly ask employees to work from home or to dress more casually to keep cool.

As recovery in the heavily affected Tohoku region remains limited, competing food companies are discussing joining forces to deliver products to address food shortages and to comply with government and utilities’ requests to conserve electricity and energy.

In addition, preserving the integrity of perishable food items remains a primary concern for retailers and individual consumers throughout the nation.

Rising costs

Increased risks and difficulties associated with delivery to the area are reportedly prompting international shipping companies to charge higher rates for calling at Japan’s ports. Ship owners are requiring premiums estimated at ¥12.2 million to ¥48.8 million. It remains unclear how those additional costs will be absorbed and how imports might be affected.

Declining exports

Japanese food exporters face resistance in many parts of the world. The United States, for example, has banned dairy products and some fruits and vegetables originating from the affected areas in Japan. Similarly, The European Union, Australia, China, Hong Kong, South Korea, Philippines, Singapore, India, and Canada have required increased surveillance of food products from Japan.

In May, Japan’s trade deficit was nearly ¥870 billion, the second-largest on record.
Longer-term impact

More Japanese consumers stay home

Compared to 1-2 years ago, how much time are you spending at home?

- Significantly more: 20%
- Somewhat more: 44%
- About the same: 26%
- Less: 10%

Source: McKinsey Quarterly

The ‘new’ Japanese consumer

As would be expected, spending decreased sharply in March as Japanese consumers cut back immediately following the disaster and spent for necessities only. Consumer spending fell 8.5% from year-ago levels.

The decline appears to be temporary. Outside the most directly affected regions, consumers are expected to return to more normal spending levels this summer.

Among the critical longer-term questions: Where and how will Japanese consumers spend money? What will their new demands be and how can companies adjust products and marketing to appeal to the new mindset of the Japanese consumer?

Predicting and targeting these new demands will be crucial to the country’s recovery from the disaster, but more importantly will help rebuild Japan’s presence in the global economy.

Shifting consumer sentiment

Japanese consumers historically have been willing to pay a premium to buy from local merchants offering quality products and excellent customer service. Prior to the recession, in fact, consumers demonstrated their aversion to lowest-priced products on the belief that lower prices meant lesser quality.

Even before the natural disaster, consumers had begun spending more time at home, buying more private-label products, and frequenting discount and Internet shopping because of the slow recovery in the local and global economies.

More time at home means fewer meals out, and Japanese consumers began shifting their food shopping toward bulk buying, discount, and Internet channels.

For at least as long as food shortages continue, forcing food prices higher these shopping trends are expected to continue.

Post-disaster opportunities

Mitigating rising costs: In the near term Japan is expected to continue importing the majority of its food, which is becoming an increasingly costly venture. Local retailers will need to develop strategies for combating higher import costs in addition to overall increases in food costs.

Ensuring safety, calming fears: Although no food exported from Japan has tested positive for radioactive contamination, concerns remain in the global marketplace regarding the safety of food produced in the country. Adding to these worries, officials reported in mid-July that radioactive cesium-contaminated beef from more than 500 cattle turned up in supermarkets and restaurants across Japan in June and July. Key to the recovery will be the government’s ability to ensure testing integrity and exporters’ ability to quell fears in the marketplace.

Deregulation: The recovery of the food sector in Japan may necessitate the elimination of current restrictions that create barriers to entry for large-scale retailers. Allowing “big-box” retailers to enter the market more freely would increase efficiency and likely reduce food costs for consumers.