



A Look at Japan's Pet Business Market

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I. Introduction

This report will examine Japan's pet business market touching on market trends, popular products, distribution channels, and recommendations for new market entrants. The report will introduce content in the following order.

- I. Introduction
- II. The Numbers Behind Market Growth
- III. Trends that influence the future of the pet business market
- IV. Market Sectors and Products
- V. Major Market Players
- VI. Suggested Next Steps
- VII.

The pet business market in Japan has been steadily growing over the past decade, and there will be opportunities for U.S. firms that study the market to enter the right segment. In order to do so, one must understand Japan's unique challenges and develop a proper strategy for entry.

The size of Japanese pet business market expanded by 101.5% to JPY14.502 trillion (USD 11.985 billion) in 2014¹. The cat product market has been booming over the past couple years, accounting for the overall expansion of the pet business market as a whole. In the service sectors, health related services, such as animal hospitals and insurance, have been the main contributors to the growth of the overall pet market.

Although the unit sales price of pet products dropped after the financial crisis in 2010 and change in the consumption tax rate in 2014, economic fluctuations did not have long-term influence on consumer purchase power, and demand for pet products recovered within a year.

Cat and health products have been the fastest-growing sectors, highlighting potential growth of the pet business market in the long-term.

¹ Yano Research Institute, "Pet business market 2016"

	2010	2011	2012	2013	2014	2015	2016 (estimate)	2017 (estimate)
Pet business market	13,983	14,052	14,169	14,288	14,502	14,689	14,845	14,935
Pet food market	4,356	4,383	4,428	4,476	4,604	4,686	4,749	4,797
Pet product market	2,470	2,448	2,493	2,498	2,506	2,514	2,518	2,523
Service market	7,157	7,184	7,248	7,314	7,391	7,489	7,577	7,615

Table 1 (in billions)

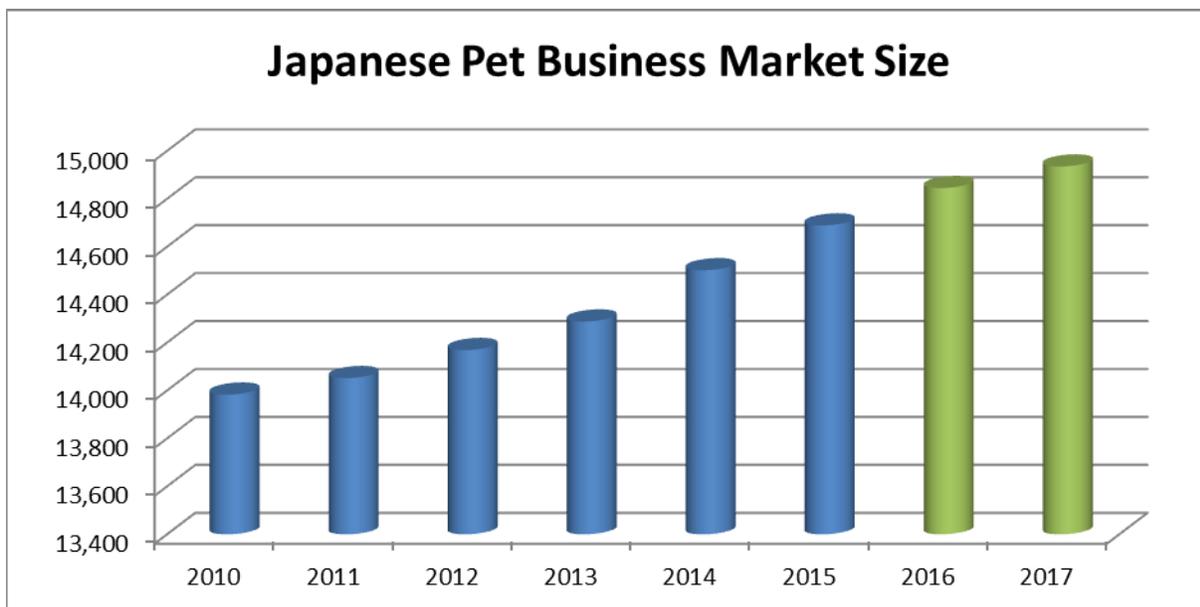


Figure 1 (in billions, green columns are predictions)

II. The Numbers behind Market Growth

As mentioned before, the demand for cat food is what has driven market expansion. This ties into the statistics demonstrating that while the number of household dogs is decreasing, the number of cats is increasing. This can be attributed to the fact that small living spaces and long working hours make it easier for families to have cats as opposed to dogs.

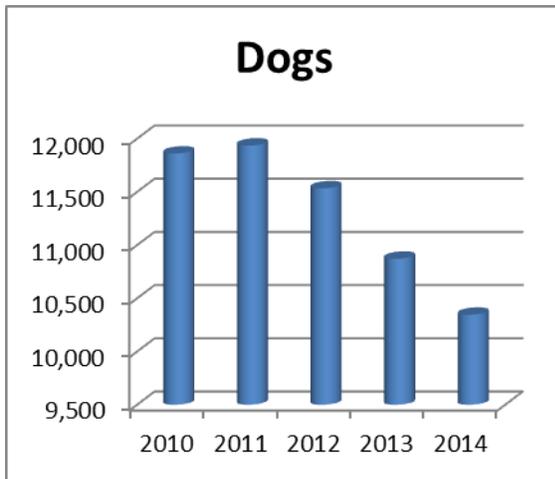


Figure 2 (in thousands, the number of heads)

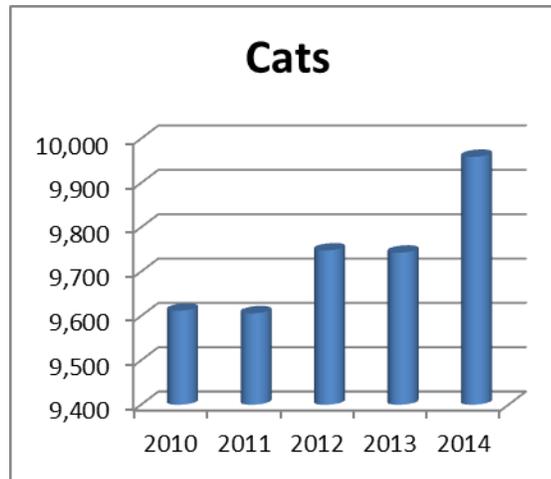


Figure 3 (in thousands, the number of heads)

III. Trends that influence future of the pet business market

Demographic Factors

While the number of cats per household is increasing, there still is a continuing downward trend in the number of pets per population. This can be largely attributed to Japan's demographics. At the same time, pets are playing more significant roles as family members, and serve as replacements for partners, children and siblings as fewer elect to get married and have families of their own. That being said, the key for the future expansion of pet business market is for there to be an increase in the number of household pets overall.

Regulations

It has been more difficult for people to have pets due to a change in The Law of Human Treatment and Management of Animals in 2012. The change was due to the increasing concerns for animal safety. It now requires thorough investigation of prospective owners, including their health status and criminal histories. Sellers are not allowed to show or sell animals from 8PM to 8AM in pet shops to prevent rash pet purchasing decisions. Finally, owners are now required to take full responsibility for their pets, and treat them as family members. Such limitations, while in the best interest of pets, will affect market growth.

Suggestions

Increasing the number of pet product consumers is key for the pet market business. It is also important to promote the benefits of having multiple pets within one household. Owners will have bigger spending on pet food and products if they have more pets to take care of. Since the trend is leaning towards cat ownership, promoting the vision of a multiple cat household may eventually be a strategy.

In the pet service category, since pets now play an important role as family members, owners are concerned about pet health. Owners seek healthy, high-quality pet products to protect pets from diseases and other potential dangers. The pet food market is expected to be a reliable supplier of safe products that ensure pet longevity and wellbeing.

Products and services that help alleviate the burdens of ownership also attract elderly owners. Consumers are seeking handy pet products that support both inside and outside pet care. There are also various services that help make ownership easier for owners. These services include pet cafes, hotels, salons in addition to counselling and training schools.

IV. Market Sector and Products

Pet food market

The pet food market has expanded by 102.9% to JPY4.604 billion (USD 38.050 million) in 2014². Market growth is primarily due to the accelerating demand for cat food. There has been a variety of cat food brands that offer different tastes and health benefits. Consumers are attracted to quality pet food that is domestically produced.

There are different purchase trends for dog food versus cat food. Owners prefer to feed their dogs dry food due to health concerns, whereas cat owners do not seem to have such a specific preference. The cat food market has been experiencing a growing demand for both dry and wet food.

The pet food market has been subdivided and diversified to meet different needs of consumers. Manufacturers have started to specialize in particular segments to efficiently generate profits. Therefore, the position of major companies within the market is relatively established. In order for new entrant to compete in the pet food market, it needs to establish a new category that will differentiate itself from other more established competitors.

Service market

Because of the rising concerns regarding pet health, Japanese owners now are frequent users of animal hospitals and insurance. The pet insurance sector grew by 125.1% in 2014³, and new businesses, such as old pet centers and pet training schools, have emerged to cater to such trends.

As owners now recognize their pets as full-fledged family members, they want to provide their pets with comfortable living spaces. The service market is an important part of the pet business, scene because it plays a key role in fostering people-to-pet ties.

² Yano Research Institute, "Pet business market 2016"

³ Yano Research Institute, "Pet business market 2016"

Pet product market

The pet product market in 2014 has expanded by 100.3% to JPY1.654 billion (USD 13.669 million)⁴. Consumer goods such as pet waste removal and cleanup supplies have maintained stable demand without being influenced by the change in consumption tax rate, and other economic stagnation. It is interesting to note that in Japan, many owners use sanitary sheets to allow for pets to take care of business inside. Unlike in the States where dogs are encouraged to take care of business outdoors, Japanese cities have ordinances that encourage animals to take care of business indoors. This has led to the popularity of sheets that allow for animals to take care of business indoors and in a hygienic manner. Absorbent sanitary sheets for dogs are frequently used in Japan, and work well in small living spaces. Naturally, such small spaces result in small to medium sized dogs.

There is growing trend for pet dental care products, diapers and pet waste removal bags, whereas the markets for shampoo/conditioner, deodorant, and insecticide products have been shrinking, most likely due to the decrease in pet numbers as a whole.

Due to the increase in consumption tax rate in 2014, consumers are less motivated to purchase luxury goods for their pets beyond pet food. Weak yen and a rise in unit sales price of pet products have also contributed to stagnation of pet product consumption.

Disciplinary/training goods have been spotlighted in recent years. Owners are increasingly concerned about public etiquette as they now have more options to go out with their pets. The demand for pet diapers and waste removal bags is expected to grow substantially in the near future.

Changes and Market Predictions

Although there is an ongoing concern about the decline in the number of pets, the consumer goods market does not seem to be affected by these economic factors. Goods that are used daily, especially pet waste care and toiletry products, have steady demand regardless of economic fluctuation over the past couple years.

On the other hand, goods that are used for longer periods of time, such as cage, large toys, beds and mattresses are low in demand because they are considered as one-time or luxury goods. Trends are not expected to change unless a game changer product is introduced into market.

Specific Products and market Potential

Cat litter box (nekosuna)

The cat litter box market has grown by 104.3% to JPY221 billion (USD 1.826 billion) in 2014⁵. Following the growing popularity of cats, there has been a steady demand for cat products.

⁴ Yano Research Institute, "Pet business market 2016"

⁵ Yano Research Institute, "Pet business market 2016"

Health and safety concerns have resulted in a growing preference for domestic goods that are generally believed to be safer.

Since cat litter box is a consumer good that needs to be regularly purchased, customers are looking for cheaper prices, and tend to purchase large quantities at once through online shopping. There have been various types of cat litter boxes offered in the market, such as ones with deodorant and disinfection functions.

The cat litter box market is expected to grow progressively with the increasing popularity for cats. However, in order to be prominent in this competitive market, companies need to offer diversified products that differentiate themselves from their competitors. If your competitor has a cheaper litter box with built in sanitary functions, your imported and more expensive product will likely struggle to compete. Product lines that have a variety of sizes, colors, and fragrances are essential in attracting customers.

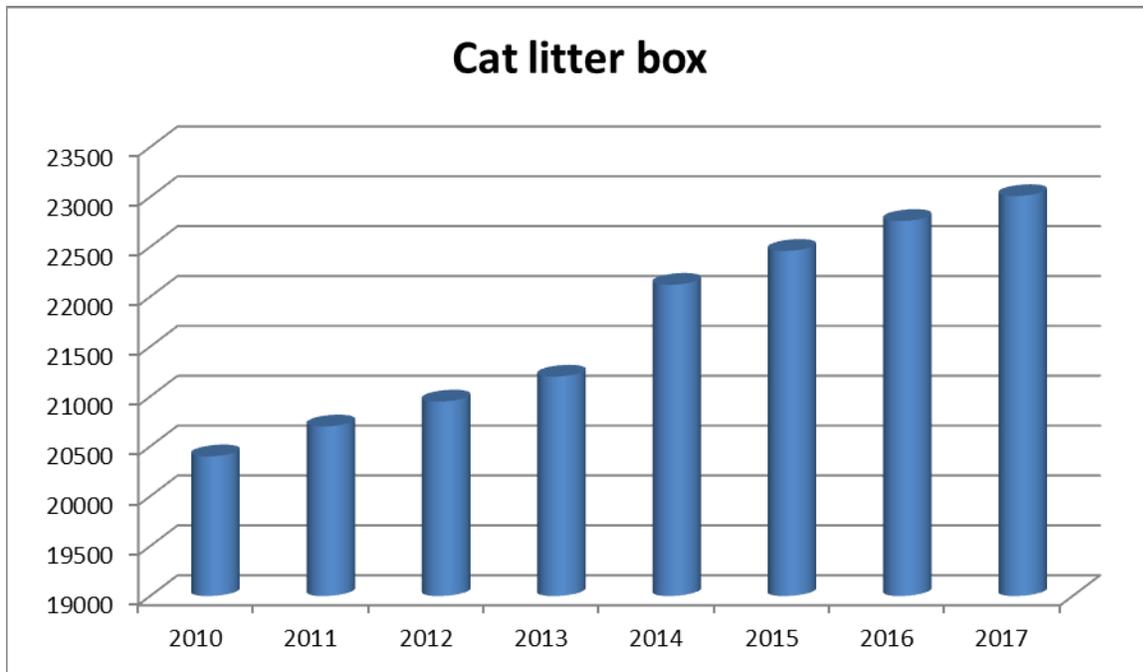


Figure 4 (in millions)

Deodorants

The deodorant market has shrunk by 97.3% to JPY23.46 billion (USD 193.9 million) in 2014⁶. The peak for the deodorant market was 2006 and since then, the market has continued to decline. The primary reason for demand stagnation is that it is not clearly explained how pet deodorants differ from human products, and why they are more expensive. There are some new unique products introduced into the market, but it fails to attract potential customers because how they differ from human deodorants was not clearly noted.

⁶ Yano Research Institute, "Pet business market 2016"

In order to be successful in this diminishing market, the company needs to campaign the benefits of having pet deodorants, and offer lower-priced products to attract pet owners.

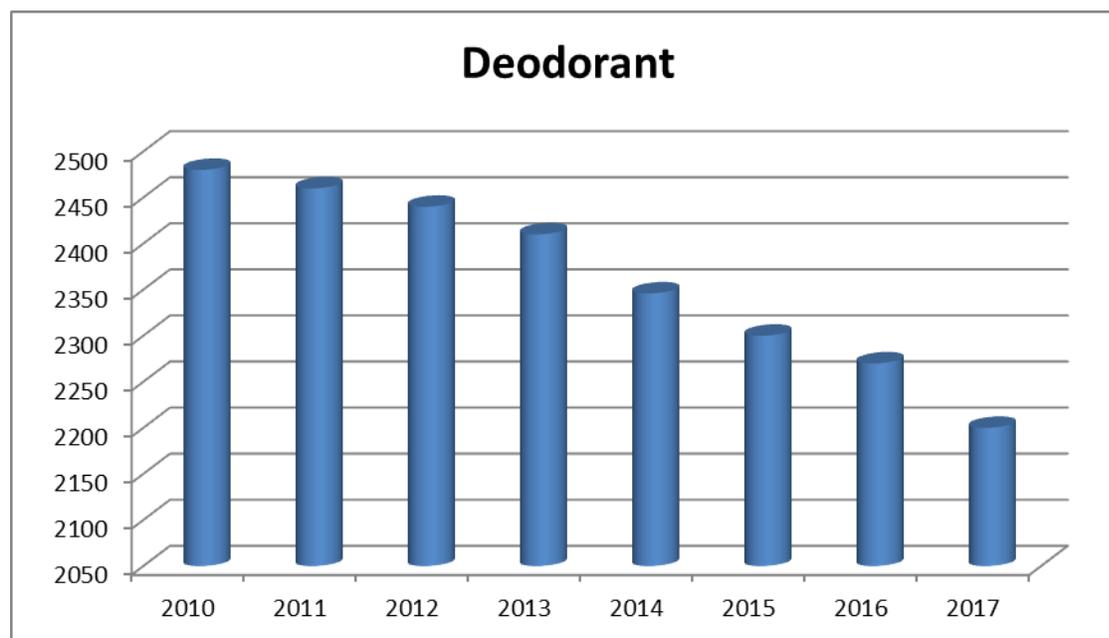


Figure 5 (in millions)

The top share manufacturer for deodorant in 2014 was Johnson Trading Company. The company offers a diversified product line, and uses naturally-derived ingredients for pet safety and health. The second top share manufacturer was Lion Shoji, which offers “Pet Kirei” series that specialize in pet odor deodorants. This series was introduced to meet the increasing demand for sanitary products, and focuses on the domestically produced goods ensuring pet wellbeing.

Overall, toiletry manufacturers that offer both human and pet deodorants are strong in market share. Of course, companies specializing in pet products have also built up their market position.

Although the market has been shrinking over years, there still is growth potential since owners are increasingly concerned about how to take care of pet odor and waste. Recent trends show that customers are more attracted to the products that have fragrance variety. There has been “Kaori (fragrance) boom” in Japan and it will be a key to have a diversified product line that has a range of pleasant aroma options. One must not forget that Japanese live in smaller spaces, and that extremely powerful orders will not be desirable. Productions need to find the right balance between smelling nice, being effectively sanitary, and not overpowering others who live in the same space. With more pets living indoors, all these factors become important in consumer decision making.

Dental care products

The market for dental care product grew by 115.4% to JPY7.5 billion (USD 61.98 millions) in 2014⁷. Market expansion is primary due to the increase in investment into the dental sphere by Lion Shoji, one of the leading manufacturers in pet business. Companies that have been around in the industry benefit from their reputations as consumers feel comfortable going to them for health related products. New market entrants can struggle as they need to prove their safety record.

Major companies have led the trend focusing on the importance of oral hygiene for pets/ there are companies hosting campaigns that encourage pet owners to brush pet teeth regularly but many are still unaware of the importance of dental health. It will be crucial to raise awareness of dental care products among pet owners for the further market growth. This will be a challenge for smaller and newer firms and such firms might wish to wait until market veterans have established the importance of dental care in the consumer mindset. However, it is difficult to affirm the importance of dental care products to pet owners because health benefits are not supported with statistical or scientific evidence.

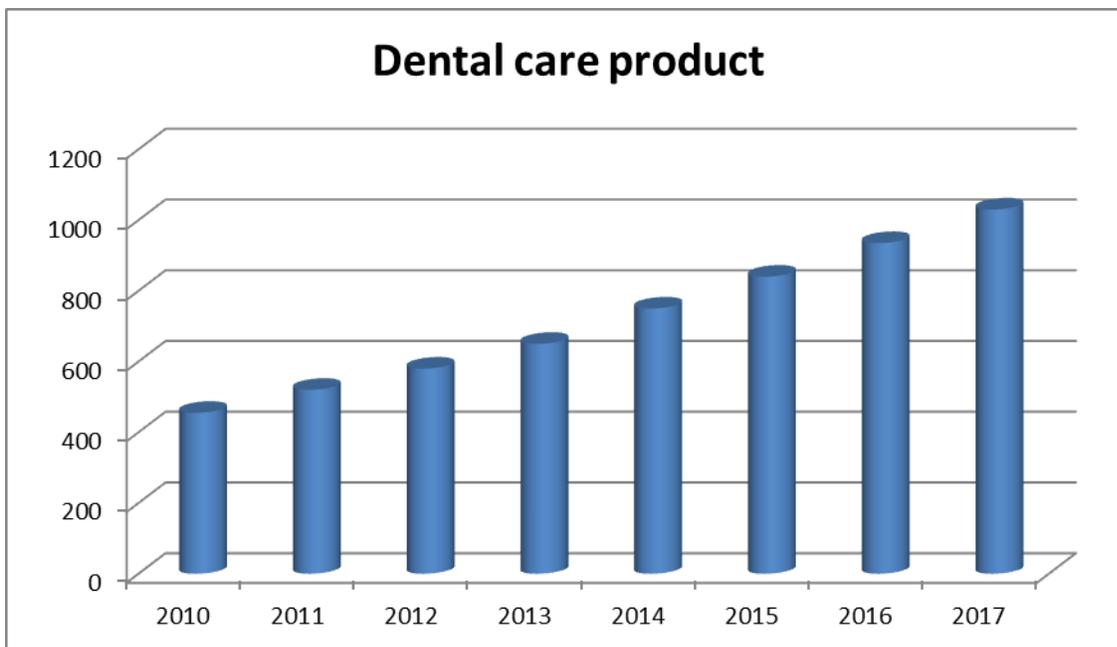


Figure 6 (in millions)

⁷ Yano Research Institute, "Pet business market 2016"

Pet diapers

The pet diaper market grew by 117.9% to JPY 32 billion (USD 264.5 million) in 2014⁸. The market has been experiencing an upward trend due to a rise in demand from both pet owners and animal service sectors. Since there are more options to go outside with pets, owners are more conscious about waste disposal and goods that assist in proper outdoor behavior. Pet diapers can be used in various occasions such as vehicles subways, and even in public facilities. Diapers allow access into a range of spaces and protect owners from potentially embarrassing cleanup situations.

The pet diaper market is expected to grow as awareness continues to rise. However, the technology necessary in making high quality diapers does make it difficult for small and new players to enter this market. There are limited opportunities for smaller, less-experienced manufacturers.

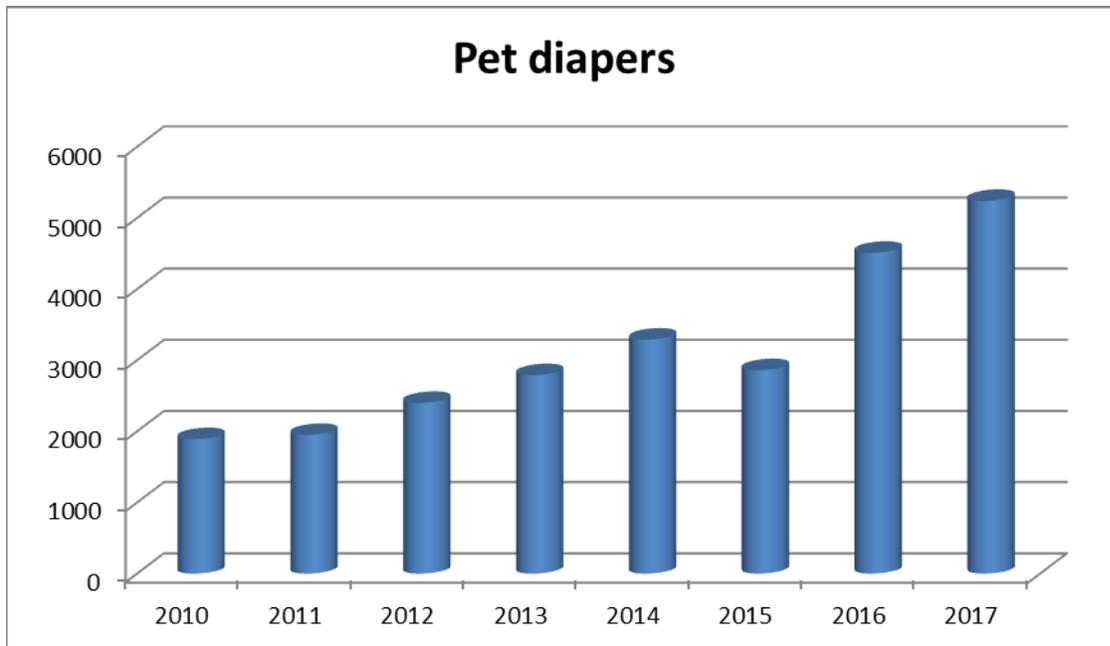


Figure 7 (in millions)

Pet waste removal bag

The pet waste removal bag market grew by 114% to JPY 6.79 billion (USD 56.12 million) in 2014⁹. This product has been receiving attention because it allows for pets to be more on the go with their human partners and allows for sanitary disposal of pet waste. Products that are not fashionable and cannot be flushed down the toilet do not stand much of a chance in the market.

⁸ Yano Research Institute, "Pet business market 2016"

⁹ Yano Research Institute, "Pet business market 2016"

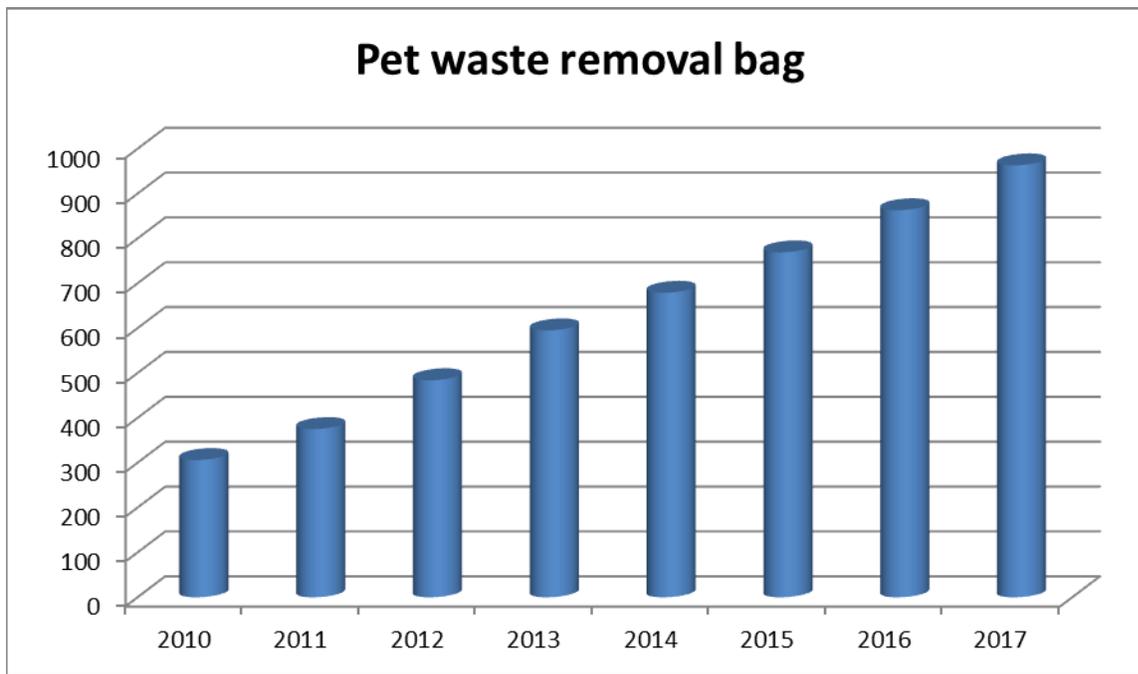


Figure 8 (in millions)

V. Major Market Players

Ranking of Manufacturers

Unicharm Company Japan occupies the top share in the pet product market. It offers diversified product lines for pet diapers and pet waste care products. It particularly specializes in the toiletry section, and campaigns for the establishment of the comfortable spaces for both owners and pets.

The second top share manufacturer is Iris Ohyama. Iris Ohyama is a company that offers various products including household appliances, daily necessities, interiors cooking utensils, and pet products. The pet product sector is not its main business line, but Iris Ohyama is still known for pet home products such as mattresses, beds, and cages.

The third top share manufacturer is C's Ishihara, a company that primarily focuses on pet toiletry products and discipline/training goods. It is known for its specialized product line, ranging from pet sanitary sheets to diapers to health supplements that ensure wellbeing of pets.

The pet product market is getting increasingly competitive as the major companies have established their positions in the industry. Successful companies do not have various product lines, but rather focus on specialized goods that they are good at producing.

Because of the ongoing economic stagnation, customers prefer lower prices for consumer goods that are used daily. Therefore, it will be important to offer high-quality, manner-caring consumer products that solve basic ownership problems at reasonable price. One of the challenges that new companies may face is how to efficiently produce large quantities of pet products and offer them

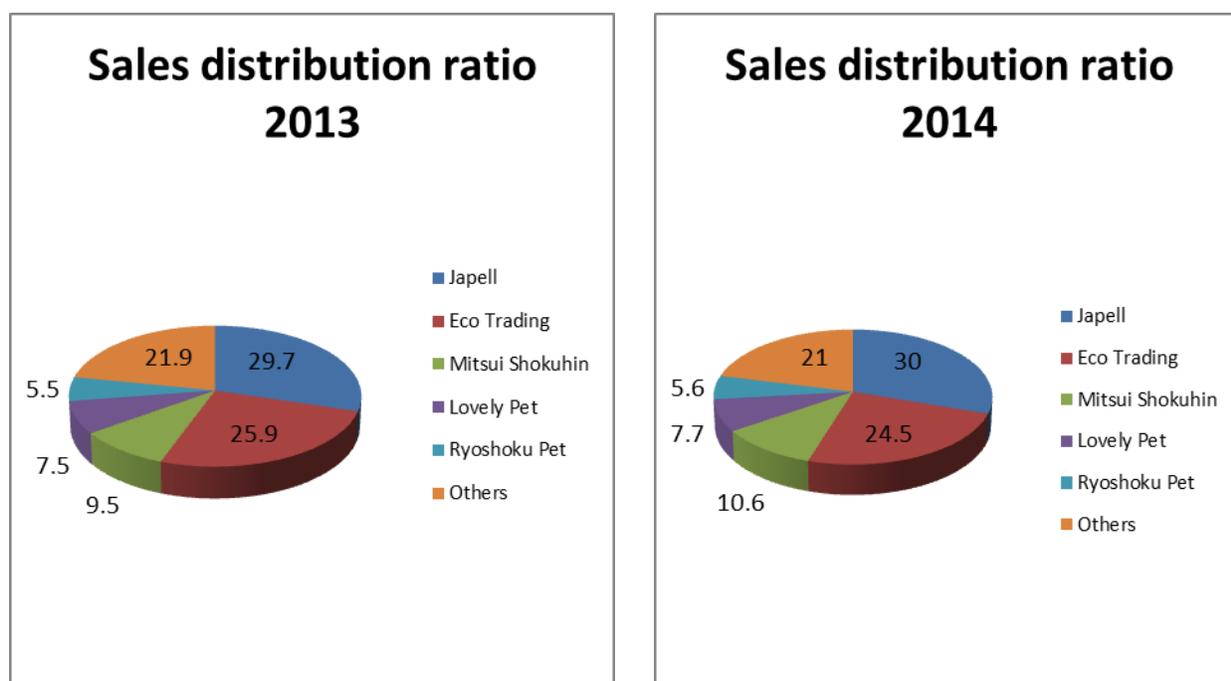
at low prices. Newcomers to the market should have good understanding about the trend, and be able to find their specialty in the fierce price competition.

Major wholesalers

The two major wholesalers in pet business market are Japell and Eco Trading Co., Ltd. These top share companies have been expanding their business areas and production lines. Therefore, market competition has intensified in recent years, and it has become increasingly difficult for small to medium scale companies to be prominent in the market.

	2013		2014	
	Profits (millions)	Year-on-year rate (%)	Profits (millions)	Year-on-year rate (%)
Japell	86,400	105.4	88,900	102.9
Eco Trading	75,295	99.1	72,559	96.4
Mitsui Shokuhin	27,700	105.3	31,222	112.7
Lovely Pet Shoji	21,938	108.0	22,707	103.5
Ryoshoku Pet care	15,900	102.6	16,600	104.4

Table 4



Graph 1&2

Major wholesalers distribution channels

In Japan, many consumers frequent home centers. Essentially, a home center is an all for one type of store carrying everything from groceries, to construction equipment – similar to a Super Walmart. Although home center channel is the biggest distribution channel, its share ratio has

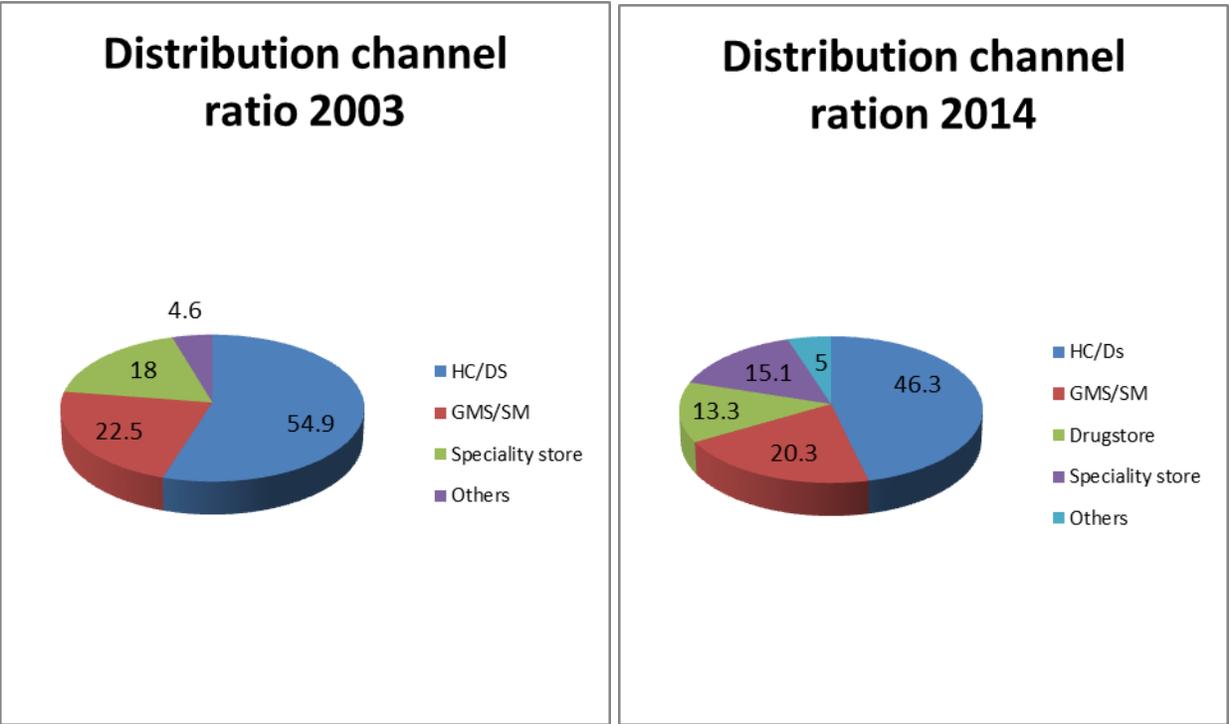
been decreasing because pet owners now have more options to purchase at pet stores, supermarkets or other specialized stores that have been expanding in recent years and are situated in more convenient areas.

There has been price competition among different distribution channels and new advertisements and effective sales planning are needed to strengthen sales.

The GMS/SM (supermarkets/shopping malls) channel has been growing in recent years. Following the increase of housing allowing indoor pet rearing, more customers purchase pet food and products at grocery shops and shopping malls. The prefecture is not to seek out a pet specialty store, but to buy pet products at the same place one purchases all other necessities. Companies have strengthened their product lines such as waste care products or cat food, and try to reach out to consumers through choosing the most effective distribution channels.

		HC/DS (%)	GMS/SM (%)	Drugstore (%)	Specialty store (%)	Others (%)	Total (%)	Profit (millions)
Japell	2013	47.4	22.2	14.9	13.1	2.4	100	88,900
	2014	47.1	21.9	14.4	13.9	2.7	100	86,400
Eco trading	2013	51.0	14.4	17.3	12.3	5.0	100	72,559
	2014	53.3	13.5	16.1	11.0	6.1	100	75,295
Mitsui	2013	55.0	38.0	7.0	0.0	0.0	100	31,222
	2014	50.0	41.0	9.0	0.0	0.0	100	27,800
Lovely Pet	2013	36.4	0.5	4.1	40.9	18.1	100	22,707
	2014	39.5	0.5	8.0	47.0	5.0	100	21,938
Ryushoku	2013	17.0	30.0	11.0	31.0	11.0	100	16,600
	2014	22.0	27.0	9.0	31.0	11.0	100	15,900
Total	2013	46.3	20.3	13.3	15.1	5.0	100	231,988
	2014	47.0	19.7	13.3	15.6	4.3	100	227,233

Table 5



Graph 3&4

Channel strategies of major wholesalers

Japell

The main channel for Japell is home centers, but its share has been shrinking. To address this downward trend, the company has been proposing new ideas to recover the HC channel. Japell is supporting home centers to build selling areas that are attractive and efficient in generating profits. It proposes the concept of a selling area, products that suit the area concept, and a layout that can effectively appeal to consumers.

The company also focuses on specialty shop channel because it is a fast growing sector with increasing demands from pet owners who have the time and luxury to do their shopping there.

Eco Trading

Eco Trading places an emphasis on the most trendy distribution channels such as drugstores and supermarkets. The company has also been expanding its business area to Kanto Area, and making business agreements with main supermarkets and drugstores.

Mitsui Shokuhin

Mitsui Shokuhin focuses on food-related distribution channels, mainly the HC, and GMS/SM sectors.

Along with increased development in the GMS/SM and drugstore sectors, the company has been able to attain higher profit in 2014. The company also corporates with charity organizations to protect animals from neglect and euthanasia. It aims to improve the negative images of pet industry through such positive CSR activities.

Lovely Pet Shoji

Lovely Pet Shoji's biggest distribution channel is the specialty shop channel. The company is also expanding its business range to Kanto Koshin and Tohoku areas to establish its market position in new locations.

The company offers products that differentiate itself from others, and supports opening new stores that sell its pet products and food. It also opened up a pet salon as new distribution channel, and has been investing in an online website to provide more purchase options for customers.

Major wholesalers headquarters

Company	Headquarter	Number of branches
Japell	Aichi	15
Eco trading	Hyogo	15
Mitshui Shokuhin	Tokyo	7
Ryushoku Pet Care	Kanagawa	3
Lovely Pet Shoji	Osaka	4
Global Pet Care	Tokyo	10

Retail industry overview

From the retail side, the major distribution channel is the home center channel. This channel has been the core of pet products sales. Home centers not only sell pet products, but also offer a variety of services such as animal hospitals, hotels and trimming salons on-site.

However, as mentioned before, the HC sector is on a downward trend. Its share has been shrinking due to the emergence of other influential retailers such as drugstores and specialty shops. One of the downsides of the HC channel is that it may not be able to provide through services for customers. Due to its operation model, it is difficult for HCs to hire pet specialists and provide in depth counseling. Wholesalers and suppliers are supporting the HC sector to improve selling areas.

The strength of GMS/SM channels is that customers can purchase variety of daily products in one location. Location, layout, and product diversity will all contribute to more customers.

The fast growing channel is online sector. Online customers are seeking for reasonably priced products that can be delivered on time, and come with refund insurance. It will be important for companies to ensure that their products are listed on major online webpages to reach out to potential consumers.

The retail channel mirrors the wholesale channel to a certain degree. The same challenges and best practices exist as convenience, quality, and location play integral parts in purchase decisions and customer traffic.

VI. Suggested Next Steps

The Commercial Service can provide some assistance to companies interested in Japan's Pet Product Market. However, based on product type, there are different jurisdictions.

For pet food related inquiries, companies should reach out to the U.S. Department of Agriculture. The Department of Agriculture has an office in Japan that can provide counseling, and recommend next steps.

Agricultural Trade Office Japan

<http://www.fas.usda.gov/regions/japan>

For non-food related products, please contact Specialist Yoshiko Okamoto (Yoshiko.Okamoto@trade.gov) for initial counseling and recommendations. Due to intense competition and market tendencies, tradeshow have been more successful than matchmaking introductions. Japanese corporate buyers come to tradeshow to determine what new products to purchase, and new players demonstrate market commitment by attending these shows.

Companies interested in the market are encouraged to come to the following shows:

Japan Pet Fair

<http://jppma.or.jp/english/>

Interpets

<http://www.interpets.jp/en>