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JETRO Japanese Market Report – Regulations & Practices –

Nutritional Dietary Supplement Products

CONTENTS

Yen-Dollar Exchange Rates

Year	Yen/US $
1992	127
1993	111
1994	102
1995	94
1996	109

Source; "International Financial Statistics", IMF

Introduction

1. Research Subjects

Nutritional dietary supplement products are yet to be recognized as an independent product category and are generally lumped together as part of the health foods market in Japan. However, this part of the health foods market has been growing rapidly in recent years, and this, in turn, has led the Ministry of Health and Welfare to examine the sector and propose positioning it as a new market category falling somewhere between medicine and health foods.

The following product groups are regarded as health foods in Japan.
- Natural health foods (medicinal foods, Korean ginseng, royal jelly, etc.)
- Diet foods (low-calorie foods, vegetable fiber, health tea, etc.)
- Nutrient-enriched sweets and beverages (nutrient-enriched candies, bars, drinks, etc.)
- Nutritional supplements
- Nutritionally balanced foods Nutritional dietary supplement products
- Sports foods

This report focuses on nutritional dietary supplement products which are widely viewed as comprising nutritional supplements, nutritionally-balanced foods, and sports foods.

Each of the nutritional dietary supplement product groups is described below.

Nutritional supplements: These contain particular nutrients as their main ingredients such as vitamins, minerals, proteins, and energy boosters. They are taken in tablet, powder, or capsule form. Nutritional supplements that are marketed in a food form are not included in this category.

Nutritionally-balanced foods: These contain a balance of necessary nutrients such as vitamins, minerals, proteins, and energy boosters. Nutrient-enriched foods are not included in this category.

Sports foods: These are used mainly by athletes engaged in sports activities and are designed to promote muscle development or boost energy. They come in the form of a powder, jelly, or liquid. The widely consumed sports beverages are not included in this report.

2. Summary

The Japanese nutritional dietary supplement products market is widely believed to have entered a growth phase in Japan due to the nation's aging population, the rise in health consciousness among the Japanese people, and the medical and health system reform plan implemented by the government.

The 1996 market size was estimated to be 260 billion yen, with a breakdown as follows: nutritional supplements - 140 billion yen, nutritionally-balanced foods - 90 billion yen, and sports foods - 30 billion yen. The 1996 import value of nutritional dietary supplement products was estimated to be 28.6 billion yen, having a retail value of about 50 billion yen. The biggest exporter of these products was the United States.

It has been customary to market most nutritional dietary supplement products through door-to-door sales, catalog sales, and other methods outside the routine retail outlet sales channel. Recent trends, however, show an increasing percentage of sales in the growing low-priced nutritional supplements and nutritionally-balanced foods markets occurring at retail stores. Even so, the sales of Nu Skin Co., a door-to-door marketer, and Fancl Corp., which sells through catalogs, are growing sharply.

Traditionally, the stores handling these products have been pharmacies, personal care stores, and health food specialty stores. In recent years, however, an increasing number of general merchandise stores (GMS), supermarkets, and convenience stores (CVS) have begun handling the products, as well.

Sales of low-priced nutritional dietary supplement products are growing rapidly in the Japanese market. There are low-priced nutritional supplements retailing for under ¥1,000, nutritionally-balanced foods retailing between ¥100 and ¥300, sports foods priced between ¥100 and ¥300.

The market for low-priced nutritional supplements was created when the Otsuka Pharmaceutical Co. introduced its line of *Nature Made* products in 1993. Since then, many other manufacturers have followed with their own product lines. Starting in 1994, an increasing number of manufacturers began entering the low-priced nutritionally-balanced foods market, and competition has been heating up ever since.

Common to these low-priced products is that they are sold at CVSs, supermarkets, and personal care stores. Another common characteristic is that their main buyers are young females rather than health-oriented people. Armed with this knowledge, manufacturers are merchandising so-called Japanese-style nutritional dietary supplement products which are subtly flavored to appeal to the tastes of general consumers.

Nutritional dietary supplement products which are unflavored, the so-called American-style products, are also being marketed in Japan. Although the sales volume of these products remains small, more manufacturers are entering this market. Much of the imported nutritional dietary supplement products from the United States are of this type. Japanese versions of these products include the aforementioned *Nature Made*, *Your Life* from Takeda Chemical Industries, Ltd., and *Daiei Original Nutritional Supplementary Foods* from The Daiei, Inc.

The high-priced nutritional dietary supplement products sold chiefly outside retail store channels -- excepting health food specialty stores -- are mostly unflavored. The consumers of these products are mainly serious, health-oriented consumers.

Examples of foreign companies marketing products in Japan include Shaklee Japan, Amway Japan, and Nu Skin Japan all of which focus on door-to-door sales. Otsuka Pharmaceutical teamed up with US Pharmavite to market *Nature Made* products, and Takeda Chemical Industries joined with US Leiner Health Products to market the *Your Life* line.

On entering the Japanese market, in many cases, products developed specifically for the Japanese market may be required. Some products marketed elsewhere may fail to meet guidelines established in the Food Sanitation Law or the Pharmaceutical Affairs Law in Japan. Therefore, before introducing a product to the Japanese market, care should be taken to become familiar with Japanese rules, regulations, and market characteristics. For instance, vitamin tablets should be resized making them easy to swallow. Finally, acquiring a Japanese partner should be considered.

I. Import Procedures and Regulations

A. Laws and Regulations Relating to Imports

The laws and regulations relating to the import of nutritional dietary supplement products are listed below.

1. The Food Sanitation Law

The products and materials subject to the law include (1) foods, (2) food additives, (3) instruments, and (4) packaging.

Under the law, filing an import inquiry application and submitting samples to the Ministry of Health and Welfare via an authorized quarantine laboratory are required whenever these products are imported.

A concern with imported nutritional dietary supplement products centers on food additives. Among food additives, there were 349 synthetic food additives approved as of September 1997. No food products containing synthetic food additives other than those approved can be imported into Japan. As for natural food additives, they became subject to an approval system in an amendment to the law which took effect in May 1996. As of September 1997, 489 natural food additives were approved. As with synthetic additives, food products containing nonapproved natural food additives cannot be imported into Japan.

a. Contents Labeling

All processed and packaged food products require labels. The label must include the name of product, the manufacturer's (importer's) name and address, additives (if any) by their conventional names, and other items. These items must be displayed in an easy-to-see location on the packaging.

In addition, specific to nutritional dietary supplement products, the product must be labeled as a food not a medicine. Also, the recommended daily allowance along with the maximum daily allowance must be on the label.

b. Consumption expiration date (due date) and quality duration (quality date)

Beginning April 1, 1997, labels were no longer required to carry the date of packaging but began being required to display the date of expiration, or due date, and the date after which a product's quality has significantly deteriorated, the quality date. Perishable foods which must be consumed within five days of packaging (inclusive) must carry a consumption deadline (year, month and day). Foods which must be consumed from 6 days to 3 months of packaging (inclusive) must carry the due date or the quality date (in both cases, year, month and day). And, foods which can be consumed beyond three months of packaging must carry either a quality date or due date (either year and month, or year, month and day).

Although the Food Sanitation Law enforcement rules do not require nutritional dietary supplement products to carry quality or due dates, the voluntary use of them is advised from the standpoint of production liability and providing consumers with accurate information.

2. Rules on Ingredients Labeling

The Rules on Supplemental Foods were abolished as a result of an amendment to the Nutrition Improvement Act. Accordingly, the Rules on Ingredients Labeling were enacted in May 1996 and go into effect on April 1, 1998.

The new rules state that (1) if the label of a processed food carries information on some ingredients and caloric values, it must also list other nutritionally important ingredients and caloric information, and (2) if the label of a processed food highlights certain ingredients and caloric values, the quantities must satisfy certain specifications.

As for highlighted labels, for example, if a label expresses a high calcium content using the words high, high volume, rich, or enriched, the calcium content must be 180 mg or more per 100g.

Under the rules, it is the responsibility of each manufacturer to comply with labeling specifications. Violations of the labeling rules can result in punitive actions taken by the Ministry of Health and Welfare. The actions may include official announcements to the public.

3. The Pharmaceutical Affairs Law

Often, imported nutritional dietary supplement products are determined to be medicines using Japanese criteria. When this happens, the product requires approval (assessment on efficacy potency, and safety) as a medical commodity, and an import sales (production) license must be obtained to import (produce) the product into Japan.

Whether the product is a medicine will be determined by ingredients, shapes and the potency or functions. The following products are treated as medicines; careful attention is advised.

a. Products containing ingredients that are not allowed for use in food, e.g., digestive enzymes such as lipase.
b. Products in pill or capsule form containing ingredients that are not allowed to be marketed in medicine-like forms, e.g., calcium and adlay.
c. Products having the ability to cure or prevent diseases, strengthen or boost organ functions, etc.

4. The Law Concerning Door-To-Door Sales, etc.

This law is intended to protect consumers from personal damages resulting from door-to-door sales, mail-order sales, or pyramid sales schemes.

The law stipulates that the issuance of application documents and agreements and a consumer product return period be required for door-to-door sales and pyramid sales scheme transactions. Furthermore, the law regulates conditional sales practices for mail-order sales. The law was amended in May 1996 (effective November 1996). The amended law, prolonged the consumer product return period from the previous 14 days to 20 days for pyramid sales scheme transactions. Moreover, telemarketing activities became subject under the law. As a result, with telemarketing, the issuance of application documents and agreements and consumer product return periods are now required.

5. Product Liability Law

The law is intended to provide damage remedies for persons injured as a result of product defects and has been enforced since July 1995. Prior to the law's enactment, a manufacturer's negligence must have been proven in a damage suit. Under the law, if the injured party can prove that the injury resulted from a product defect, the manufacturer is held liable.

The law defines the purposes and specifies the products covered, products exempted, and statute of limitation. Furthermore, the law seeks to subject a variety of business arrangements to its provisions by including packagers, importers, and even retailers who outsource production to overseas manufacturers.

6. Accreditation by Industry Associations

The Japan Health Foods & Nutrition Food Association is the sanctioning body which grants accreditation to health food products, including nutritional dietary supplement products, after they pass inspections on safety, sanitation and labeling. The accredited products are allowed to carry a JHFA mark. The inspection is conducted on each product and the product's specifications according to standards established by the Ministry of Health and Welfare.

B. Tariff Rates

Table A. Tariff Rates

HS Code No.	Description of Commodity	Tariff Rate
2106.10-120	Preparation of vegetable protein, preparations containing by weight not less than 30% natural milk constituents on dry matter, excluding protein concentrates containing by weight not less than 80% protein, the largest single ingredient of which is vegetable protein by weight and put up in containers for retail sales by weight of 500g or less.	12.5%
2106.10-211	Protein concentrates and textured protein substances, excluding preparation of vegetable protein, preparations containing by weight not less than 30% natural milk constituents on the dry matter, excluding protein concentrates containing by weight not less than 80% protein, the largest single ingredient of which is vegetable protein by weight and put up in containers for retail sales by weight of 500g or less, containing added sugar, less than 50% by weight of sucrose.	22.4%
2106.10-221	Vegetable protein, protein concentrates containing by weight not less than 80% protein, the largest single ingredient of which is vegetable protein by weight of 500g or less, not containing added sugar.	11.6%
2106.10-222	Vegetable protein, not containing added sugar, n.e.s.	11.6%
2106.10-229	Protein concentrates and textured protein substances, excluding vegetable protein and protein concentrates containing by weight not less than 80% protein, the largest single ingredient of which is vegetable protein by weight and put up in containers for retail sale by weight of 500g or less, not containing added sugar, n.e.s.	20%
2106.90-261	Food supplement with a basis of vitamins, those, the largest single ingredient of which is sugar by weight, containing added sugar, containing lactose, milk protein or milk fat.	12.5%
2106.90-269	Food supplement with a basis of vitamins, containing added sugar, excluding those, the largest single ingredient of which is sugar by weight, n.e.s.	12.5%
2106.90-295	Food supplement with a basis of vitamins, not containing added sugar.	12.5%
2106.90-296	Of hydrolyzed vegetable protein, not containing added sugar.	12.5%
2106.90-299	Other food preparation, not containing added sugar, n.e.s.	20%

C. Deregulation of Nutritional Dietary Supplement Products

1. Deregulation of Vitamins

Beginning in April 1997, regulations concerning the form in which major vitamins were manufactured were abolished. As a result, seven substances are available for marketing as nutritional supplement products.

They are vitamins A, B_1, B_2, C, D, E, and niacin which were once treated as medicines when they were marketed in a pharmaceutical format. The official notice from the Pharmaceutical Affairs Bureau director states that products meeting certain requirement shall be treated as non-medicines even if they appear in capsule, pill, or tablet form. The new regulation requires such a product to carry a label on the right side of its package (including inner package, if any), and that the label clearly state that the product is a dietary supplement by using the word "food" or other such words and further state that it is not intended to serve as a medicine.

Furthermore, the notice specifies that vitamins B_6, B_{12}, K, and pantothenic acid, biotin, and frolic acid may be treated like the same as the above substances if the maximum individual daily intakes are as follows:

vitamins B_6--less than 3mg, B_{12}--less than 3ug, K--less than 120ug,
pantothenic acid--less than 6mg, biotin--less than 6mg, and
frolic acid--less than 300ug.

2. Deregulation Schedule

Following the deregulation of vitamins, the regulations governing the forms in which herbs and minerals can be marketed are scheduled to be lifted in 1997 and 1998, respectively.

In response to a request from the United States, which enacted the Dietary Supplements and Health Education Act (DSHEA) in October 1994, the Japanese Ministry of Health and Welfare stated that it will establish a new commodity category, nutritional dietary supplement products, and position the category between the medicine and food categories. Consequently, food materials and ingredients will be deregulated.

II. Distribution

A. The Distribution Channels

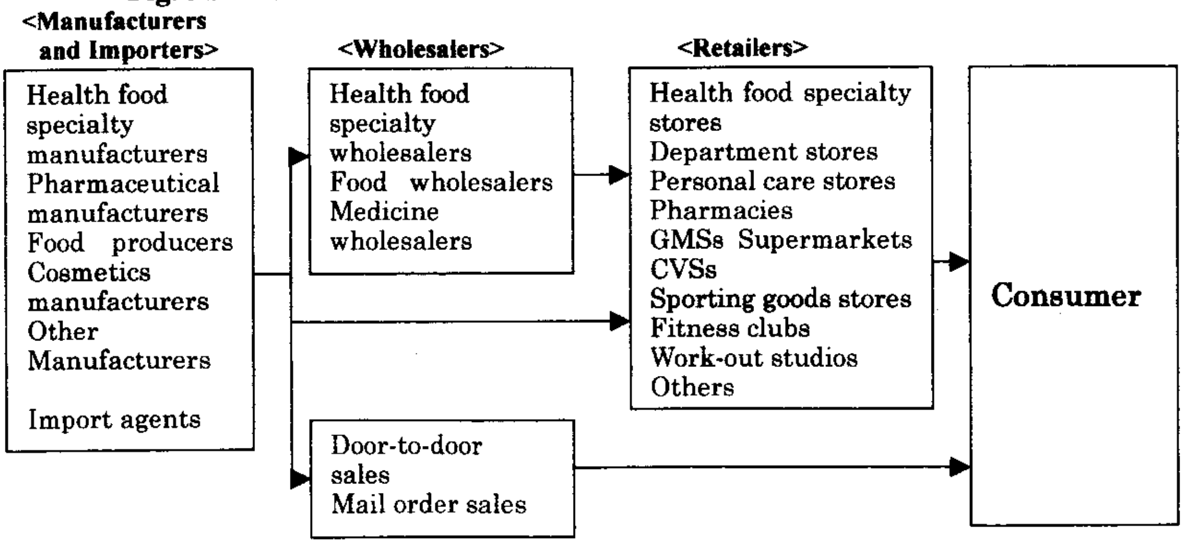
There are roughly two distribution channels for nutritional dietary supplement products: one without retail outlets and the other with retail outlets. In the past, these products were mainly distributed without the use of retail outlets. Today, that has changed. Along with the growth in sales of low-priced nutritional supplements and nutritionally-balanced food products, there has been a marked expansion in the number and type of retail outlets handling these products. The ratio between the two channels distributing nutritional dietary supplement products overall now stands at about one-to-one. More nutritional supplements are sold outside the retail outlet channel, but more nutritionally-balanced food products are sold through retail outlets. The ratio for sports foods distribution is about even.

The main retail outlets handling nutritional dietary supplement products are pharmacies, personal care stores, and health food specialty stores, totaling about 55,000 outlets nationwide. In recent years, more and more GMSs, supermarkets and CVSs have begun handling these products.

Taking the form of health bars, cookies and such, nutritionally-balanced foods have been sold mainly at supermarkets. Low-priced nutritional supplements were initially sold only at pharmacies, but have gradually begun appearing in GMSs, supermarkets and CVSs. Many manufacturers who belatedly entered the low-priced nutritional supplements market have distributed to these stores from the start. Tokiwa Chemical Industries sells its product line *Lapis* through these stores, which, combined, account for around 80% of all retail outlets. At present, about 80% of all CVSs sell nutritional dietary supplement products.

At one time, sports foods could not be found at retail outlets, since they were exclusively distributed through other channels. However, with the growth of their use among the general population, major manufacturers have begun marketing their sports food products through retail outlets.

Fig. A. Distribution Channel



Two methods are used to market nutritional dietary supplement products outside of the retail outlets channel. They are door-to-door and mail order sales. With mail order sales, catalog shopping, magazine shopping and direct marketing are growing favorably. The Fancl Corp. is typical of companies marketing their products through catalogs and magazines. The company promotes its products using a well-known former pro baseball player in its magazine ads. This company's sales figures are climbing.

Foreign products are imported into Japan either by Japanese manufacturers or by Japanese import agents. Typical examples of the former case are Otsuka Pharmaceutical, Amway Japan, and Nu Skin Japan, all of which handle US-made nutritional supplements. Otsuka Pharmaceutical distributes the products through retail outlets while Amway Japan and Nu Skin Japan use other methods. Nu Skin Japan is recording high earnings through its door-to-door sales.

The Japanese agents importing nutritional dietary supplement products are generally small companies and do not use retail outlets.

The Daiei, Inc., a major Japanese GMS company, outsources its private brand products production to a US manufacturer. Still, this remains an uncommon practice in Japan.

B. Characteristics of Distribution

One characteristic of nutritional dietary supplement products distribution in Japan is the relatively high percentage of products marketed through channels outside the retail outlets channel. Many of these products are handled by health food manufacturers as an integral part of their health food products lines. Since these manufacturers market mainly through door-to-door or mail order sales, nutritional dietary supplement products are distributed in the same manner. Witnessing the growth of the market, some major door-to-door and mail order sales companies are now active in sale of nutritional dietary supplement products.

Over the years and with protein products at the center, mail order has been commonly used for marketing sports foods from overseas (mainly the US).

Consumers are so practiced in this purchasing method, they have gone on to accept this method without hesitation in their purchasing of other nutritional dietary supplement products, as well. The consumers have developed a sense of trust in the quality of these products without having to examine them before purchase.

Current distribution trends have some major manufacturers with retail outlet channels also distributing through mail order. This kind of parallel marketing is another characteristic of nutritional dietary supplement products distribution in Japan.

At present, around 50% of nutritional dietary supplement products is distributed through channels outside retail outlet channels.

C. Price Trends

There are two categories of nutritional supplements: high-priced and low-priced. High-priced nutritional supplements are mainly distributed through channels without retail outlets, and they are also sold in the health food sections of department stores and in health food specialty stores. Typical prices of high-priced nutritional supplements range between 2,000 yen and 10,000 yen per package. On the other hand, low-priced nutritional supplements are sold mainly at CVSs, supermarkets, and personal care stores. Typical prices of low-priced nutritional supplements fall below 1,000 yen.

The majority of nutritionally-balanced foods are priced between 100 and 200 yen. Their main retail outlets are CVSs, supermarket, and personal care stores.

As with nutritional supplements, there are two categories of sports foods: high-priced and low-priced. The high-priced sports foods are used by top ranking athletes and have prices ranging between 2,000 yen and 10,000 yen. Typical prices of the low-priced sports foods range between 100 and 200 yen. These products are in liquid or jelly form and are marketed in single dose quantities.

In many cases, manufacturers distribute nutritional dietary supplement products in several sizes, which carry varying retail prices. CVSs and supermarkets tend to handle low-priced products while door-to-door, mail order and health food specialty stores tend to sell the high-priced products. Pharmacies and personal care stores handle both categories. However, a company like Fancl, which markets low-priced nutritional supplements through catalog sales, is but one example of a nonretail outlet handling low-priced products. There are others. Finally, 10 % discounts are common at personal care stores and supermarkets.

The manufacture shipment prices are 50 to 60 % of retail prices for products distributed via pharmaceutical channels and slightly higher when shipped via food distribution channels.

Table B. Retail Prices of Nutritional Dietary Supplement Products

Manufacturer	Brand	Price (yen)	Size
Supplements			
Amway Japan	*Triple X*	13,850	3types,total 465 cap
Shaklee Japan	*Instant Protein*	6,120 ~ 7,650	
Nu Skin Japan	*Life Pak*	6,680	6 cap. X 30 pack.
Nisshin Flour Milling	*Power Livlon*	3,800	5 cap. X 30 pack.
Fancl	*Fancl Vitamin C*	600 ~ 800	90 cap. 180 cap.
Taisho Pharmaceutical	*Biodyna*	1,400 ~ 3,800	
Asahi Beer Pharmaceutical	*Actio*	1,200 ~ 3,800	
Otsuka Pharmaceutical	*Nature Made*	680 ~ 980	
Meiji Seika Kaisha	*Lola*	480 ~ 2,200	mini, half, standard
Tokiwa Chemical Industries	*Lapis*	480 ~ 1,800	
Takeda Food Products	*Better Plus Takeda*	388	56 cap.
Takeda Chemical Industries	*Your Life*	980	6 types
Morishita Jintan	*Vitamin Week*	300	
Daiei	*Daiei Original*	580	6 types
Nutritionally-balanced foods			
Otsuka Pharmaceutical	*Calorie Mate*	100 ~ 200	2 or 4 biscuits
Pola Foods	*Balanceup*	100	
Takeda Food Products	*Vitamin Salad*	145	9 biscuits
Nihon Shokken	*Balance Date*	95, 195	2 or 4 biscuits
Ajinomoto	*Balance Care*	Open price	
Sports foods			
Meiji Seika	*Savas Protein*	2,200 ~ 5,000	360g can, 1.2kg pack.
Morinaga	*Weider*	3,200 ~ 5,200	400g can, 1kg pack.
Otsuka Pharmaceutical	*Energen*	105, 146	340ml, 480ml
Meiji Milk Products	*VAAM*	250	

III. Market Entry

A. Examples of Foreign Companies with Operations in Japan

Shaklee Japan has been active for many years distributing its products outside retail outlet channels. Similarly, Amway Japan began selling its US parent company's products outside retail outlet channels several years after entering the Japanese market. In a more recent case, Nu Skin Japan entered the market and is enjoying good sales performance. Examples of companies marketing products in Japan without a Japanese subsidiary are Pharmavite with its *Nature Made* brand, and Leiner Health Products with its *Your Life* brand; both are US companies.

1. Shaklee Japan

After examining the potential of the Japanese nutritional dietary supplement products market, the US-based Shaklee Corporation's wholly-owned subsidiary, Shaklee Corporation V, established Shaklee Japan in 1975. With a corporate motto of harmony with nature, Shaklee Japan has enjoyed brisk sales using a door-to-door sales system. The company manufactures products inside Japan mainly using raw materials imported from the parent company in the US. More than 80 % of sales comes from nutritional dietary supplement products. For many years, the company's most popular products have been protein and vitamins E and C. On entering the Japanese market, the company was careful not to violate provisions in the Drugs, Cosmetics, and Medical Instruments Act of Japan. Shaklee Japan was quick to recognize the differences in food and medicine standards, as well as labeling, between Japan and the US.

In 1989, the company became an affiliate of Yamanouchi Pharmaceutical Co., Ltd.

2. Amway Japan

As a subsidiary of US-based Amway Corporation, Amway Japan entered the Japanese market in 1977. Initially, the company sold home care cleaning products. Then, starting in 1984, Amway Japan began marketing a line of nutritional dietary supplement products, which now account for about 20% of its sales. The nutritional dietary supplement products are imported from New Relite Products, the manufacturer of the products and a member of the US-based Amway group. Amway Japan is a door-to-door sales company with a unique distribution system. The imported products are distributed directly to users by Amway Japan's distributors, which number around one million cells nationwide. New products are developed for the Japanese market as the result of collaboration between Amway Japan's marketing and product planning divisions and US Amway's research and development department. Central to product development is the making of high quality products by selecting from natural substances for use as raw materials. In addition, satisfying consumer needs is another key plank in the company's product development platform.

3. Nu Skin Japan

Nu Skin Japan, a wholly-owned subsidiary of the US-based Nu Skin Corporation, opened an office in Japan in April 1993 and became a licensed corporation in August 1995. The sales of Nu Skin Japan reached 21.7 billion yen in 1995 and 41.5 billion yen in 1996. Like the two companies above, Nu Skin Japan is a door-to-door sales company, and its sales are growing.

The company entered the Japanese nutritional diet supplement products market in

October 1995, introducing three brands including the brand, *Life Pack*. The company now handles 13 brands. For Nu Skin Japan, nutritional dietary supplement products represent one of its two main product lines, the other being cosmetics.

The company's main brand is *Life Pack* with annual sales of 8 billion yen. All products that Nu Skin Japan handles are manufactured according to specifications for Japan, then imported from the US parent company. For instance, a product for the US market may be distributed in capsule form, while the same product for the Japanese market is distributed in tablet form. Furthermore, only food additives approved under the Food Sanitation Act of Japan are used, but their flavor is not altered.

4. *Nature Made* brand from Pharmavite of the US

The *Nature Made* brand was introduced in Japan as a pioneer line of low-priced nutritional supplements. Sales of the brand began in June 1993 after Otsuka Pharmaceutical Co., Ltd. started importing the product line from California-based Pharmavite Co. Before *Nature Made*, nutritional supplements were priced well above the ¥1,000 level per bottle. With the introduction *of Nature Made* the price range fell to between ¥680 and ¥980, actually one-quarter to one-third pre-*Nature Made* price levels.

Although the imported products were developed for Japan, their ingredients are the same as those used in products for US distribution. No processing is done in Japan, thereby avoiding redundancies while achieving the lowest possible cost. This has led to the emergence of a strong low-priced nutritional supplements market in Japan, which, in turn, has attracted the participation of pharmaceutical manufacturers, one after another.

The Pharmavite company was bought by Otsuka Pharmaceutical Co., Ltd. and is now a subsidiary of that company.

5. *Your Life* brand from Leiner Health Products of the US

In partnership with the giant Japanese pharmaceutical manufacturer, Takeda Chemical Industries, Ltd., Leiner Health Products of the US began pilot sales of a six series supplement containing such things as vitamin C under the *Your Life* brand, which was priced at ¥980 for a one-month supply and was targeted at 18th 34 year-old females.

As a pilot sales program during 1997, the products were put on sale at about 1,500 pharmacies in metropolitan Tokyo and four of Japan's prefectures, Kanagawa, Chiba, Saitama, and Fukuoka.

Two member companies of the Takeda Chemical Industries group are distributing the *Better Plus Takeda Supplements* brand to the nutritional supplements market. To avoid competing with one another, Takeda Chemical Industries is marketing the products via medicine distribution channels, and Takeda Food Products is marketing via food distribution channels to supermarkets and CVSs. The group's decision to enter the Japanese nutritional dietary supplement products market is based on their projection that the market will grow. The tablet sizes are tailored for the Japanese market before the products are imported; ingredients are not altered.

B. Advice for Approaching the Japanese Market

1. The Japanese market has opportunities but is highly competitive.

Although Japan is slow in recovering from its economic downturn, the nutritional dietary supplement products market is one of few markets actually growing at a healthy pace due to reforms now under way, which were put in place by the government's medical and health systems. Moreover, there is a rising health consciousness among the Japanese. However, competition in this market is growing fierce. There appears to be several hundred companies competing for a share of the vitamins and other nutritional supplements market, alone. As for nutritional dietary supplement products in general, the low-priced products are becoming mainstream, generating small profits. It should be understood that this is the current market situation for nutritional dietary supplement products overall.

2. Products must comply with Japan's food standards.

To import nutritional dietary supplement products, the products must contain ingredients meeting Japan's food standards. Therefore, acquaintance with the Food Sanitation Act is necessary. Also, careful attention must be paid to food additives, since many additives approved for use in other countries may not be approved for use in Japan. As for the form in which products are marketed, seven substances, including vitamin A, were deregulated in April 1997. But herbs and minerals that are marketed in a medicine-type form (e.g., tablets and capsules) are still treated as medicines in Japan. If a product is determined to fall in a medicine category, it is subject to the Drugs, Cosmetics, and Medical Instruments Act. The product's import will then require a complex set of procedures, which will require a lengthy period of time to complete.

Attention should also be paid to regulations concerned with product labeling.

3. Customizing products for the Japanese market

The *Nature Made* product line made by US-based Pharmavite which is a subsidiary of Otsuka Pharmaceutical Co., and the *Your Life* product line made by US-based Leiner Health Products, now in partnership with Takeda Chemical Industries are custom-made specifically for the Japanese market. In particular, the physical size of each dose is made to be easy-to-swallow for Japanese consumers.

It is not always the case that a popular product in the US will likewise be popular in Japan. Most products imported into Japan are modified to suit Japanese requirements.

4. Marketing similar to US products

The above-mentioned *Nature Made* and *Your Life* products are made without artificial flavors for the American and Japanese markets. However, the tablet size is customized for Japan. These are non-chewable nutritional supplements and are taken with water like medicine. The choice of this format is based on the projection that products of this type will be widely accepted in the near future.

5. Marketing customized for Japan

Also available in Japan are nutritional supplements in tablet or other forms which are flavored. Many low-priced supplements currently doing well in the Japanese market are of this type. There are also a few high-priced nutritional supplements, which are flavored.

Japanese consumers are particularly fussy about their palates.. However, the Japanese market for nutritional dietary supplement products is still in the developing stage. From this reason, the current taste choices appear to be satisfying market needs for the time being.

6. Selecting a distributor/partner

Foreign companies entering the Japanese market have two choices: they can establish an office/subsidiary in Japan, or simply export their products to Japan. The latter choice is highly recommended at the beginning since it entails less risk.

An equally important choice is selecting a local distributor and/or business partner. It is desirable that a Japanese partner have solid and legitimate sales systems and distribution networks. It is generally the case that a company already handling nutritional dietary supplement products would seriously entertain a partnership proposal as long as the proposed products not conflict with the products already being handled. For example, Takeda Chemical Industries became partners with US-based Leiner Health Products Co. to begin handling Leiner's *Your Life* brand despite the fact that another group member company, Takeda Food Products, had already started marketing the *Better Plus Takeda Supplement* brand in the nutritional supplements market. Takeda Chemical Industries' decision to form the partnership was based on the marketing view that *Better Plus Takeda Supplement* placed emphasis on the palate, while *Your Life* placed emphasis on nutrition, making the products of the two brands essentially different.

C. Market Projections

Contemporary Japanese society is full of stress. Daily life is replete with hassles and irregularities. Irregular diets and the ever increasing consumption of processed foods are combining to produce a lack of nutritional balance. Growing numbers of Japanese are feeling unsure about their future health. The reform of the health care system is resulting in ever increasing health insurance premiums. All of this is helping to convince more and more people that it is their own responsibility to protect their health.

There is a movement in the bureaucracy to define a new commodity category, nutritional dietary supplement products, and position the category between medicines and foods, and, further, to review the medicine and food categories themselves. Further deregulation is predicted. These actions are expected to contribute toward boosting the sales of nutritional dietary supplement products.

The Japanese population is aging. According to the Future Population Estimate in Japan, released in January 1997 by the National Security and Population Research Institute, one in five citizens will be 65 years old or older in 2005, and one in four by 2015. The market for nutritional dietary supplement products is expected to prosper.

Data relating to nutritional dietary supplement products is presented below. - One in four people is using a nutritional dietary supplement product. (Source: Fact Finding Survey on Health and Welfare in 1996, published by the Ministry of Health and Welfare)- Concerning the average per capita daily nutritional intake, protein and vitamin A exceeded recommended daily allowances. But calcium fell short, or 97% of the recommended daily allowance. The situation is not improving, and the calcium deficiency is particularly acute among the younger generation. (Source: Survey on Nutrition and the Japanese Population, published by the Ministry of Health and Welfare in May, 1997).

Appendix

Appendix 1. The Market Overview

a. The Market Size

There are no official statistics on the market size for nutritional dietary supplement products. Based on the estimated size of the 1995 market made by the health industry division of Meiji Seika Kaisha, Ltd., a sports foods manufacturer, the 1996 nutritional dietary supplement products market was estimated to be valued at about 260 billion yen.

Broken down, nutritional supplements were valued at about ¥140 billion, followed by nutritionally-balanced foods and sports foods.

As for year-on-year growth, nutritionally-balance foods were up 29%, followed by sports foods. The growth of nutritional supplements was small. Of these, however, the low-priced nutritional supplements market showed the best performance. These products represent the main engine in the nutritional dietary supplement products market along with nutritionally-balanced foods.

The 1996 US health food products market size was estimated to be $11.5 billion, or ¥1,300 billion. (Source: an industry specialty magazine. Note that the figure represents only sales at retail outlets, except personal care stores.) Vitamins, minerals and other nutritional dietary supplement products account for over 40% of the value.

Table 1. The Market Size for Nutritional Dietary Supplement Products

Unit: Billion yen

	1994	1995	1996
Nutritional Supplements	117	125(107)	140(112)
Nutritionally-Balanced Foods	41	70(170)	90(129)
Sports Foods	21	25(120)	30(120)
Total	179	220(123)	260(118)

Note: Figures in the parentheses are percentage changes over the previous year.
Figures for 1996 are estimates based on a questionnaire survey
Source: Health Industry Division of Meiji Seika Kaisha, Ltd.

b. Production Trends

Accurate production trends for nutritional dietary supplement products cannot be obtained due to the lack of available information on domestic production. However, for this report an estimate was made by inference using the above market size estimate. The 1996 estimated value was about ¥160 billion. (By assuming that retail store sales account for 20% of nutritional supplement sales, 100% of nutritionally-balanced foods, and 50% of sports foods. It is also estimated that domestic products account for 60% of retail stores sales. Thus, the estimated value = the figures calculated + sales outside retail stores - the value of imports.)

A table on production trends for seven major vitamins is presented below. These vitamins have been sold as food products since April 1997 due to the end of regulations governing their medicine-like format. As the table shows, multi-vitamin products had the largest 1995 market share with a value of ¥80 billion, followed by vitamin A and D and vitamin B (excluding B_1.) The market as a whole had a value of ¥230 billion.

Table 2. Production Values of Vitamins for Medical Use

	Production ¥ Mill. 1994	1995	Yr. on Yr. % change	Proportion in 1995
Total	220,315	230,113	104.4	100.0
Vitamin A and D	55,701	58,766	105.5	25.5
Vitamin B1	11,902	12,264	103.0	5.3
Vitamin B (exclude B1)	49,641	51,567	103.9	22.4
Vitamin C	6,120	6,260	102.3	2.7
Vitamin E	15,472	13,296	85.9	5.8
Vitamin K	1,067	3,989	373.9	1.7
Vitamin Mix (exclude A, D)	77,474	80,842	104.3	35.1
Other Vitamins	2,938	3,130	106.5	1.4

Source: Annual Statistics on the Drug, Cosmetics, and Medical Instruments Industries Production Trends in 1995, released by the Economic Department, the Health Policy Bureau, Ministry of Health and Welfare.

c. Import Trends

The value of imported nutritional dietary supplement products totaled ¥28.6 billion in 1996. These imports are posting remarkable annual growth rates, with year-on-year increases of 19% in 1995 and 55% in 1996.

Because this sector of health food products is growing rapidly, import trading commodity codes of the products are frequently changed, as are statistical calculation methods. From this reason, it is difficult to decipher the annual import trends for specific products, but, at least, the overall market trend can be reasonably understood.

The retail value of imported products was estimated to total about ¥50 billion.

Table 3. Import Values of Nutritional Dietary Supplement Products

Unit: Billion yen

	1994	1995	1996
Import Values	15.57	18.47 (119)	28.62 (155)

Note 1): The figures represent the sum of the following item codes.
The first 4 digits of each commodity code have the common prefix code 2106, so the prefix code only appears once.
The year 1994: 2106.10-110, 10-210, 10-290, 90-413, 90-416, 90-417, 90-425, 90-427, 90-429,
The year 1995: 2106.10-110, 10-210, 10-221, 10-222, 10-229, 10-290, 90-261, 90-262, 90-295, 90-296, 90-299, 90-413, 90-417, 90-425, 90-427, 90-429
The year 1996: 2106.10-120, 10-211, 10-221, 10-222, 10-229, 90-261, 90-269, 90-295, 90-296, 90-299,
Note 2): Figures in the parentheses are percentage changes over previous year.
Source: Ministry of Finance, Japan Import and Export.

d. Demand Trends

1) Spread of low-priced products

In the Japanese nutritional dietary supplement products market, many low-priced products are enjoying brisk sales including nutritional supplements and nutritionally-balanced foods.

As for low-priced nutritional supplements, the market gradually began forming when Otsuka Pharmaceutical Co. started selling US-made *Nature Made* brand in 1993. Today, nearly 20 companies are competing in this market.

Similarly, Otsuka Pharmaceutical Co. again pioneered market formation with nutritionally-balanced foods by introducing its line of *Calorie Mate* products in 1987. This market is rapidly expanding, since the widely-held belief is that these products can quickly provide the user with a multiple of nutrients.

With sports foods, too, the emergence of low-priced products of the gelatin or beverage type helped spread sports food products beyond the boundary of sports activity.

Common to the low priced products is that they are mainly marketed through CVSs, supermarkets and personal care stores, and the main consumers are younger people, particularly young female office workers and students.

2) Nutritional dietary supplement products emphasizing taste

Currently, two kinds of products are being marketed among nutritional dietary supplement products: a flavored type common among Japanese products and an unflavored type common among products from the US. Flavored products are the driving forces behind market expansion. Taking the diversity in palates among Japanese consumers into account, many manufacturers are marketing a variety of products with differing flavors.

For example, *Better Plus Takeda Supplements* brand (Takeda Food Products) is the sales leader among low-priced nutritional supplements. The brand's individual products have different flavors according to nutrient; Vitamin C is lemon flavored, Multi Vitamin is grapefruit flavored, and Calcium is yogurt flavored.

An example of nutritionally-balanced foods is *Calorie Mate* (Otsuka Pharmaceutical) brand which dominates this market. This product is available in three flavors: cheese, chocolate, and fruit.

The *Weider In Jelly* brand from Morinaga & Co. is a gelatin type sports food enjoying sustained popularity. The product is marketed in four flavors: muscat, grapefruit, pineapple, and apple.

3) Nutritional dietary supplement products emphasizing nutrition

The nutritional dietary supplement products, which emphasize nutrition, are used by people who take their health seriously. These consumers are generally middle-aged, elderly, or athletes.

The low-priced nutritional supplement brands of this type include *Nature Made*(Otsuka Pharmaceutical), *Daiei Original Nutritional Dietary Supplement Products* (The Daiei, Inc.), and *Vitamin Week* (Morishita Jintan Co.). However, this type of product is more commonly found among the high-priced nutritional supplements marketed outside of retail outlet channels.

Protein XX (Meiji Seika Kaisha) is representative of sports food products, which emphasize nutrition.

Although strong demand for these products exists among the seriously health conscious, they lag far behind the flavored products in terms of general growth in demand.

4) Diversified product formats

Nutritional supplements are generally marketed in a tablet form, while nutritionally-balanced foods and sports foods are sold in a variety of forms.

Most, like *Calorie Mate*, are marketed in a health bar form. *Balance On* is an example of a nutritionally-balanced food sold in a non-bar form. This product represents what was once the established diversification of the nutritionally-balanced foods. In 1996, Ezaki Glico Co. introduced this product, which takes the form of a nutrition-rich cracker.

With sports foods, mainly a tablet or powder form is used. However, Otsuka Pharmaceutical introduced the beverage *Energen* in 1993, and the tube-packaged paste *Jog Mate Protein* in 1997. Morinaga introduced the gelatin *Weider In Jelly* in 1994, and Meiji Seika Kaisha began marketing *Energy Express* gelatin in 1995.

5) Mail order sales performing well

Mail order sales of nutritional dietary supplement products are strong. This marketing channel generally handles the higher priced products. In the past, the mail order system was largely rejected by consumers, who shunned making purchases before visually examining the desired products. This was particularly true when purchasing high-priced products. But, the situation has much improved today. Some industry spokespersons now say that many consumers consider mail order sales more trustworthy than other sales formats. Some industry analysts speculate that TV commercials sponsored by a mail order company have resulted in raising the esteem in the minds of consumers of mail order products overall.

Appendix 2. Trade Fairs and Exhibitions

Related trade fairs and exhibitions are listed below;

Tokyo Health Industry Show

Organizer :	The Health Industry News Horii Bldg. 8F, 3-3, Kaji-cho 2-chome, Chiyoda-ku, Tokyo 101-0044 TEL. 03-5296-1011 FAX. 03-5296-1010
Venue :	Tokyo International Exhibition Center
Period :	Annual, Mar. 26-28, 1998

Foodex Japan

Organizer :	Japan Management Association 1-22, Shiba-Koen 3-chome, Minato-ku, Tokyo 105-0011 TEL. 03-3434-6211 FAX. 03-3434-1836/8076
Venue :	Makuhari Messe (Nippon Convention Center)
Period :	Annual, Mar. 10-13, 1998

Hotels & Foodex Kansai

Organizer :	Japan Management Association Osaka Kokusai Bldg. 28F, 3-13, Azuchimachi 2-chome, Chuo-ku, Osaka 541-0052 TEL. 06-261-7151 FAX. 06-261-5852
Venue :	Intex Osaka
Period :	Every other year, Next time in 1999

Food-Tech

Organizer :	Osaka International Trade Fair Commission 5-102, Nanko-Kita 1-chome, Suminoe-ku, Osaka 559-0034 TEL. 06-612-1212 FAX. 06-612-8585
Venue :	Intex Osaka
Period :	Every other year, Oct. 15-18, 1998

International Food Fair in Kitakyushu

Organizer :	Nishi-Nippon International Trade Fair Commission 1-1, Jonai, Kokura-Kita-ku, Kitakyushu, Fukuoka 803-0813 TEL. 093-582-4101 FAX. 093-581-9352
Venue :	Kitakyushu International Exhibition Hall
Period :	Every other year, Oct. 7-11, 1998

Appendix 3. Organizations

a. Government Agencies & Industry Associations

Name	Address	Tel. & Fax.
Environmental Health Bureau, Ministry of Health and Welfare	2-2. Kasumigaseki 1-chome, Chiyoda-ku, Tokyo 100-0013	TEL.03-3503-1711 FAX.03-3503-7965
Pharmaceutical Affairs Div. Public Health Bureau, Tokyo Metropolitan Government	8-1, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 160-0023	TEL.03-5320-4512 FAX.03-5388-1434
Japan Health Food and Nutrition Food Association	6-1, Jingumae 2-chome, Shibuya-ku, Tokyo 150-0001	TEL.03-5410-8231 FAX.03-5410-8235

b. Manufacturer

Amway Japan Ltd.	Arco Tower 8-1, Shimo-Meguro 1-chome, Meguro-ku, Tokyo 153-0064	TEL.03-5434-8477 FAX.03-5434-4899
Shaklee Japan K.K.	2-6, Nishi-Azabu 3-chome, Minato-ku, Tokyo 106-0031	TEL.03-3478-1061 FAX.03-3475-5637
Nu Skin Japan Ltd.	5-1, Nishi-Shinjuku 6-chome, Shinjuku-ku, Tokyo 163-1323	TEL.03-5321-3600 FAX.03-5321-3655
Miki Corp.	No. 800, 2-2, Umeda 1-chome, Kita-ku, Osaka 530-0001	TEL.06-345-6411 FAX.06-345-6416
Fancl Corp.	109-1, Iijima-cho, Sakae-ku, Yokohama-shi, Kanagawa 244-0842	TEL.045-894-1111 FAX.045-890-1603
Nisshin Flour Milling Co., Ltd.	Nihonbashi Matsuei Bldg., 18-14, Nihonbashi-Koamicho, Chuo-ku,Tokyo 103-0016	TEL.03-3660-3512 FAX.03-3660-3088
Ajinomoto Co., Inc.	15-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031	TEL.03-5250-8111 FAX.03-5250-8314
Otsuka Pharmaceutical Co., Ltd.	2-9, Kanda-Tsukasacho, Chiyoda-ku, Tokyo 101-0048	TEL.03-3292-0021 FAX.03-3293-3118
Takeda Food Products Ltd.	39-5, Nihonbashi-Kakigaracho 1-chome, Chuo-ku, Tokyo 103-0014	TEL.03-3662-5681 FAX.03-3661-3484
Tokiwa Chemical Industries, Ltd.	10-8, Abiko-Higashi 2-chome, Sumiyoshi-ku, Osaka 558-0013	TEL.06-698-2216 FAX.06-691-0047
Meiji Seika Kaisha, Ltd.	4-16, Kyobashi 2-chome, Chuo-ku, Tokyo 104-0031	TEL.03-3273-3436 FAX.03-3272-6552
Hohnen Corp.	Mitsui Seimei Bldg. 2-3, Ohtemachi 1-chome, Chiyoda-ku, Tokyo 100-0004	TEL.03-3212-3861 FAX.03-3211-4856
Taisho Pharmaceutical Co., Ltd.	24-1, Takada 3-chome, Toshima-ku, Tokyo 171-0033	TEL.03-3985-1111 FAX.03-3982-9702
Morinaga & Co., Ltd.	13-16, Shibaura 1-chome, Minato-ku, Tokyo 105-0023	TEL.03-3456-0135 FAX.03-3456-5316
Pola Foods Inc.	2-10, Nishi-Gotanda 2-chome, Shinagawa-ku, Tokyo 141-0031	TEL.03-3494-7131 FAX.03-3494-8608
Meiji Milk Products Co., Ltd.	3-6, Kyobashi 2-chome, Chuo-ku, Tokyo 104-0031	TEL.03-3281-6112 FAX.03-3281-7840
Morishita Jintan Co., Ltd.	1-30, Tamatsukuri 1-chome, Chuo-ku, Osaka 540-0004	TEL.06-761-1134 FAX.06-768-7177
The Daiei, Inc.	4-1, Shiba-Koen 2-chome, Minato-ku, Tokyo 105-0011	TEL.03-3433-9231 FAX.03-3433-9226