Wine Australia

Craft Cider Export – Japan

November 2019

Wine Australia

IWSR
drinks market analysis

Japan Craft Cider

Executive Summary & Recommendations

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Japan – Preamble and Definitions

Apple cider in the Cider Australia sense is not a native concept, but it does now exist in common parlance using descriptors from other languages. It has emerged initially from American influence, meaning that the term ‘hard cider’ rather than just ‘cider’ becomes important in translation (**there are products labelled ‘ciders’ in Japan that are not ‘hard ciders’, ie non-alcoholic**). Conversely, there is a strong **French influence** in domestic craft product as well as importation. As a result, this becomes confusing both in Japanese and English labelling (in English often the French spelling of ‘cidre’ is being used). These issues must be borne in mind.

To foster further confusion, generally it seems Japanese stick to the French loanword for ‘hard’, the English loanword for ‘soft’, and the native Japanese for ‘hard’ when they need to clarify:

- シードル shiidoru (from French ‘cidre’), translated as ‘hard cider’ – the common phrase for what we consider ‘cider’
- サイダー saidaa (from US English ‘cider’), translated as ‘(soft) cider’, or ‘fruit-flavoured carbonated beverage’
- りんご酒 ringoshu, translated as ‘apple beverage/apple wine’ = the technical term for hard cider adopted by the domestic industry (as based on Japanese and not loan-word phrases) but not used widely in marketing, and a phrase not really adopted by consumers.

Asahi: Mitsuya
Non-alcoholic sparling soft drink – saidaa/cider

Vs.

Asahi: Nikka
Cidre - shiidoru

Kirin:
Cidre - shiidoru

Japan – Executive Summary

- The Japanese alcoholic cider market must be seen in the context of both **beer** (the main protagonists in cider are the two leading local brewers, Asahi and Kirin) and **RTD mixed drinks**, in addition to the aforementioned descriptor issues for non-alcoholic apple-flavoured beverages.
- Especially RTD mixed drinks must be watched – there is a common term *'chuhai'*, short for '*shochu highball*', that describes a normally fruit-flavoured carbonated beverage containing the local spirit shochu, and there are apple flavour variants of those that may compete directly with pressed (hard) apple ciders. Japan is the second-largest market in the world for RTD mixed drinks. Labels of genuine cider (such as Kirin for example) can feature descriptors such as *'sparkling fruit juice-based alcoholic beverage'* which **does not make it easy for consumers to discern pressed cider from flavoured alcoholic beverages.**

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Japan – Executive Summary

- In addition to the activities of the two main brewers Asahi and Kirin there are two distinct groups of other suppliers:
  - Smaller **domestic suppliers**, primarily linked to apple orchards
  - A growing **imported cider scene**
- Beyond the loan word naming issues of English vs French, both the craft end of domestic production as well as Asahi's Nikka range are **more reminiscent of French cider traditions** than US/UK ones.
- There is a thriving craft scene in Japan, with brew pubs, distillery outlets and, indeed, cideries, becoming both popular outlets and vehicles for the promotion of the underlying products. Especially regarding cider there is also an interesting trend in on-premise that works in the category's favour – the growth in *creperies* and *galetteries*, French food outlets that have loaned their traditional association with French *cidres* to Japan. This development in all things craft is by no means restricted to just Tokyo – it can be observed throughout smaller cities in Japan. Cafes are, in general, the more important on-premise outlets for ciders, not pubs or bars.

Japan – Executive Summary

- It appears the Australian craft cider industry **is already somewhat active** in Japan, as it should be. While an earlier explosive growth period (caused mainly by industry leader Asahi) has somewhat abated, growth rates in cider are still decent and there is now momentum in the category that is seeing more widespread availability of both domestic niche brands and a wider selection of imports. We believe that it is an opportune time to tackle the Japanese market with further exports.

Japan – Recommendations

- **Not all approaches are suitable for all suppliers**. The smallest suppliers without budget for running export departments should of course choose approaches that allow them a more hands-off approach – or a deeper partnership with Japan-based companies - than the larger ones who may get involved in significant activation work themselves.
- **Cider Australia – and potentially Wine Australia** – could of course play a role in terms of generic marketing assistance. Assisted trade fair participation, sponsorship of Australia produce weeks in supermarket chains or sponsorship of Australia-heavy sports events (eg rugby, which is popular in Japan) could be ways of gaining consumer (and channel) interest.
- The work of **InCider/Japan Cider Market** is interesting and has been instrumental in enlarging the cider footprint in Japan – both for domestic and imported product. Cider exporters of course would not necessarily wish to all deal with the same domestic partner. There is, however, a wider choice of beverage alcohol importers to choose from who may start being attracted to the category by decent growth rates.
- Japan is a **difficult market** to get right culturally – so a domestic partnership of some form is recommended to circumvent potential problems in communication, in dealing with government departments for product/labelling approval, in understanding the quirks of outlets and the logistics chain and, above all, in understanding the Japanese consumer.

Japan Cider

Overall Market and Craft in Context

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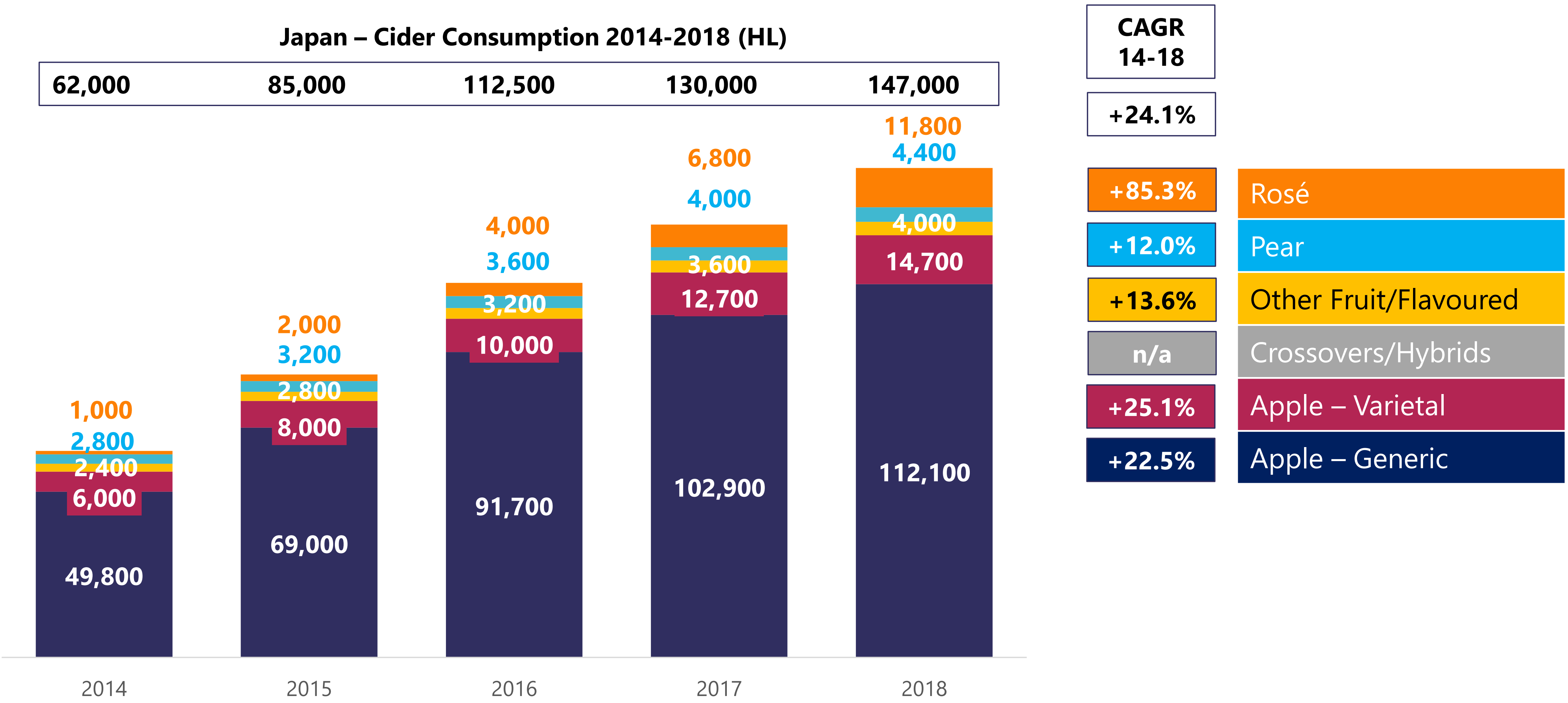
IWSR drinks market analysis

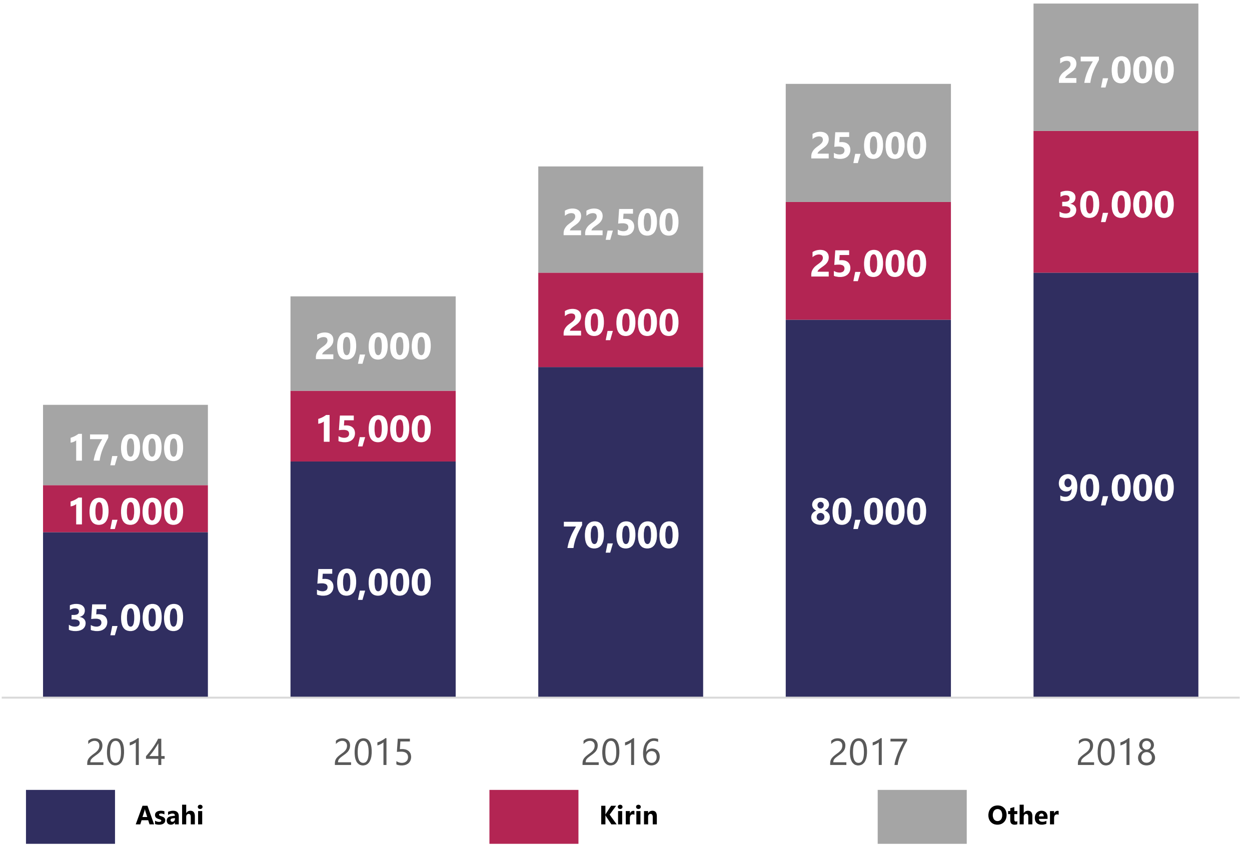
The market for cider in Japan **remains dominated by apple variants**, although there has been positive development especially among rose ciders – both imported and domestic. Overall growth has been strong, and magnitudes for a market that does not have a strong cider tradition are high.



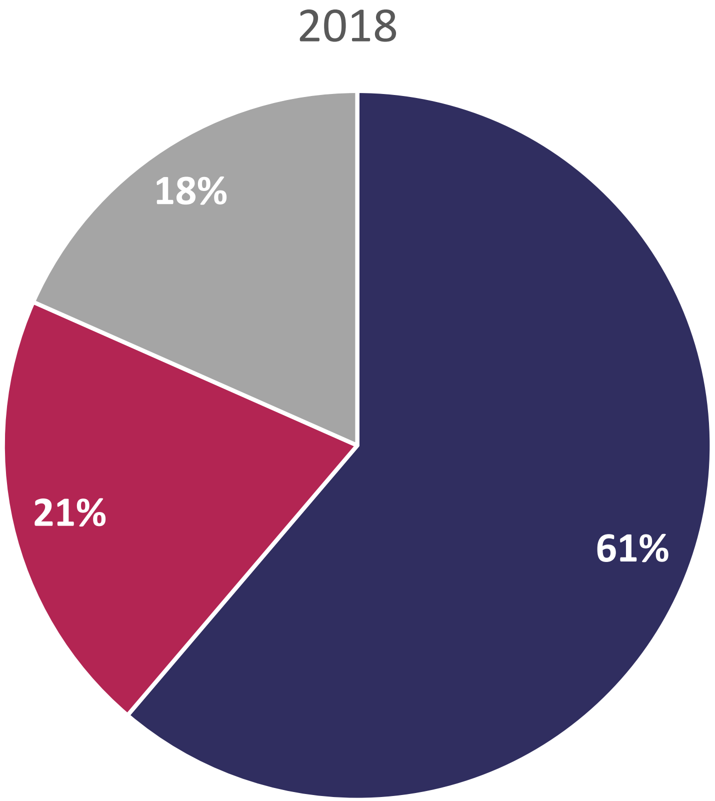
The Japanese market for cider has been **highly dynamic** owing mainly to activities by the two leading domestic brewers, Asahi (Nikka) and Kirin. The other significant brewers Suntory and Sapporo are not active in cider. There is, however, also a significant fragmented end of the market with still significant growth. Other international brands strong elsewhere do not feature highly in Japan – perhaps a threat for niche brands in the future.

Japan Cider Consumption 2014-18 (HL)

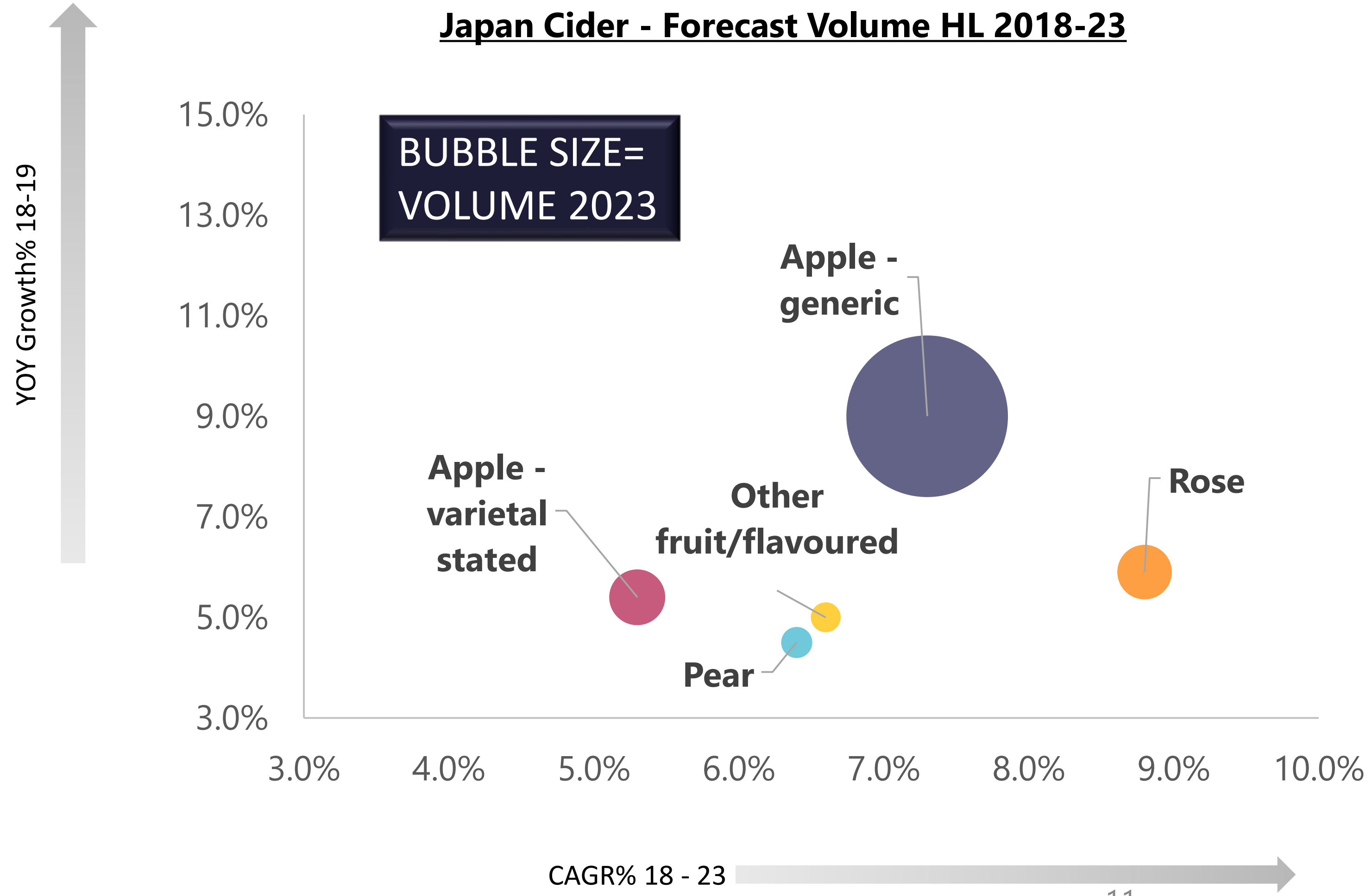
62,000	85,000	112,500	130,000	147,000

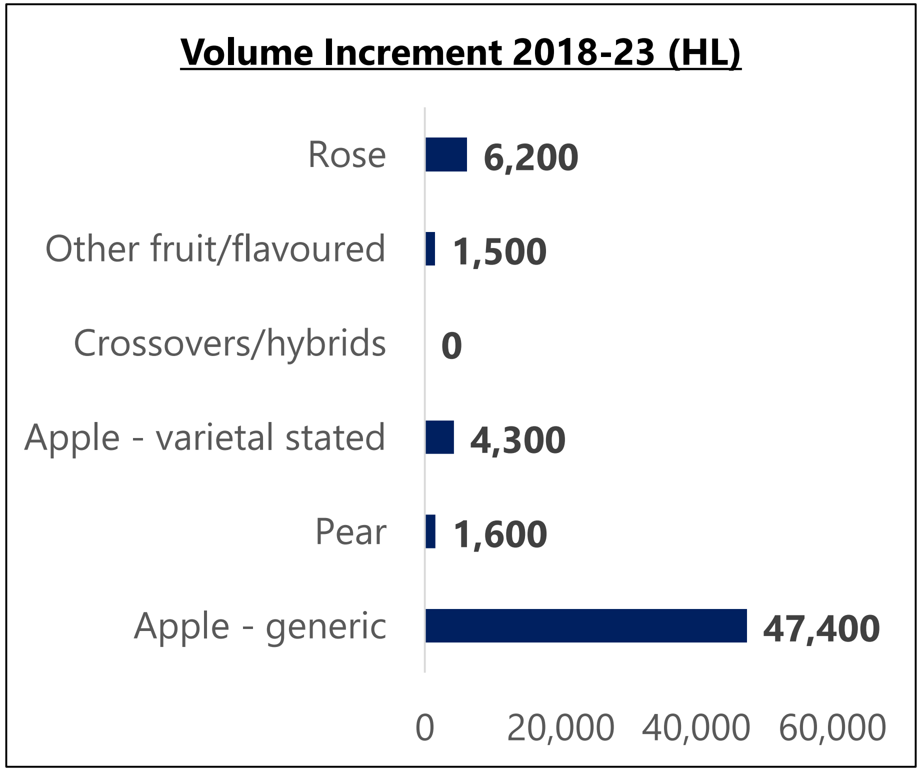


CAGR 14-18
+24.1%
+12.3%
+31.6%
+26.6%



Japan cider consumption is expected to **continue decent growth to reach 208,000 HL by 2023**, most of which accounted for by plain apple ciders. Growth rates are, however, set to drop to more moderate levels following the recent growth spurt.





Japan – The Cider Industry and Craft

There is a domestic craft cider industry, one that appears to be influenced much more by **French cider traditions** (or rather, ‘cidre’) than American hard ciders – multi-serve bottles, dryness/sweetness variants, ABV ranges and the utilisation of crown corks are all features reminiscent of ‘methode traditionelle’ Norman or Breton ciders.

One significant hindrance is the quality of suitable domestic apples (generally low tannin content) and their available quantity. The enthusiasm of the domestic industry may not be matched by output. The trade association currently in place is not seen to be in the same league as its Australia, US or UK counterparts.

As a prime example of local products, Aomori Prefecture in Japan is known for its apple orchards, and **A-Factory** which has secured the **Aomori** brand for its cidres has been successful in establishing itself as a craft, artisanal manufacturer.

一般社団法人
日本シードルマスター協会
Japan Cider Master Association

Japan – The Cider Industry and Craft

Other domestic craft manufacturers seem to have their **origins elsewhere in beverage alcohol** – be that grape wine or spirits – and have diversified into the cider (or, rather, 'cidre') field. As a result, cider for these companies is often a passion but not a core category.

MASHINO WINERY
信州まし野ワイン株式会社

VinVie
WINERY & CIDERY

OUSE WINERY
Fukushima

菊水
KIKUSUI

IWSR

Japan – The Cider Industry and Craft

Japan's thriving cider market – both Big Cider and domestic Craft – has also invited a growing presence of imported brands which may be classified as follows:

- **American** hard cider brands – both Angry Orchard/Boston Beer Co and what can be classified as craft brands (particularly supported by craft beer importer Nagano Trading)
- **French** (and also **Spanish**) 'cidres' or 'sidra', particularly popular for food pairing in French-style restaurants, and served in the traditional style (multi-serve bottles, choice of ABV/dry-to-sweet/rose variants)
- Emerging: **Australian** brands
- To date, **UK ciders lag behind in presence**

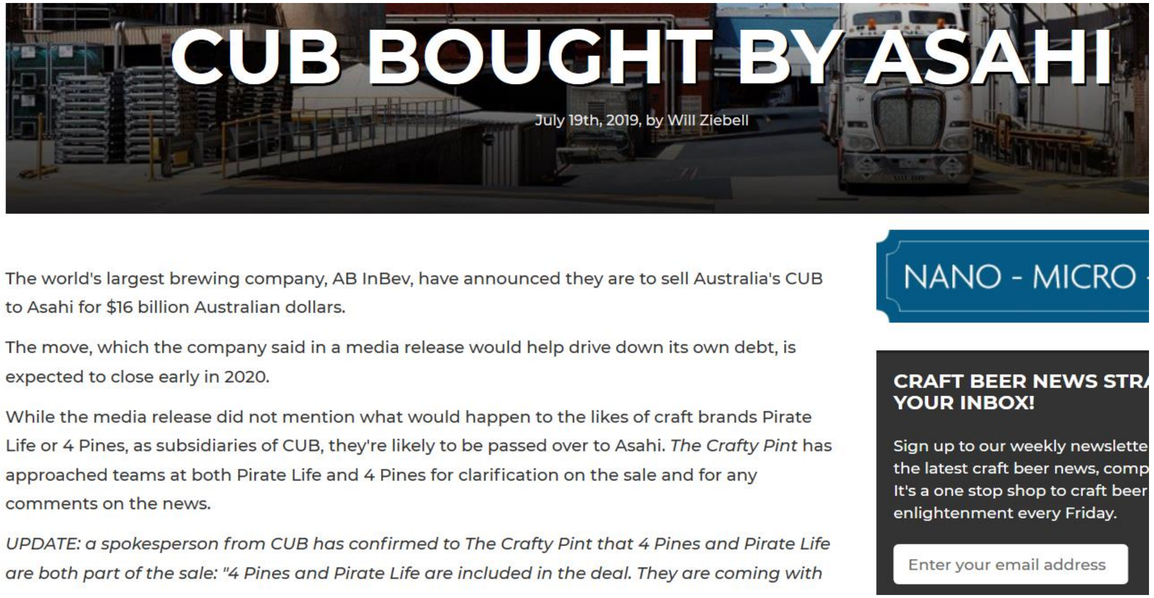
The activities of **InCider** (publication) and its sister company **Japan Cider Market** (distribution) appear to have been instrumental in the rising number of available imported brands, but also in development of domestic craft producers – creditably, in this market where the product concept was difficult to establish and clarify.

Japan – The Cider Industry and Craft

It is of course too early to say what potential impact the mooted acquisition of CUB by Asahi may have on **export markets** – and in this case specifically the Japanese market.

Unless there is an additional twist (Heineken may want to wade in on Strongbow and Bulmers and competition authorities may yet have a say), Asahi is set to inherit CUB's mainstream cider brands including Mercury, but also its more **craft-positioned portfolio** including Bonamy's, the Matilda Bay range, Pure Blonde and Little Green Apple. If the acquisition proceeds, in good time these brands may well be introduced to the Japanese market by Japan's biggest brewer, given good growth in imported ciders in Japan overall; an opportunity for the category, but perhaps a threat to other imported brands given Asahi's distribution muscle.

Asahi is also the international owner of Cornish Orchards through its 2019 acquisition of the UK brewery Fullers, and owns Wild Side and Honesty Box ciders in New Zealand, all of which may become Asahi vehicles for the Japanese market at some stage.


CUB BOUGHT BY ASAHI

July 19th, 2019, by Will Ziebell

The world's largest brewing company, AB InBev, have announced they are to sell Australia's CUB to Asahi for $16 billion Australian dollars.

The move, which the company said in a media release would help drive down its own debt, is expected to close early in 2020.

While the media release did not mention what would happen to the likes of craft brands Pirate Life or 4 Pines, as subsidiaries of CUB, they're likely to be passed over to Asahi. *The Crafty Pint* has approached teams at both Pirate Life and 4 Pines for clarification on the sale and for any comments on the news.

UPDATE: a spokesperson from CUB has confirmed to The Crafty Pint that 4 Pines and Pirate Life are both part of the sale: "4 Pines and Pirate Life are included in the deal. They are coming with

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Japan – Place & Route to Market

There are a variety of route-to-market approaches available to Australian craft cider producers – but some of them probably only in theory rather than in practice. Japan in general is a challenging market for fmcg imports in general and beverage alcohol in particular, and a local partnership in some form is advised rather than attempting to export directly to outlets (unless these are foreign-run).

a) Industry Distributors

Outside of Asahi's Nikka and Kirin Hard Cidre, any other available individual brands remain niche (although collectively significant). Other big beer brewers remain conspicuously absent from this market, but recent growth rates of the category may well point to the fact that this is an area of potential interest to others – Suntory, Sapporo as well as Western brewers.

For the larger Australian craft producers who would be happy to formalise their arrangements there may well be mileage in conducting **exploratory discussions** on distribution and/or domestic filling of bulk product (taking Shepherd Neame/Boston Beer Co's co-operation for Angry Orchard in the UK as a template). It must be stressed that this approach may yet be somewhat speculative in nature.

Japan – Place & Route to Market

b) Third Party Importer

A number of specialist beverage alcohol importers exist, and from advertisements in InCider it appears that various Australian craft cider companies already avail themselves of relevant services.

For others they will eat into the margin of course – but provide crucial back-up in three regards:

- in conveying the intricacies and 'strangeness' of Japanese culture and its impact on how products need to be presented
- in keeping track on the Japanese craft movement, on the development of specialist on-premise outlets and on the emergence of dedicated cider festivals etc. that will be beneficial both generically for cider and for the represented brand in particular
- in approaching large and sophisticated accounts

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Japan – Place & Route to Market

c) Direct Dealings with Supermarket Multiples

Japanese supermarkets do run their own imports, but generally prefer for foreign principals to have domestic partners in place in order to facilitate communication and logistics.

They do, however, invite special displays, themed produce weeks etc. Over and above direct importing arrangements (which may be difficult to get underway) there is, therefore, some opportunity for **Cider Australia/Wine Australia**, perhaps in conjunction with InCider, to engage in some generic Australian Craft Cider programmes with individual chains at point of sale.

Japan – Place & Route to Market

d) Direct Dealings with On-Premise Chains/Cider Festivals

Over and above visitor experiences among the domestic craft cider manufacturers, there are also the beginnings of third-party dedicated on-premise outlets that promote cider (or, again, rather 'cidre') as a concept. Outlets such as *Café Eclipse* seem to have reached cult status, and particularly the trend towards creperies and galetteries who serve Breton or Norman-style cidres as a paired-food experience seems to have caught on.

While these outlets may create good marketing opportunity, they are generally too small individually to serve them well with direct dealings. Local representation is, therefore, recommended.

There are also the beginnings of cider festivals – these are still small, but may well be able to gain some traction in the future. For them to become more mainstream we do, however, see the involvement of Asahi and Kirin as crucial, beyond craft.

Japan – The Cider Industry and Craft

Retail price levels for the main brands Nikka and Kirin Hard Cidre are around JPY 250 per 290 ml bottle, or AUD 3.35 per bottle.

French-style domestic craft ciders are much more expensive – retailing per 375 ml bottle at a minimum around the JPY 1,000 (AUD 13) mark, with vintages even more expensive. Among craft brands (with imported products also benefiting, particularly products resembling French cidres) there is, therefore, relatively little price sensitivity. This part of the category is seen as premium, as it affords a new product experience, a concept that is cherished by Japanese consumers.

Japan – Duties and Other Taxes

According to Japan's Tariff Schedule of April 2019, imports of cider and perry from Australia are **free of import duty** – see below. There is, however, a **liquor tax** (flat rate of JPY 80,000 per '000 litres) and a **sales tax**, raised on 12 Nov 2019 from 8% to 10%.

www.customs.go.jp/english/tariff/2019_4/data/e_22.htm

Top> Japan's Tariff Schedule as of April 1 2019>

SECTION IV PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES

Chapter 22 Beverages, spirits and vinegar.

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Statistical code		Description	Tariff rate (EPA)														
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		Order as materials)															
	229	- Other				**1				**2					Cider, perry and mead Free	Fermented beverages prepared from Seabuckthorn Free	34.69 yen/

Japan – Margin Build-Up

A margin build-up may look as follows (example based on Kirin Hard Cidre at JPY 250 per 290 ml bottle incl. tax) – **Off-premise**.

OFF-PREMISE PRICE BUILD-UP PER LITRE		
Price to consumer	LC/l	862
Sales Tax Rate	%	8% (pre 12 Nov – now 10%)
Sales Tax Amount	LC/l	64
Price before Sales Tax	LC/l	798
Trade margin %	%	30%
Trade Margin Amount	LC/l	184
Price ex Margin	LC/l	614
Tariff	LC/l	-
Excise	LC/l	80
Net selling price	LC/l	534
Average price to consumer	% RSP	100%
Sales tax	% RSP	7%
Trade margin	% RSP	21%
Tariff	% RSP	-
Excise	% RSP	9%
Net selling price	% RSP	63%