



# Minamoto Kitchoan Distribution Proposal

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## Executive Summary

The traditional Japanese confectionery (also known as wagashi), a delicacy whose market is valued at 4.8 billion dollars, is currently found only in speciality markets in the United States. Confectionary company Minamoto Kitchoan seeks to form a distribution deal with Whole Foods Market, making it the first major American supermarket to carry wagashi. Minamoto Kitchoan approaches this deal by outlining the opportunity for Whole Foods to increase its revenue and presence in the international market, the process of getting wagashi from Japan to the American storefront, and how to attract customers and continue product demand.



Figure 1: Jelly Wagashi  
One of twenty-five types of wagashi  
available in Minamoto Kitchoan stores.

By adding wagashi to Whole Foods' product list, the company will increase its revenue through exposure to the wagashi market. Minamoto Kitchoan grossed 300 million dollars in revenue last year and the last five years the industry as a whole has made a steady 4.8 billion dollars (Kyaritasu). Based on these facts alone, the money to be gained by adding wagashi to the Whole Foods market is impressive. Additionally, Minamoto Kitchoan has been in the American market for twenty-two years, exemplifying the company's understanding of the American market, in addition to their success in the Japanese market (Gordenker).

To get the product to the American storefront it starts with the company's five factories in Japan from which the product is shipped in a state of the art freezing method to the American storefronts every two months (The Art of Wagashi). The product has a shelf life of about thirty days once defrosted, a much longer shelf life than other health foods on the market.

Wagashi attracts the Whole Foods customer and appeases the health conscious American sweet tooth by being a healthier alternative to American sweets. Compared to American sweets, wagashi is made of plant based ingredients and is low in sugar and fat. This caters to the growing vegan and vegetarian populations and its convenient durable packaging makes it accessible to a variety of customers, from students to business executives. Wagashi also caters to both the 2017 and 2018 Food Industry trends and the product is easy to promote both on social media and in store due to its extremely detailed and visually appealing manner, which attracts any type of customer.

## Introduction

Minamoto Kitchoan proposes an opportunity to form a distribution deal with Whole Foods Market. Minamoto Kitchoan has been in business since 1947 and is the world's oldest and most prestigious Japanese confectionary brand (Kyaritasa). Our company sells wagashi, which are a healthier alternative to American sweets, and we believe the "healthy" concept matches the Whole Foods theme and customer base.

We have 150 stores located in Japan and 27 stores located overseas. Last year alone five stores opened, three of those in the United States (Minamoto Kitchoan Co.). In 2016, retail sales exceeded 300 million dollars as a company, which includes revenues made by wagashi, other confectionaries, museums, farms, and various other branching businesses (Kyaritasu). Although wagashi is only a fraction of the sales, the expansion of store locations indicate the potential of its growth and the potential for Whole Foods to expand their own business and revenue as well.

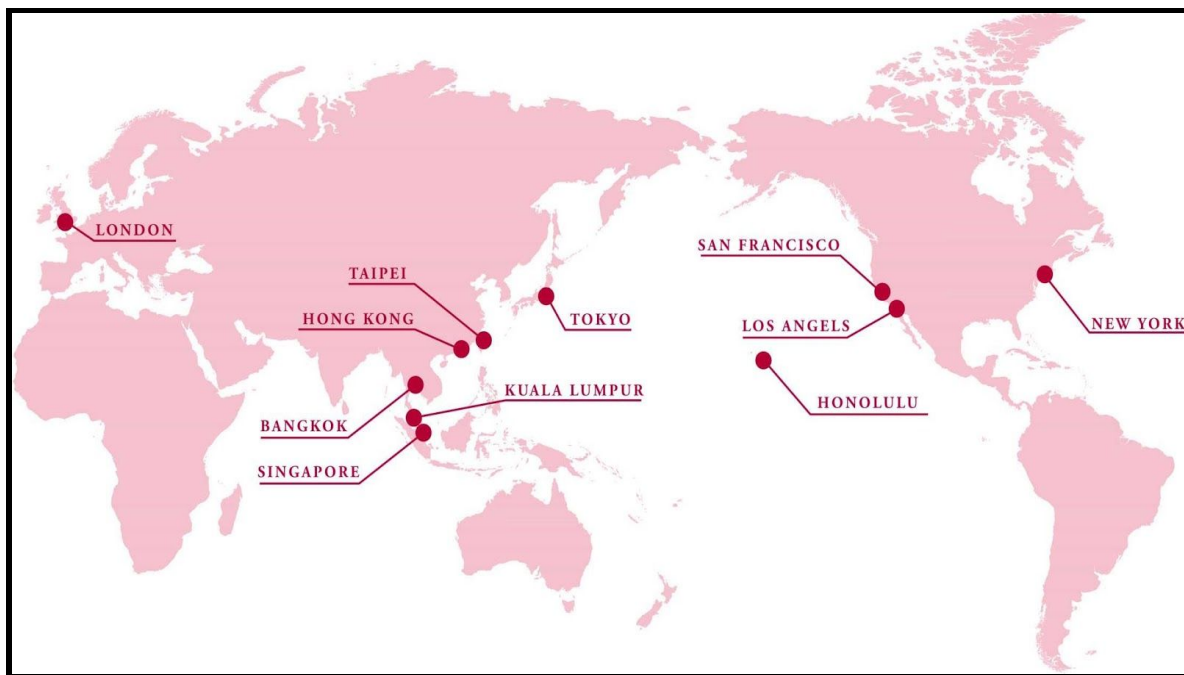


Figure 2: Minamoto Kitchoan International Store Map

While there are currently twenty-seven international stores, this map shows the location of the company's biggest stores.

## Proposal: Whole Foods Distribution Deal

### Opportunity To Expand In Global Market

By adding Minamoto Kitchoan's high quality products into Whole Foods there is an opportunity for Whole Foods to gain both increased revenue and access into a market untouched by any other major American super markets. According to the U.S. Department of Commerce's U.S. International Trade In Goods and Services 2016 report, trade with Japan was estimated at 271 billion with the cost of imports from Japan at 162.8 billion. Japan is currently the U.S.'s 4th largest goods trading partner with the total imports of Japan's snack food alone at 65 million. Last year Whole Foods Fiscal year was recorded at 3.5 billion dollars with Minamoto Kitchoan recorded at 300 million dollars, a company based in a market worth 4.7 billion dollars (*Statista*).

Top 10 Confectionery Markets  
Worldwide in 2014, US\$ Millions

Country	Retail Sales
United States	31,790.1
China	15,198.7
United Kingdom	14,056.1
Russia	13,393.5
Germany	12,893.2
Brazil	10,866.8
France	8,447.4
<b>Japan</b>	<b>7,795.0</b>
Italy	5,384.1
Mexico	4,763.9

Source: Global Trade Atlas, 2015

Figure 3. Worldwide Confectionery Market Sales  
Japan is 8th in the world for confectionary sales, profiting in over 7.8 billion U.S. dollars.

### Healthy Alternative For Any Customer

Wagashi fits in with the Whole Foods message of providing healthy and natural products. The nutritional content of wagashi is both low in sugar and fat as it is made up mostly of plant-based ingredients. This caters to the large consumer base of 7.3 million vegetarians within the United States compared to traditional sweets that emphasize in use of animal based ingredients, like cream and butter, and additionally contain high levels of fat and sugar (*Vegetarian Times*).



Figure 4: Whole Foods 2017 Mochi Bar  
An example of what the mochi bar looks like in store.

Not only does wagashi fit the Whole Foods message, but it fits the Food Industry trends for 2017 and 2018. The 2017 trend "Japanese Food, Beyond Sushi", was incorporated via the introduction of new Japanese condiments along with a larger variety of seaweeds, matcha, and mochi (Devash). The 2018 trend "Plant Forward" motivates consumers to try plant-based diets, which fits wagashi into as it's mainly made up of beans, rice, potatoes, fruits, and nuts (Devash). Additionally, this year Whole Foods opened in store mochi bars, where customers could get ice cream filled mochi at \$2 a piece (Devash). Customers were delighted with the mochi bar and the success implies the openness of customers to try new sweets outside of the traditional American palate.



## Wagashi's Marketability and Desirability

Social media marketability is vital to a continual growth in a company. There are currently over 800 million Instagram users, with Whole Food's instagram having 2.5 million followers alone (Statista). 85% of adolescent users on social media share images containing food items (Iyer). With the new merger with Amazon there will be a larger millennial/adolescent audience with accessibility to these now cheaper Whole Foods items. One can look at the details of wagashi and see how it is easily marketable to millennials, as well as any generation who follows Whole Foods via social media or even the company listserv that emphasizes on its social media presence/picture quality of their products. In the traditional Japanese style, Wagashi are designed perfectly and because of their beauty and craftsmanship they are easily attractable to both a social media audience and a normal on the go customer.



**Figure 5: Product Packaging**  
A few examples of the variety of packaging. All wagashi is delicately packaged by hand at the storefront.



**Figure 6: Seasonal Wagashi Line**  
While there are wagashi customers can get year round there are also seasonal lines for Fall, Winter, Spring, and Summer. Shown above is the Spring 2016 collection.

## Anticipated Obstacles

### Shelf Life

Since wagashi does not contain unnatural food additives or preservatives it has a relatively short shelf life with an average of thirty days compared to processed foods, which has a shelf life of one to two years (Minamoto Kitchoan Co.). To atone for its short shelf life, products that are close to their expiration date will be sold at a lower price to increase sale volume. The promotion will be set at 50% off if they are within three days of expiration. Within two days of expiration, they will be promoted at 50% off and the “buy two get one free” marketing method will also be applied. To encourage customers to try wagashi some portions of products close to expiration will be served in sample tasting booths. Through these booths, Whole Foods can get rid of expiring products as well as encourage customers to purchase the product.



Figure 7: Product Sampling  
An employee at Minamoto Kitchoan's London store gets ready to hand out samples of a new Spring collection of wagashi.

### Taxation of Product

The import tax is 10.4% plus 40 Cent per Kg for imported wagashi, loading an extra financial burden to Whole Foods (USITC,20). To mediate this obstacle and increase profits, the price of wagashi would be raised 50%. The current price of wagashi starts at \$2 per piece and with the 50% raised price it would cover the import tax. Raising the price signals a potential problem: Are Whole Foods' customers able to afford the products at this new price?

The answer is yes. Compared to other U.S chain supermarkets, such as Safeway and Trader Joe's, Whole Foods is the most expensive supermarket. According to financial news company Marketwatch, when comparing eight food items among American supermarkets, the total bill of the eight products in Whole Foods were higher by forty percent (French,1). Even with the Amazon merger and its lowered prices, Whole Foods is still the most expensive supermarket. Selling wagashi at a higher price is suitable and sustainable at Whole Foods since its customer base already values high quality products and is willing to pay extra already for organic and natural food products. An additional idea would be to host special events where our company can launch the special editions of wagashi. The special wagashi would be targeted as a great gift option and are sold 30%-60% above the normal prices since they are limited to sale. Through the strategies of raising the product price, using special promotional events and social media advertisements, the profits are expected to cover both the import tax and provide additional revenue.

## Conclusion

Forming a distribution deal between Minamoto Kitchoan and Whole Foods can bring profits and benefits to both companies, with Whole Foods becoming the first American supermarket to sell wagashi. Since wagashi emphasizes in healthy ingredients and delicate designs it fits perfectly into the Whole Foods aesthetic of providing customers with both healthy and visually appealing products. With Minamoto Kitchoan's twenty-two year history of business in the United States the transition of expanding our shipments and production to reach Whole Foods Markets will be both feasible and profitable. As news of wagashi's craftsmanship, taste, and nutritional value spreads sales will progressively exceed expectations and enrich the experience of its customers and company profits as a whole.





## Appendices

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