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## Direct Supply Relationships with Japanese Consumer Co-operatives - A Market Opportunity<sup>1</sup>

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Japanese consumer co-operatives are the largest food retailers in Japan representing more than 25% of Japanese households, with a membership of over 20 million. The co-operatives have established direct supply relationships with fresh food producers as a means of ensuring product safety and freshness for their customers. Known as *sanchoku*, this direct supply is characterised by supply chain relationships that encourage close contact between producers and consumers.

This paper outlines research conducted into the consumer co-operative movement and the requirements to access this large and growing market. It concludes that the co-operatives represent a significant opportunity for Australian food exporters to provide a differentiated product to the Japanese market. Case studies of two Australian producer groups that have used the research results to gain market entry to the co-operatives are highlighted, with generalisations made regarding the necessary considerations for producers wishing to export to Japanese co-ops.

### 1 Introduction

The Japanese Consumer Co-operative Movement is among the largest consumer buying groups in the world. With more than 20 million members, a 2.6% share of the Japanese retail market and a 7% share of the Japanese food market, the co-ops are also one of the largest retail groups in Japan. Based on co-operative philosophies and democratic management principles the Japanese consumer co-ops have developed a number of unique characteristics and methods of operation such as the joint buying (*Han*) groups, Co-op Brand products and a number of consumer movements. These features, including direct delivery from producers to consumers (known as *sanchoku*), have given the co-ops a special place in the distribution industry in Japan and assisted in their rapid growth.

Previous studies (Vinning, 1993; Riethmuller, 1994; GBR, 1995; Ada and Kasawaki, 1997) have noted the growth of the consumer co-ops and market potential for Australian exporters of horticultural products. However, detailed information on the requirements of the co-operatives, particularly for imported products, has not been available.

In 1997, this study was commenced to address the lack of horticultural market information. The purpose of this study was to identify for horticultural producers the market opportunities to export products into the Japanese co-operative market and to provide producers with an understanding and appreciation of the Japanese consumer co-operatives. In addition, the study aimed to develop a working knowledge and definition of *sanchoku* and its relevance to the exported product, and provide horticultural producers with sufficient knowledge to successfully approach the Japanese consumer co-operatives and establish market supply.

A survey of the nine largest regional retail consumer co-operatives, one medium sized co-op and the national Japanese Consumers' Co-operative Union (JCCU) was conducted in February 1997, with a return visit in October 1998 to eight of the co-ops. The survey collected details of co-op operations including range of products purchased, their sources and product specifications, the predicted growth rates for consumption,

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co-op structures and philosophies impacting on market access, features of present strategic alliances with producers and the potential for expansion, and key contacts and co-ops that offered the greatest potential for Australian producers.

The co-ops included in the survey were selected because they were regarded as leaders in the co-operative movement and gave a broad coverage of the regional and city areas of Japan, being situated from Hokkaido down to Kyushu.

In addition, a consultative process involving horticultural producers who were currently exporting to Japan or intended to export to Japan was established. This process helped to ensure a commercial focus and allowed the study to build on the data collected and contacts made, and to develop access into the consumer co-operatives.

This paper provides an overview of the Japanese consumer co-operatives and their operations, the in-market research into the Japanese consumer co-operatives conducted during February 1997 and October 1998, and the subsequent case studies where commercial firms were assisted in targeting the co-operatives, based on the market information. The opportunities for development of trading relationships with the Japanese consumer co-operatives are highlighted, and insight provided for companies contemplating entering this market.

## **2 The Japanese Consumer Co-operative Movement**

The Japanese consumer co-op movement is one of the largest food retailers in Japan with some 7% of food sales made through the co-op's stores and direct selling methods. The co-ops are located throughout Japan, with at least one major co-op in each of the 47 Prefectures. Figure 1 shows the locations of the top 10 retail co-ops (by turnover) and Japanese Consumer Co-operative Union offices throughout Japan. Unlike the major supermarket chains such as Daiei, co-ops do not operate as a single entity but are an aggregation of 637 individual autonomous co-ops (479 Retail Co-ops, 125 Medical Co-ops, 14 Insurance and Housing Co-ops) situated throughout the country, operating some 2,690 retail outlets (JCCU, 1999).

The co-op movement in Japan was established in the late 19<sup>th</sup> Century and whilst initial growth was slow, growth has been spectacular since the Second World War. Over the last fifteen years, total co-op membership has more than doubled and gross turnover has almost tripled. As of April 1999 (JCCU, 1999) co-op membership (Figure 2) was 20.628 million (17.051 million Retail Co-ops, 2.140 million Medical Co-ops, 1.437 million Insurance and Housing Co-ops). The retail or regional co-ops are the largest component of the movement with over 80% of the total turnover. Turnover of co-ops has continued to expand despite the recent Japanese recession (Figure 3), with fresh food sales the predominant component of retail sales (Figure 4). In addition to fresh food products and household goods, the co-ops offer a wide range of services to members including travel, funeral services, education, training, and medical services. In addition the co-ops support a range of social movements including peace movements, UNICEF, and represent consumers at a national level.

With the Japanese Consumers' Co-operative Union (JCCU, based in Tokyo) providing national coordination and representation, the co-ops operate as independent businesses. Individual co-ops vary greatly in size, with membership ranging from over 1 million to only a few thousand households. Table 1 shows current data on the co-operatives included in this study. Riethmuller (1994) identified the co-ops as a '... neglected part of the Japanese distribution system', noting that the size and characteristics of the regional consumer co-ops and their extensive distribution network make them potentially an important mode of entry for Australian produce. Riethmuller also stated 'They (co-ops) will form relationships with foreign suppliers that will give these suppliers access to their members.' Other authors (Vinning, 1993; GBR, 1995; Ada, 1997) and Japanese market experts have recognised the potential of this market, identifying some of the key characteristics and operational modes of the consumer co-ops.



Figure 1 Locations of top 10 retail co-ops and JCCU offices (JCCU, 1999)

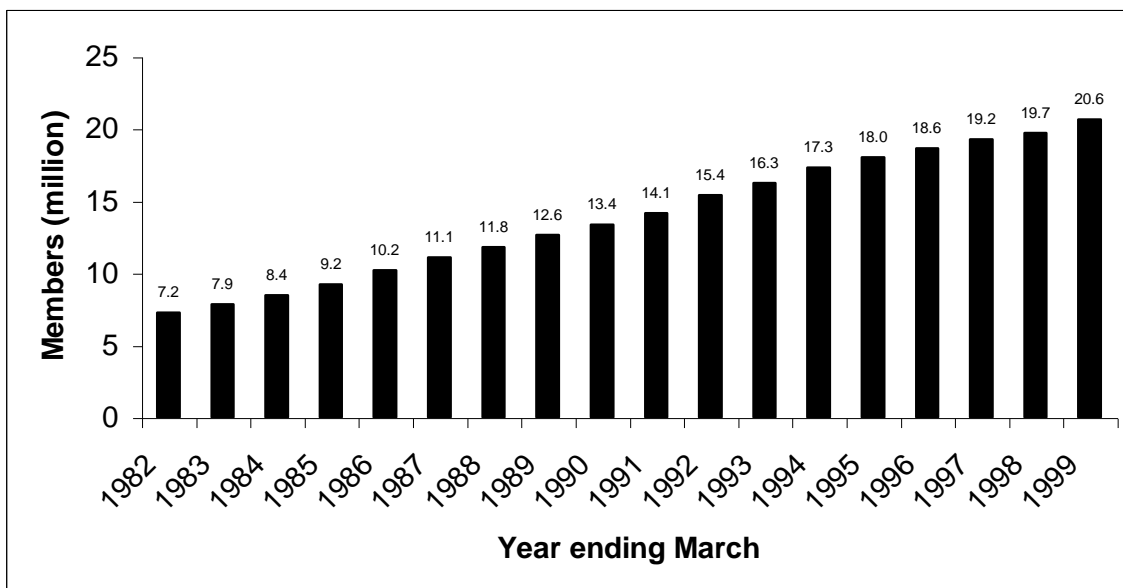


Figure 2 Japanese co-ops' total membership (1982 - 1999)

Source: JCCU (1999)

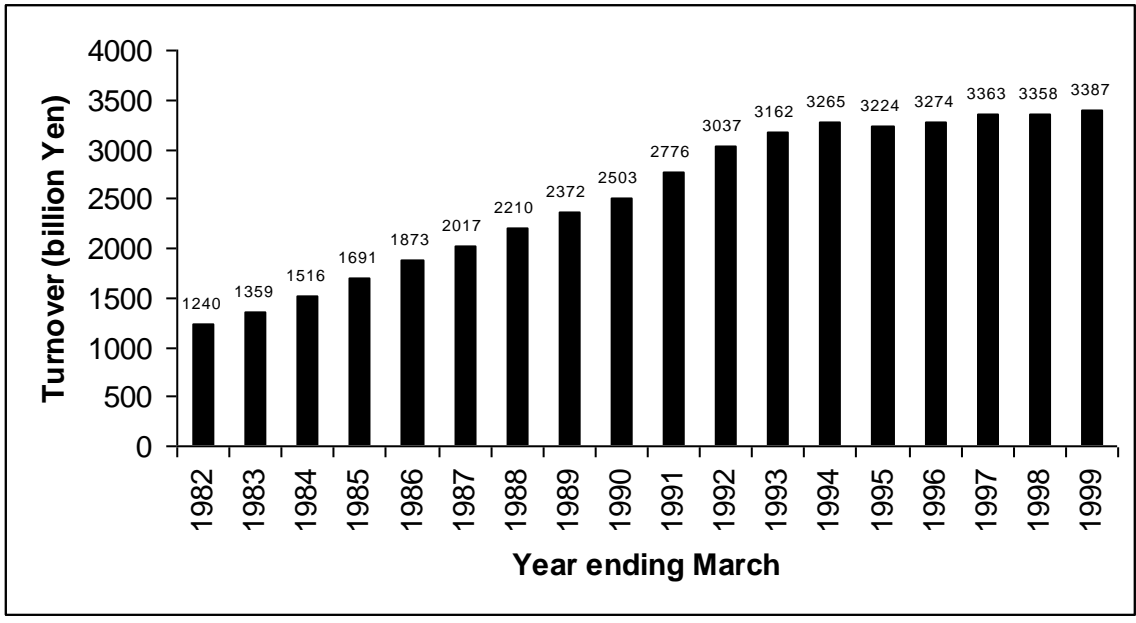


Figure 3 Japanese co-ops' total turnover (1982 - 1999)

Source: JCCU (1999)

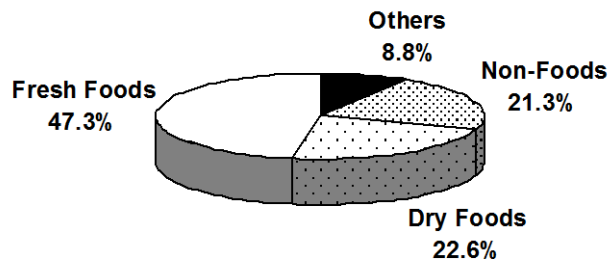


Figure 4 Breakdown of co-op retail sales by product type

Source: JCCU (1999)

**Table 1 Details of the JCCU and retail co-operatives surveyed in the study**

	Membership (thousand)	Turnover (¥ billion)	Prefecture	Number of Stores <sup>1</sup>
JCCU (retail data)	17,051	3,136	-	2,690
Co-op Tokyo	655.2	129.5	Tokyo	82
U Co-op	1,500	214	Kanagawa	178
Saitama Co-op	462.1	100.4	Saitama	60
Miyagi Co-op	438.8	101.3	Miyagi	39 <sup>2</sup>
Iwate Co-op <sup>3</sup>	115.6	33.0	Iwate	17
Co-op Sapporo	866.7	154.6	Sapporo	116
F Co-op	384.2	60.9	Fukuoka	15
Co-op Kobe	1,367.6	365.1	Kobe	163
Kyoto Co-op	444.9	67.5	Kyoto	32
Osaka-Izumi Co-op	294.0	61.5	Osaka	26

<sup>1</sup>from co-op data; <sup>2</sup>Asiedu (1997); <sup>3</sup>co-op data, 1998; Source JCCU (1999)

## 2.1 Co-op Philosophies

The co-operative philosophy is important to the outlook and the daily operations of the Japanese co-op. The first president of the JCCU, Toyohiko Kagawa, developed seven basic concepts on which consumer co-ops were established:

- mutual sharing of benefits
- an humane economy
- sharing of capital
- elimination of exploitation
- decentralisation of power
- political neutrality
- emphasis on education

Wilkinson (1990) indicated that the seven basic concepts were based on the original co-operative principles of:

- voluntary, open membership
- democratic control
- dividend on purchases
- limited interest on capital
- provision of education
- cooperation between co-operatives

The essential basic beliefs to which the co-ops adhere are peace and democracy; fairness and social justice; freedom and voluntary participation; and social and economic liberalisation. Ethics include learning and living sincerely and honestly; taking care of others and each other; a democratic spirit respecting decision making in a democratic way; loyalty to the co-operative way, and a constructive attitude. So the co-ops believe in the principles of:

- bringing people together
- democratic management and member participation
- members sharing the same values so they can work together
- fair distribution of profits
- efficient expansion of the membership base
- autonomy and independence
- education
- national and international cooperation

An understanding of the co-ops' philosophies are the key to better understanding the co-ops' approach to sourcing products and how they manage their operations.

## 2.2 Co-op Operations

Co-ops are restricted by law (*Consumers' Livelihood Co-operative Society Law Japan 1948 – Article 12, Section 3*) to sell only to members (Ada and Kawasaki, 1997). In this restrictive trading environment, the co-ops have developed innovative methods to maintain and increase membership and the range of services offered. Key features of co-op success have been the direct involvement of members in the purchasing decision process, the development of the Han<sup>3</sup> groups, and the joint buying system (JBS).

Under the joint buying system members from each neighbourhood form Han groups. Members, via their local Han, order products from brochures provided weekly by the co-op for delivery the following week. Delivery of the Han order by the co-op worker also provides the co-op with the means of distributing new brochures and collecting orders for the following week. In 1999 there were 1.617 million Han groups representing 7.551 million members (JCCU, 1999). The Han groups not only provide a means of ordering and distributing product, they are also a key feature of co-op management and enable the co-operatives to obtain direct feedback from their members. The administrative structure of a co-op ensures that members have an active role in co-op management. Members are also asked to serve on committees such as product development, where new products are assessed and decisions made on the types of products sold to members.

In addition to the JBS, co-ops are increasingly moving to sales through retail outlets as membership increases. This strategy by the co-ops allows a wider range of products to be available to members and permits the co-op to trade competitively with the larger retail stores. In recent years the number of co-op stores has declined, however the average size of stores has increased. Sales through the stores have also increased and now represent approximately 51% of total co-op retail sales (JCCU, 1999).

Co-ops have taken a position in the retail food market as suppliers of fresh, safe food. This emphasis on food safety has led them to develop Co-op Brand products, of which there are now over 9,000. These products are manufactured by commercial firms to co-op specifications and include the full range of goods from milk to household cleaners. The products are extensively tested by the co-ops with an emphasis on reducing harmful chemicals and food additives, and hence, considered preferable by co-op members.

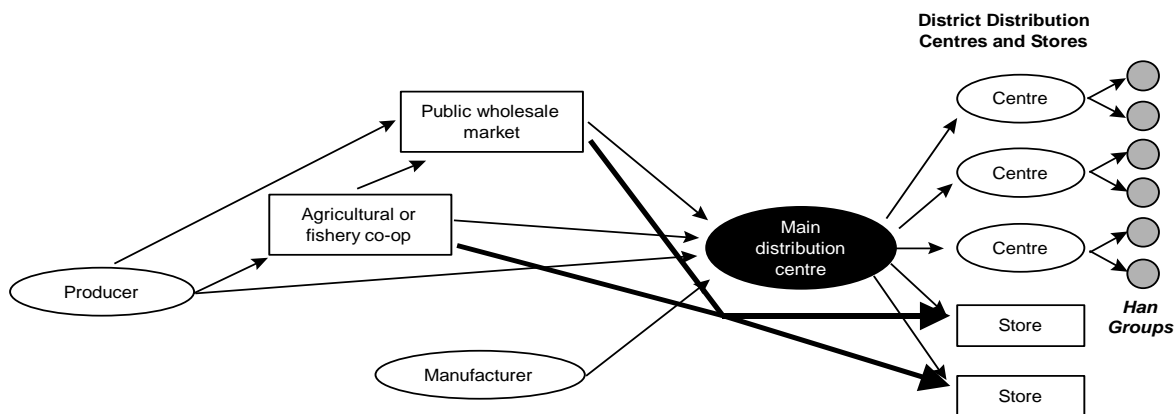
Direct delivery from producer to consumer co-op (*sanchoku*) has become a key feature of co-op operations and one strategy that co-ops have developed to ensure the safety of fresh products (Figure 5).

## 2.3 Sanchoku

*Sanchoku* is a movement and co-op business created through a cooperation between Japanese consumers and Japanese producers, to achieve a stable supply of safe, high quality product at a stable and reasonable price. (Ada and Kawasaki, 1997) This movement was initiated by the co-ops to overcome the dominance of the public wholesale market in the perishable food distribution system and the control of the processed food distribution system by major food companies. To achieve this outcome, the movement encourages the development of regional agriculture and industry, and promotes sustainable agriculture whilst reforming the distribution system. A clear aim is to 'support the production of local farmers, keep food costs down, and make sure food is safe to eat' (JCCU, 1996).

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<sup>3</sup> Han is a Japanese word meaning a group formed by people with similar purpose and ideals.



**Figure 5 Distribution system used by retail co-ops**

Source: Ada and Kawasaki (1998)

*Sanchoku* (often translated as ‘direct transaction’) is the supply of fresh food products (mainly meat, fish, fruit and vegetables), directly from producers or agricultural organisations (such as farmer and fishery co-ops) to consumer co-ops, sometimes without the intervention of wholesalers, markets or other ‘middlemen’. Whilst the concept of direct delivery is not unusual and is a feature used by many large commercial retailers, there are a number of conditions applied to *sanchoku* in the Japanese consumer co-ops which make it unique.

There are three basic principles applied to *sanchoku*:

- *The origin of the product and the name of the producer should be clear to the consumer.*  
The co-op, through newsletters, weekly product catalogues and signs in the supermarkets, supplies co-op members with detailed information. In some cases, producers will visit co-op stores and discuss their product with co-op members.
- *The consumer should know the method of production.*  
The essence of *sanchoku* is that producers are contracted by the co-ops to supply primary products direct from the farm or fishery. The products must meet specifications on quality, size and delivery dates, all of which are features of most contracts. However, in addition to the usual contractual agreements, producers must also meet agreed conditions on the way in which the product is produced. In particular there are restrictions on the use of chemicals and, in some cases, artificial fertilisers which may be regarded as potentially injurious to the consumers’ health or damaging to the soil and the environment. *Sanchoku* is seen as a way of guaranteeing the safety of products for members. Co-op staff or their representatives regularly visit suppliers and product is tested to ensure that standards are met. Information on the methods of production is provided to members.
- *There should be exchanges between consumers and producers.*  
Consumers are encouraged to visit suppliers’ farms and special events are organised by the co-ops to allow members to see how their food is produced. Producers are also encouraged to meet members and will visit city consumers and home-stay with co-op member’s families. The exchange of information between producers and consumers is a key operational feature of *sanchoku* and one that makes it unique among forms of direct transaction (e.g. contracts between Australian producers and Australian retail stores). Both consumers and producers extol the virtues of this type of contact. *Sanchoku* puts the producers in direct contact with consumers, improving the lines of communication and enabling both parties to share experience and better understand and meet each other’s needs (Ada and Kawasaki, 1997).



Information exchange takes place in both direct and indirect ways. For consumers distant from the production centres direct contact is more difficult, however, they are encouraged to write to producers making comments on the products and suggestions for improvements. The consumer co-ops also organise trips for members so they can inspect the places of production. Consumers not only comment on products but also provide encouragement and assistance to producers. Other forms of communication used include visits by producers to co-op stores, where they can discuss issues directly with their customers, newsletter articles for co-op members in co-op publications, indirect feedback from members, visits by co-op staff to producers, and direct contact with producers by mail or telephone.

The aim of this communication is not only to provide feedback on products but also to reduce the widening gap of understanding between city and rural people. The rural areas are the source of much of Japan's cultural heritage and visits to these areas give city-based co-op members the opportunity to revisit their cultural roots.

*Sanchoku* incorporates social and environmental elements in addition to the commercial supply chain issues. Commercially, *sanchoku* provides the co-ops with a source of fresh, 'safe' food with some savings in the distribution costs and, importantly, a market image as a retailer of 'safe' foods. Socially, *sanchoku* is seen as supporting Japanese agriculture, both regionally and nationally. This is particularly important in view of co-op members' desire to improve Japan's self-sufficiency in food (JCCU, 1994). Also, *sanchoku* provides the opportunity for members to spend time in the country enjoying nature and studying traditional culture.

Suhara (1994) described *sanchoku* as:

'Firstly - a movement of the consumer co-ops and consumer groups who, through concern for regional economic development and agricultural costs and food safety, directly cooperate with producers; operate contracted cultivation with producers; and challenge to solve the above problems.

Secondly - in the present society where the trend is to split consumers and producers, and consumers are becoming stronger, a means to strengthen the links between producers and consumers.'

For many years, consumer co-ops used *sanchoku* without any formal structure or recognition. In the case of some co-ops, *sanchoku* has been a feature of their operations since their establishment. For example, Co-op Kobe (established in 1921) adopted *sanchoku* from the beginning in order to supply cheaper and better quality goods to its members. It is now the largest retail co-op in the world and has continued to strengthen relationships with growers and to develop its *sanchoku* operations.

Initially it was seen as a means of bypassing the wholesale market system. At the time there were few members in the co-ops and the primary motivation for *sanchoku* was to reduce transport and handling costs and to obtain fresher, unadulterated products. Direct delivery of fresh produce, particularly for the regional co-ops, could reduce delivery time from farm to consumer by avoiding the process of transport from farm to central market and then back to the region, hence improving the freshness of product supplied to members whilst reducing the delivery costs. Individual co-ops developed their own forms of *sanchoku*, but it was not until the second half of the 1970s that the co-op movement formally recognised *sanchoku* and saw it as a means of co-op development.

It is now a cornerstone of the operations and competitive strategies of many of the co-operatives. Currently approximately 20% of all fresh foods sold by the retail co-ops is supplied under *sanchoku* arrangements (JCCU, 1999). Whilst the emphasis has been on product which has been grown domestically, the rapid decline in Japanese agricultural production and greater access to the Japanese market for foreign producers has created an opportunity for Australian exporters. The opportunities for 'international *sanchoku*' were explored in this study.

### 3 Results Summary

The in-market research suggests that although the co-ops analysed in the survey operate in a similar manner and basically adhere to similar philosophies, their business approaches and operational methods vary, particularly in relation to imported products. The research further emphasised the importance of obtaining a clear understanding of the co-ops' group and individual philosophies before entering into a business relationship. Whilst the co-ops are facing a critical period in their development with more intense competition and threats to their philosophical base, they are attempting to maintain their uniqueness and market advantage with democratic management, food safety and health as cornerstones of their merchandising. The survey revealed the following key issues impacting on potential Australian exporters.

#### 3.1 Import Policies

The primary reasons why co-ops source imported products are:

- 1) To obtain produce not grown in Japan, for example bananas and tropical fruits
- 2) To obtain produce during the out-of-season period in Japan; for example asparagus, pumpkins, oranges, grapefruit and pineapples
- 3) Given the weakening production base in Japan, for some products there is a need to import to obtain stable, cheap supplies - even during the production seasons

For most co-ops the main reasons for importing foreign produce are 1) and 2), although 3) is becoming more important as co-ops find difficulty in obtaining sufficient supplies from domestic sources. The larger co-ops, in particular, said that they were finding it hard to obtain the quantities required for sale periods.

The sales of imported products in the co-ops vary considerably, however, all co-ops expected the amount of imported product to grow. The JCCU estimated this growth at around 2% to 3% each year. Most co-ops' sales of imported product were between 5% to 10% for vegetables and between 10% and 20% for fruit. The national average is round 15% for vegetables and 53% for fruit, indicating that there is considerable room for growth in the co-ops. Nationally, consumption of fresh fruit and vegetables is declining, although the total value is increasing.

For all co-ops, the preferred method of obtaining imported product was through direct contracts with the producers. This method enables the co-op to know the production methods being used and have control over the use of chemicals and fertilisers. It also enables members to know the producer. *Sanchoku* or direct delivery is used by co-ops to obtain supplies of domestic produce. There were limited examples of *sanchoku*-like arrangements internationally, however, most co-ops expressed a desire to expand the number of these arrangements. The most prominent of these contracts are Japanese pumpkin from NZ and Mexico, citrus from Florida and bananas from the Philippines.

Japanese co-ops all support Japanese agriculture and attempt wherever possible to use local products. This view appeared to be strongest in the rurally based co-ops such as Miyagi Co-op and Saitama Co-op where there is a significant level of local production. Thus supply of imported product during the Japanese off-season is likely to be most successful. Most co-ops preferred to not have imported produce actively compete with domestic produce. Whilst the Japanese have traditionally had very seasonal tastes, particularly for fruit, tastes are changing and there is increasing demand from consumers to extend the availability of produce. All co-ops stated that they wished to extend the availability of vegetables and that they would prefer to obtain product during the Japanese off-season. Australia has counter-seasonal production of many products and is thus well situated to exploit this opportunity.

### 3.2 Product Characteristics

- **Food safety** is paramount for all co-ops.

It is a prime concern for members and one of the distinguishing features of the co-ops. Above all other considerations, imported food must meet strict safety standards. In particular, the co-ops were very concerned about post harvest chemicals and were keen to ensure that any imported produce had not been treated with them. In addition the co-ops have little faith in the certificates issued by foreign bodies testifying to the safety of products. This follows the discovery of dangerous chemicals in certified organic produce from the USA. Co-op members in general do not believe that imported produce is safe. Co-op member attitudes to safety were emphasised during a July 1997 survey of 6,000 members of the thirty largest co-ops. The survey showed that over half of the respondents were concerned about food safety including genetically modified organisms, *Escherichia coli* and additives. Around 60% said that they were concerned about vegetable cultivation methods and whether food is produced domestically or imported. Members expected the co-op to provide "Safety" and "freshness and quality" in the future (JCCU, 1998).

- **Product Price** is not the prime consideration for the co-ops.

Whilst a competitive product was desirable, other features including reliability of supply, freshness and quality were considered by co-ops to be more important.

- **Taste, quality and freshness.**

The relative importance of these varied between fruit and vegetables. The co-ops pointed out that vegetables are a daily commodity and an important part of the family's diet, so freshness and appearance are the most important characteristics, followed by value for money and taste. By comparison, fruit is considered to be a 'luxury' item. Fruit is traditionally a speciality item and a snack food so the taste is critical to sales. A customer is buying fruit as a treat and expects it to be sweet and delicious. Price is less important than for vegetables, but remains a key consideration for consumers. As a result, product characteristics in order of importance are taste, freshness and appearance, followed by price.

### 3.3 Joint Ventures

The opportunities for joint ventures with the co-ops are very limited. All co-ops said that they were not interested in investing capital into joint ventures, however, were willing to assist growing areas to develop produce for supply to the co-op by providing advice and technical expertise. A clear example of this is the establishment of Japanese pumpkin squash in NZ where the co-ops actively encouraged the development of an organic pumpkin industry and provided advice and seed to ensure that the product met the needs of their members.

### 3.4 Cutting out the 'middleman'

There are few opportunities for direct supply of imported products to the co-ops. Only a limited number of co-ops had the expertise or desire to import directly. These were the JCCU, Co-op Kanagawa and Co-op Kobe. All other co-ops were prepared to rely on the use of trading companies and export companies. The co-ops did however, want to use the services of these companies to expedite importation and to take some of the risks from importing, but still maintain a direct relationship with the producers. Ideally the contract would be drawn up between the co-op and the producer, with the exporter and trading company employed by the co-op to look after transportation and import processes. An example of this is the arrangement between Co-op Tokyo and Philippine banana growers. The growers produce for the co-op under the co-op guidelines. A trading company supervises the production in the country and arranges for transport and importation. The bananas are sold under the Co-op Tokyo brand, with the trading company selling any excess to other retailers under another brand name.

### 3.5 Product opportunities

Product opportunities exist for asparagus, broccoli, sweet corn, carrots and soybeans. For fruit the main opportunities are apples, bananas, mandarins, oranges, rockmelons and strawberries. There was a high level of interest in asparagus among most co-ops. Co-ops also expressed strong interest in fresh organic products and frozen organic and low chemical vegetables. All co-ops wished to encourage the development of sustainable and organic production methods.

## 4 Case Studies

During the course of the research there was on-going consultation with Australian producers and producer groups interested in obtaining better access to, or new markets in Japan. The data collected and the insights developed during the in-market interviews were extended to industry during 1997 and 1998. Based on the information provided, two companies expressed an interest in attempting to develop closer relationships with the consumer co-operatives.

Whilst the products that the companies were producing were quite different, both companies had the following characteristics which contributed to their success with the co-ops:

- The view that this was a new market which could allow them to get closer to the Japanese consumer and potentially offered better returns than the supply chains they were currently using.
- Supplying product to the Japanese market either through Australian agents, or directly to an importing company in Japan.
- Some experience in the Japanese market and some understanding of Japanese business practices, but no prior knowledge of the consumer co-operatives.
- Produced product using limited applications of synthetic chemicals and fertilisers.
- A strong commitment to producing quality products and were in the process of implementing Quality Assurance and HACCP systems.
- Willing to modify their production system to meet the requirements of the co-op.
- Committed to the Japanese market and prepared to visit the market to establish a relationship with co-op staff.
- Recognised that the development of this market could take time and were prepared to invest the time and effort required despite the fact that they were relatively small companies.
- Entering a growth phase and seeking new market opportunities.
- Took a longer-term view of the market and were seeking partners who would assist them to develop, rather than chasing short-term spot buyers.

The stages in the development of the relationship and trade with the co-op were as follows:

- The companies were fully briefed on the outcomes of the in-market research and identified those co-operatives which had expressed an interest in their product.
- The companies undertook to visit those co-operatives during a visit to Japan.
- Prior to the visit, the companies prepared information brochures, including photos, in both English and Japanese. These brochures highlighted the features of the company operations which met the co-ops requirements, for example, reduced usage of agricultural chemicals, safety standards for product, quality standards, ability to supply over an extended period, environmentally sound production systems and family values.
- The companies were well prepared for their visits taking with them a portfolio of material on their operations, business cards (in English and Japanese) and the idea that they were establishing initial contact, not on a hard selling mission. An important component of this was information on the companies' relationship with State and Federal government officers.
- The companies were, in general, well received by the co-ops visited, although not all co-ops wished to pursue further business and made this clear during the discussions.
- The companies followed up on their visit by mail and fax, thanking the co-ops for their hospitality and providing additional information requested at the interviews.

- Co-ops that wished to pursue the contact requested samples of the product, which were arranged through agents currently selling the products in Japan.
- Feedback on member and Co-op staff taste testing of the product samples and requests for further supporting information were faxed from the co-ops to the companies. This communication continued over some months.
- At this stage the co-ops and companies verbally agreed to commence limited supply using the existing supply chain into Japan. The co-ops were given introductions to the wholesalers/importers currently bringing the products from the companies, and used these to obtain product. Specifications for the products were agreed between the co-ops and the companies. The companies negotiated with the relevant supply chain members (importers, transport etc.) to ensure that the selected product was made available to the co-ops. The co-ops also negotiated with their supply chain members for the smooth handling of the product.
- The companies supplied information and photos that could be used for in-store promotion and in leaflets to co-op members.
- Based on the performance of this limited product supply, the co-ops sent a representative to Australia to inspect the farm operations. The co-op representative (a senior buyer) took the opportunity to seek other types of product and to meet Government officials.
- The successful completion of this visit contributed significantly to the co-ops acceptance of larger shipments in the following season, and opened the door for supply of other products by one of the companies.
- Over the three year period since they first made contact with the co-ops, one company has now visited the co-ops three times, expanding sales of product beyond a single mid-sized co-op to one of the largest co-operatives in Japan.
- There have been no written contracts, and an important part of the process has been eliciting the assistance of the other members of the supply chain, particularly the wholesalers in Japan.
- The relationship between the companies and the co-ops continues to develop and the sales of product are continuing to expand. At some time in the future it may lead to more direct supply from farm to consumer and further expansion into other co-operatives.

The case studies highlighted the value of the research in properly preparing the companies for the development of direct relationships with the co-operatives. The research was also beneficial to the co-operatives, giving them some insight to, and interest in Australian products.

## 5 Conclusions

The Japanese consumer co-operatives present great export opportunities for Australian horticultural producers and provide a chance for producers to develop close relationships with Japanese consumers.

This study showed that the retail co-ops are member-directed organisations focussed on providing members with regular supply of quality food at reasonable prices. In achieving this aim, one of the primary assurances the co-op passes onto members is a guarantee of product safety. Using the concept of *sanchoku* and extending the principles involved to products supplied from foreign sources, the co-op, trading company or the JCCU can maintain a direct line of communications with the producer to assure consumers of product safety.

The co-ops are seeking overseas producers who can guarantee supply and produce a product or variety specifically for sale to the co-op consumer, preferably during periods when the product is in limited supply from domestic producers.

The study highlighted the fact that Japan's import levels are increasing and the self-sufficiency levels decreasing, resulting in an increasing demand for imported product. Co-op demand is also increasing as they seek imported products to obtain produce not grown in Japan and to obtain produce during the out-of-season period in Japan.

The case studies have demonstrated that development of close relationships between Australian producers and co-ops based on similar principles to *sanchoku* are not only possible in theory, but a practical reality. As a result of the case studies and discussions with co-op representatives, addressing the following issues will give companies a competitive edge when targeting the Japanese co-ops:

- Understanding the Japanese consumer co-operative market and co-operative philosophies.
- Having a similar philosophy on life as the co-op members.
- Producing product(s) using low rates of agricultural chemicals and avoiding chemicals specifically banned by the co-ops.
- Having some previous experience exporting to Japan.
- Being willing to change farm practises to suit the co-op requirements (methods, crop type or variety, crop timing, expansion, upgrade or alternate machinery).
- Being willing to share information with the co-ops (including visiting the co-ops and allowing visits by the co-ops to the farm).
- Having established and Government certified methods of quality control.
- Being able to guarantee supply of product during the 'off-season' in Japan.
- Understanding that the co-ops are concerned about the wellbeing of both the producer and the consumer.

This study provides insight into the Japanese consumer co-operative movement, their philosophies, methods of operation, expectations and practices. It shows that the co-operatives provide a means of gaining access to the Japanese market, obtaining direct contact and feedback from consumers, and of differentiating products. The producer that understands the co-operative and can provide a quality product that meets their criteria for production will have the competitive edge in establishing a trading relationship with the co-ops. All that remains is to maintain the relationship with the co-ops and consumers, and build on it.

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