

**Japanese Consumer
Co-operatives -
A Market Entry Opportunity for
Queensland Fresh Horticultural
Produce**

By

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STATEMENT OF ORIGINAL AUTHORSHIP

The work contained in this thesis has not been previously submitted for a degree or diploma at any other tertiary education institution. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made.

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ABSTRACT

It is important that Queensland horticultural producers develop export capacity. Production is increasing and Australia has a relatively small domestic market. Export also provides a means to diversify as a risk management strategy and to arrest the income decline from existing markets. This research provides Queensland horticultural producers with a practical example of how the principles of supply chain management and relationship marketing may be applied to successfully access a new export market – the Japanese consumer co-operatives.

The thesis examines the theories of relationship marketing and supply chain management and proposes that these constructs provide a suitable format for the development of trading relationships between Queensland producers and Japanese consumer co-operatives. Based on surveys of the co-operatives, the thesis outlines the specific philosophical and operational issues for the co-operatives which impact on their use of imported fruit and vegetables, and identifies direct supply from producers to consumers (*sanchoku*) as a potential strategy for gaining market entry.

Key success factors are developed from the survey data and applied to a case study of a Queensland asparagus company and a mid-sized Japanese co-operative. The development of the business relationship and supply chain is chronicled for the case study firms.

The dissertation concludes with observations from the case study and the co-operative survey, providing valuable insights into the strategies required by Queensland firms to build lasting relationships and profitable supply chains into Japanese consumer co-operatives.

Key words

Japan, consumer co-operatives, case study, relationship marketing, supply chain management, horticulture, international trade, market access, market entry strategy.

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ABBREVIATIONS

The following abbreviations are used in the text of the thesis:

Co-op – co-operative

JCCU – Japanese Consumers' Co-operative Union

HACCP – Hazard Analysis Critical Control Points

USDA – United States Department of Agriculture

CHAPTER 1 INTRODUCTION

1.1 Background

It is important that Queensland horticultural producers develop export capacity. Production is increasing and Australia has a relatively small domestic market. Export also provides a means to diversify as a risk management strategy and to arrest the income decline from existing markets (Dunne 1991). This research provides Queensland horticultural producers with a practical example of how the principles of supply chain management and relationship marketing may be applied to successfully access a new export market – the Japanese consumer co-operatives.

Queensland is a major producer of horticultural products and is responsible for over 30 per cent of Australia's production of fruit and vegetables (Queensland Government Statisticians Office 1999). Direct exports of horticultural products from Queensland exceed AUD\$81 million (1998/99) growing from AUD\$12 million in 1989 (ABS 1999). Asia and South East Asia dominate as the major destinations taking more than 50 per cent of the total. The top five markets by value are:

- Hong Kong (27%),
- Singapore (19.4%),
- New Zealand (20.7%),
- Japan (11.3%) and
- PNG (3.5%)

(Queensland Fruit and Vegetable Growers 1999).

Queensland horticultural production grew from \$460 million in 1987/88 to over \$900 million in 1996/1997 with less than 10 per cent of production being exported. (Queensland Fruit and Vegetable Growers 1999). As volumes of production continue to grow, opportunities on the domestic market are diminishing and expansion of exports is becoming an imperative for producers. The development of horticultural industries in Queensland will depend on producers becoming internationally competitive and successfully targeting key export markets (Supermarket to Asia 1998).

Japan is the major export market for Australia's food (Bourke 1997). It offers great potential for horticultural producers because of the size and relative affluence of the population, and the decline in Japanese production with an ageing farming population. Despite some success in this market, Queensland producers face considerable competition from other countries, particularly the US and China. In addition, Japan remains a difficult market to access because of tariff and non-tariff barriers and the established relationships between suppliers and consumers in the market place (Anderson and Riethmuller 1993; Riethmuller 1996). Despite some gains in access brought about by the World Trade Organisation (WTO) negotiations, there remain significant trade barriers, particularly for horticulture and rice (Supermarket to Asia 2001). To meet this competition, overcome the barriers and gain additional value for their products, producers need to search for new and innovative ways of gaining access to this market.

The selection of market entry strategy can be critical to the success of the exporting firm (Rich 1993). Producers should select a strategy that offers the greatest opportunity for profits, both in the long and the short term. Traditional market entry methods such as export entry mode, contractual entry modes, co-production, joint ventures and sole ventures have been examined in detail by many authors (Root 1982; Cooke 1991; Rich 1993; Japanese External Trade and Research Organisation 1994; Xin 1994). Each method offers advantages and limitations to exporting firms in terms of risk, returns, costs and control tradeoffs (Rich 1993). Over the last ten years researchers have identified market entry strategies based on the development of relationships and supply chains, which offer potential for new business in the Japanese market and may assist in expanding the opportunities for Queensland producers (Contractor and Lorange 1988; O'Keefe 1994; Styles and Ambler 1994; Gronroos 1997; Mattson 1997; Palmer 1997; Ford 1998; O'Keefe 1998; Healy et al. 2001).

Based on the development of supply chain relationships with Japanese consumer co-operatives, this research provides a new perspective on marketing into the Japanese economy as an alternative to market entry systems that rely principally on traditional distribution channels controlled by major trading companies such as Mitsubishi and Mitsui. This perspective is important because supply chain relationships may be an innovative and progressive way for producers to gain critical competitive advantage in an increasingly competitive marketplace.

1.2 Hypothesis and research problem

The hypothesis for this research is that Queensland fruit and vegetable producers can develop a competitive advantage in the Japanese market through relationship based supply partnerships with Japanese consumer co-operatives. Therefore the primary research problem is:

Are Japanese Consumer Co-operatives a means of gaining access to the Japanese market for Queensland horticultural products that can create value for all stakeholders?

Three questions emerge in relation to the research problem:

RQ 1: What are the characteristics of the supply chains for imported fruit and vegetables that are preferred by consumer co-operatives?

RQ 2: What are the benefits accruing to the members of the supply chain (including competitive advantage) from a supply chain relationship based on a consumer co-operative?

RQ 3: How can a Queensland producer establish and maintain a supply chain relationship with a Japanese consumer co-operative?

The focus of this research is to determine what requirements and value the Japanese co-operatives place on their supply chain relationships with producers and how Queensland producers can meet these requirements.

1.3 Justification for the research

The justification for this research is based on the following:

- Expansion of the export market for fresh fruit and vegetables is important for the long term viability of Queensland horticultural producers; (Section 2.2)
- Japan is a major export market for Queensland fruit and vegetables with significant potential for expansion; (Section 2.3)
- There is limited published information on the requirements of the Japanese consumer co-operative movement to assist potential suppliers to access this market; (Section 2.4)

- An analysis of the Japanese co-operatives as a market opportunity for Queensland producers has not been done. (Section 2.4)
- There is no available research data on the establishment of supply chain relationships as a market entry strategy to the Japanese consumer co-operatives. (Section 2.4)

1.3.1 Usefulness of the research

This research examines the key relationships between, and the characteristics of, members of the supply chains taking product from producer to consumer. This type of information is considered essential in establishing strong and lasting business relationships (Lambert et al. 1996; Fearn 1998; O'Keefe 1998; Dunne 2001). Using a case study approach, this research examines the processes used by the co-operatives to manage the information, material and financial flows in the supply chain where there is a direct relationship between the producer and the consumer co-operative. This information is vital for potential exporters and organisations that are already exporting and seeking alternative customers to establish new relationships and develop new market opportunities.

1.3.2 Methodology

This section outlines the methodology used to investigate the research question. A comprehensive description of the research methods is presented in Chapter 4.

Case study methodology was chosen to answer the research question as this allows an in-depth investigation of a single case and is the preferred strategy when 'how' and 'why' questions are being posed (Malhotra 1993; Yin 1994). The research design was exploratory to provide insight and understanding, without being deterministic, recognising that a major limitation of case studies is that they provide little basis for scientific generalisations and run the risk that the investigator will allow equivocal evidence or biased views to influence the direction of findings and the conclusions drawn (Yin 1994).

The research was conducted in two stages:

1. Stage 1: An exploratory study of the major consumer co-operatives to establish if the development of a relationship based supply chain was attractive to the co-operatives and a feasible market entry mode for Queensland producers.
2. Stage 2: Monitoring the establishment of a supply chain between a Queensland producer and a consumer co-operative, to assess the benefits to both parties of this market entry strategy. Data was also collected to develop key success factors to assist other fruit and vegetable producers to access the Japanese co-operatives.

The case study methodology enabled a focus on the contemporary phenomenon of supply chain relationships within the real life context of export of a food product into Japanese consumer co-operatives (Yin 1994). In this case, the supply chain relationship between a Queensland vegetable production and exporting company and a medium sized Japanese co-operative was investigated and studied during the period from January 1997 to January 2000. The company had previously exported to Japan through less direct methods. It was seeking to gain market advantage, both in terms of volume and stability of supply, by establishing a direct relationship with the Japanese consumer co-operative. This case was selected as it provides detailed insight into the development of the supply chain and the relationships between the producer and the co-operative.

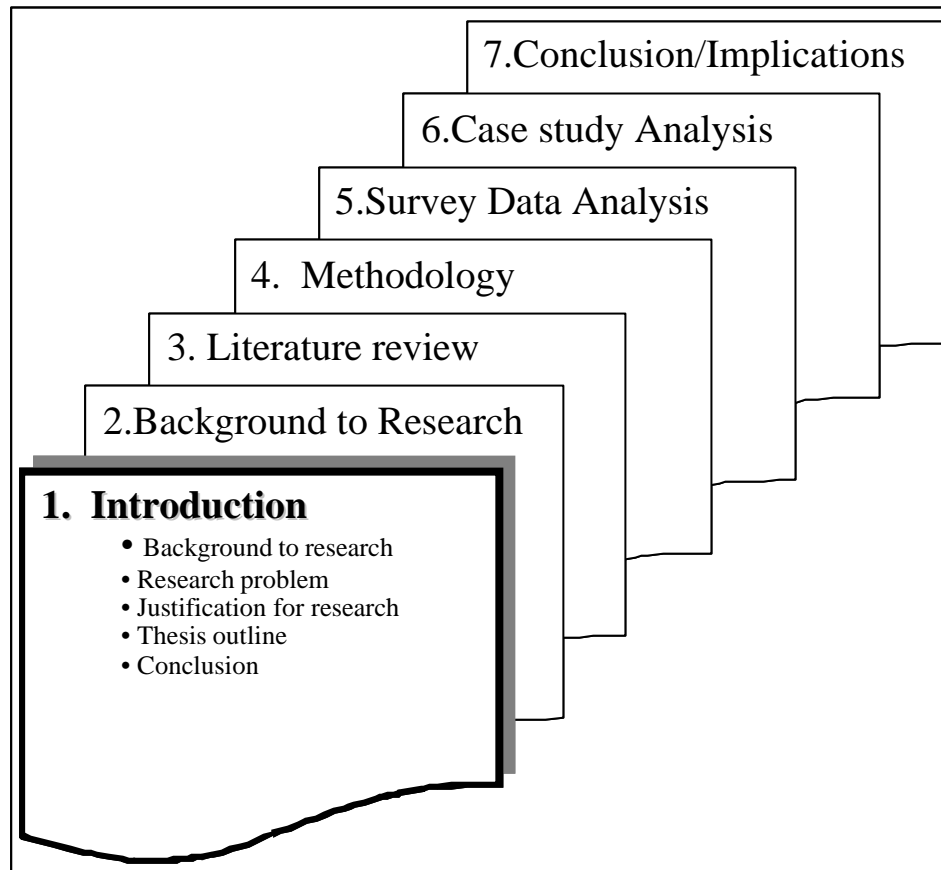
To gain an understanding of the target co-operative, staff of the co-operative were interviewed using a questionnaire consisting of both structured and unstructured questions. These interviews were conducted in Japan. Similar questions were also asked of the producer in Queensland to establish attitudes and assess the perceived gains from the new supply chain. Observations were made of the development of the relationship between the co-operative and the case study firm over the two-year period.

The research process was flexible and contained both structured and unstructured components. The data was primarily qualitative (Malhotra 1993). In the absence of previous exploratory studies this methodology offered the best opportunity to obtain strategic information about the co-operatives and their policies and attitudes to imports and Australian products.

1.4 Thesis outline

There are seven chapters in this thesis following a modified form of the structure outlined by Perry (1994). The outline is shown in see Figure 1.1.

Figure 1.1 Thesis outline



1. Chapter 1: An overview of the thesis, background to and justification for, the investigation, the identification of the research problem, specification of the research questions, an outline of the methods used and a broad outline of the relevance of the topic.
2. Chapter 2: A detailed insight into the background to the research including an overview of the Queensland fruit and vegetable industry and the Japanese consumer co-operative movement.
3. Chapter 3: A literature review that links the body of knowledge on exports to the Japanese co-operatives. The theory of relationship marketing and supply chain management is examined with the key variables that influence the

selection of supply chains. The literature review also highlights the management of supply chains in the food industry and how firms who engage in supply chain management gain sustainable competitive advantage in the market place. The knowledge hiatus related to supply methods, product requirements and supply relationships between producers and consumer co-operatives is elucidated. Chapter 3 provides additional supporting information for the formulation of the three research issues and develops the basis of the approach to answering the research problem.

4. Chapter 4: An overview of the methodologies used in this research and outline of the steps taken to apply the methodologies. The choice of case study methodology is justified and the development of a questionnaire described. The analytical strategy for the case study data is developed.
5. Chapter 5: The results and data analysis. Broad patterns of results are presented for the selected case study and information shown on the supply chains and the relationships within those chains. The results relating to the research question are interpreted and discussed.
6. Chapter 6: The findings from the case studies are compared to relationship management and supply chain theory and a checklist is developed for potential exporters to the Japanese co-operatives.
7. Chapter 7: The conclusions from the research findings. The conduct of the research, methodologies, results and limitations are discussed, with conclusions drawn on the practical application of the findings. Gaps in the research data are identified and areas for further research are highlighted.

1.4.1 Definitions

Definitions related to the area of market entry and supply chain analysis adopted by researchers, practitioners and authors are often not uniform, so key terms are defined in this section to establish positions taken in the research.

1. Case study: A comprehensive description and analysis of a single situation (Yin 1994).

2. Marketing channel: A channel is a group of businesses that take ownership title to products or facilitate exchange during the marketing process from original owner to final buyer (Bowersox and Closs 1996, p. 90).
3. Market entry strategy: Is the strategy a firm adopts to access an export market; options include supplying directly to an end-user; production in country; using a local agent and supplying directly to an importer (Cooke 1991).
4. Supply chain: Encompasses every effort involved in producing and delivering a final product from the supplier's supplier to the customer's customer. Four basic processes – Plan, Source, Make, Deliver – broadly define these efforts, which include managing supply and demand, sourcing raw materials and parts, manufacturing and assembly, warehousing and inventory tracking, order entry and order management, distribution across all channels, and delivery to the customer (Lee 1998).
5. Paradigm: May be viewed as a basic set of beliefs (or metaphysics) that deals with ultimates or first principles. It represents a worldview that defines, for its holder, the nature of the world and its parts, as for example, cosmologies and theologies do (Guba and Lincoln 1994, p. 108).
6. Ontology: Is the form or nature of reality (Guba and Lincoln 1994, p. 108).
7. Epistemology: Is the nature of the relationship between the knower or would be knower, and what can be known (Guba and Lincoln 1994, p. 108).
8. Methodology: The way in which the inquirer (would be knower) goes about finding out whatever he or she believes can be known (Guba and Lincoln 1994, p. 108).
9. Qualitative research: ‘..involves the studied use and collection of a variety of empirical materials – case study, personal experience, introspective life story, interview, observational, historical, interactional and visual texts that describe routine and problematic moments and meanings in individual's lives.’ (Denzin and Lincoln 1994, p. 2).
10. Sanchoku: or ‘direct transaction’ - the supply of fresh food products directly from producers or agricultural organisations to consumer co-operatives, usually without the intervention of wholesalers, markets or other ‘middlemen’ (Ada and Kawasaki 1997).

11. **Joint Buying System:** A selling system used by the co-operatives where individual members or groups of members (*Han*) order products on a weekly basis from a catalogue. The products are delivered by the co-operative to the members, one week after ordering (Ada and Kawasaki 1997).
12. **Han:** A grouping of co-operative members (usually living in the same area) and is the basic unit of co-operative activity and the vehicle for voluntary participation of the co-operatives' activities. It also functions as a means of communication with the co-operative and forms the basis of the democratic structure of the co-operative. *Han* groups provide opportunities for closer association and enhanced communication among members. They also form the basis of the joint buying system (Ada and Kawasaki 1997).

1.4.2 Limitations

The limitations of this research were as follows:

1. **Descriptive nature.** This research is predominantly exploratory in nature and the results of both the surveys and case study can be used to draw only broad generalisations about the applicability of this market entry strategy to other producers and Japanese co-operatives. The case study provides insight into the requirements of a successful supply chain and its relationships. However, further work is required to thoroughly test the applicability of this market entry strategy to other products and producers.
2. **Sample selection.** The research resources available limited the selection to a single case study. Also, sample selection for the co-operative survey was not random. The sample was restricted to the largest co-operatives with only one of the mid-sized co-operatives interviewed. As a result, the data collected on product requirements and attitudes could not be interpreted as fully representative of the consumer co-operative movement. A larger sample and a further detailed survey will be required to obtain a fully representative result. The small to medium sized co-operatives represent another segment of the market that may have divergent views and operational methods to those expressed by the larger co-operatives.
3. **Language difficulties.** Due to the need to conduct the interviews in Japanese and translate into English, it was not possible to fully explore all the issues during the

interviews. Time constraints set by the interviewees further restricted opportunities to obtain large, complete data sets. Further, the translation process may have also lead to misunderstanding and misinterpretation of responses and hence the possibility of errors.

4. Incomplete data sets. Despite attempts to complete the data sets requested in the questionnaire, not every co-operative was prepared to provide full sets of data. Data gaps and errors were minimised as much as possible by reviewing discrepancies during the interviews and by following up after the interviews. Alternative sources of data were not always available to fill the gaps.
5. Time frame. The research and preparation of the thesis was conducted over an extended period of time from 1995 to 2002. As a result some of the statistics quoted in the thesis are now out-of-date. This does not however, detract from the conclusions drawn from the data collected and the research process.

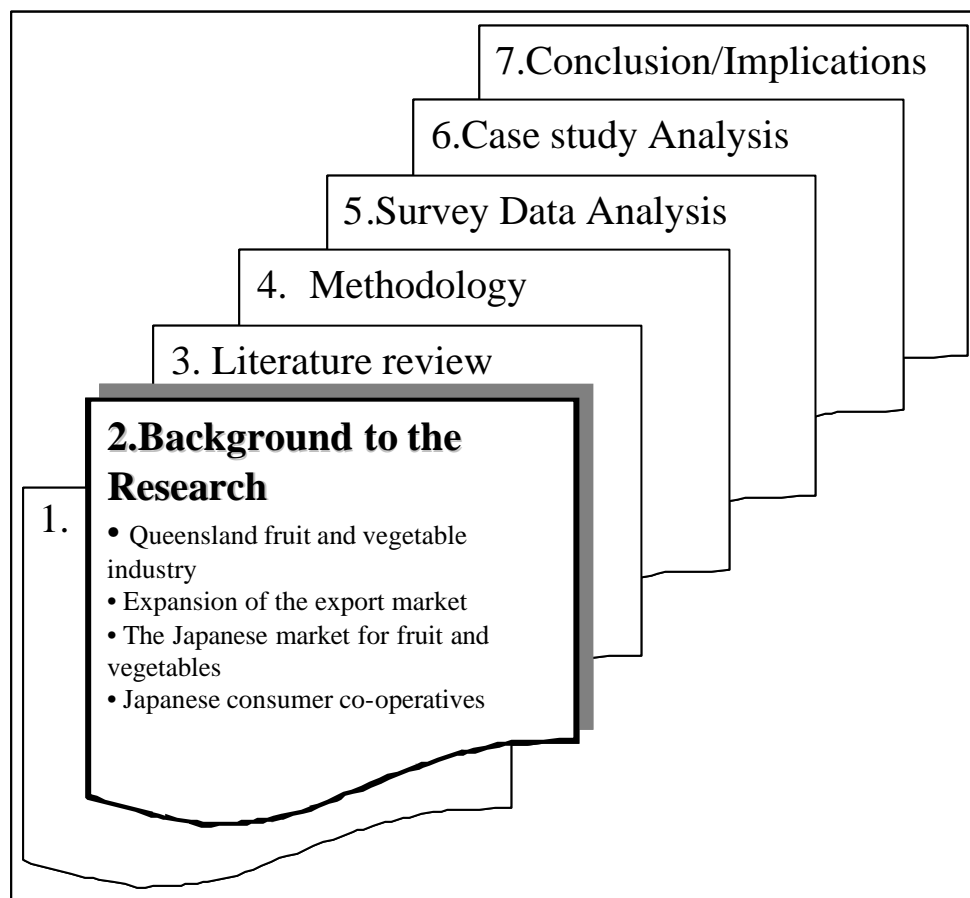
1.5 Conclusion

This chapter has laid the foundations of the research, highlighting the growth in Queensland's horticultural industries and the need to develop new export markets. The importance of the Japanese market and the potential for supply chain and relationship marketing principles to be applied to gain access via the Japanese consumer co-operatives was explored. Based on this background, the research question and related issues were outlined, with justification for the research provided on the basis of the potential commercial value to Queensland industry. The case study methodology was highlighted as the preferred research method. An outline of the seven chapters of the thesis was followed by definitions of the key terms used. Finally the chapter concluded with a discussion of the limitations of the study, including the scope and general applicability of the research results.

CHAPTER 2 BACKGROUND TO THE RESEARCH

To provide background to the research, the growth in the Queensland fruit and vegetable industry is examined, followed by a review of the growth in exports. The Japanese market for fruit and vegetables is investigated, illustrating the environment in which Queensland produce may obtain market entry. Finally an overview of the Japanese co-operative movement is provided to give insight into the potential of the co-operatives as supply chain partners for Queensland companies. (Figure 2.1)

Figure 2.1 Outline of Chapter 2



2.1 The Queensland fruit and vegetable industry

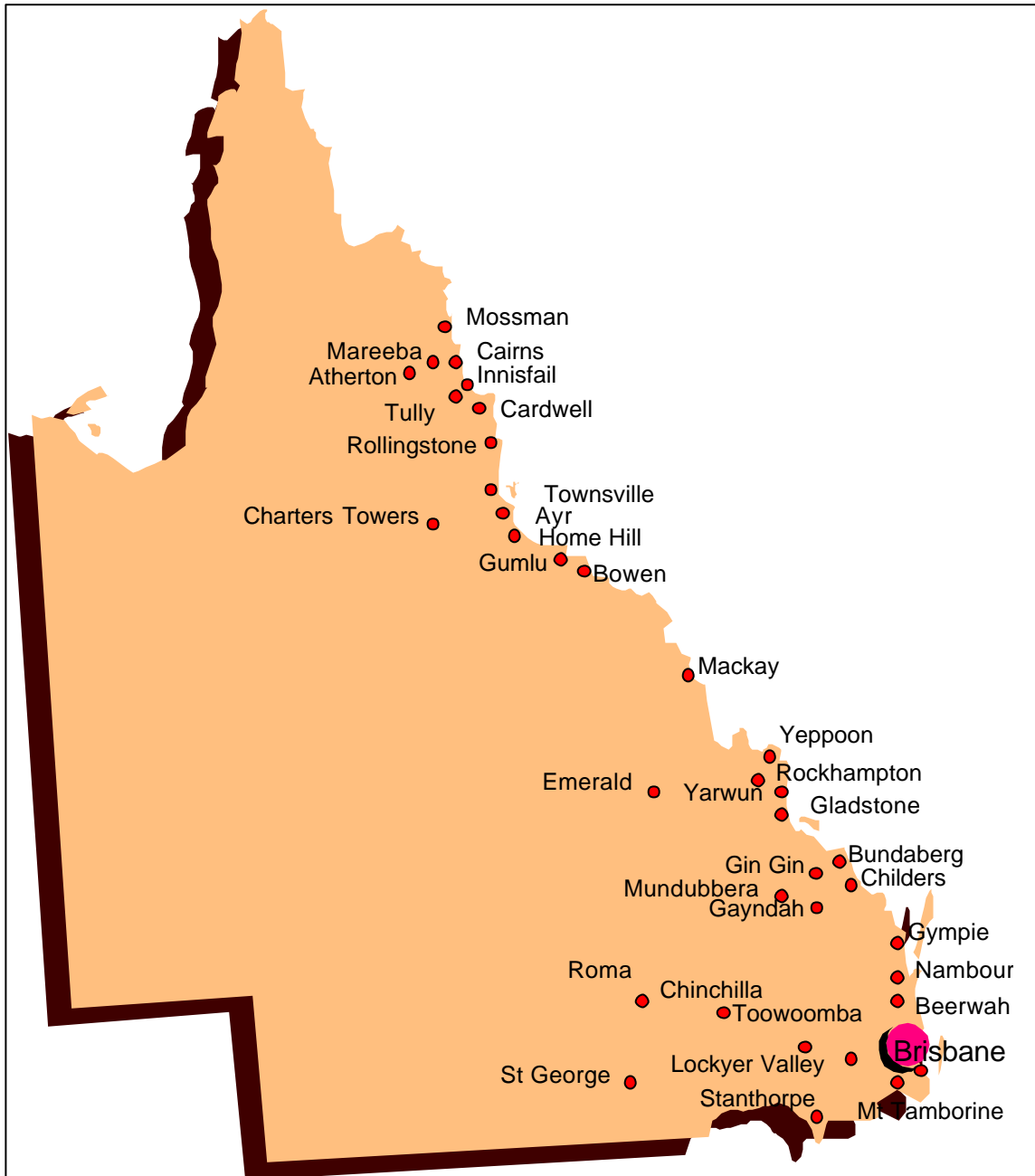
What is the situation with the Queensland fruit and vegetable industry and why should producers be considering export as a marketing strategy for their produce? This section examines the Queensland horticultural industry and the market, both domestically and internationally, to provide an answer to this question.

Queensland is a major producer of fruit and vegetables, growing approximately 30% of Australia's production on a gross value basis. Queensland produces more than 120 types of fruit and vegetables, with a total value of AUD\$900 million. The State leads Australia in the production of tropical crops, bananas, mandarins, pineapples, mangoes, avocados, broccoli, tomatoes and shallots (Queensland Fruit and Vegetable Growers 1999).

Fruit and vegetable production is Queensland's third largest agricultural industry in terms of gross value of production behind cattle (AUD\$1222 million) and sugar (AUD\$1086 million). The major horticultural crops contributing to the gross value of production in 1996/97 were bananas, tomatoes, citrus, mangoes and potatoes (Queensland Fruit and Vegetable Growers 1999).

Queensland fruit and vegetables traditionally have been grown on the eastern coastal and sub-coastal area of the State. However, in recent times there has been increasing production of fruit and vegetables in inland areas. Horticultural products are grown from Coolangatta in the south to Cooktown in the north, spanning a wide range of climates from cool temperate (Stanthorpe) to tropical (Cooktown) (Figure 2.2). As a result, Queensland has the capacity to produce a wide range of crops, and is capable of supplying products over a longer period than many southern States (Reid et al. 1994). Changes in farm practices (greater use of irrigation; new varieties; mechanisation and improved pest and disease control) and expansion into new production areas, have resulted in significant increases in production. Over the ten years from 1986/87 to 1996/97, fruit production more than doubled in value and vegetables increased at an average rate of 6.5 per cent per year.

Figure 2.2 Queensland's Horticultural Production Areas



Source: (Adapted from Queensland Fruit and Vegetable Growers 1999)

By comparison, the total value of commodities (including livestock products) grew by an average of only 5.2 per cent over the same period. In 1986/87 fruits and vegetables represented 12.87 per cent of the total value of production in Queensland; in 1996/97 it had risen to 15.84 per cent. (Table 2.1)

Table 2.1 Gross Value of Production for Queensland, 1986/87 to 1996/97 (\$m)

Commodity	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Fruit:											
Bananas	49.2	62.2	83.1	117.3	145.1	172.6	211.5	133.8	182.7	163.3	140.6
Citrus	30.5	32.4	39.3	41.1	38.8	44.0	50.1	54.2	67.0	64.6	76.2
Pineapples	42.0	41.3	44.4	40.7	37.3	39.0	41.8	45.2	43.3	36.4	39.3
Other	73.8	82.1	99.3	93.8	102.1	112.4	117.6	136.0	167.1	174.2	194.7
Total	195.4	218.0	266.0	292.9	323.2	368.0	421.0	369.3	460.1	438.5	450.8
Vegetables:											
Potatoes	48.3	33.5	43.8	51.6	57.2	54.2	45.0	37.7	47.3	42.5	52.3
Tomatoes	67.1	73.8	101.0	121.2	116.8	102.3	86.5	109.1	102.5	122.6	111.9
Other	137.0	145.6	182.7	216.7	198.6	203.3	218.5	266.5	264.6	271.5	284.0
Total	252.4	252.9	327.5	389.4	372.6	359.7	350.1	413.3	414.4	436.6	448.2

Source: (Queensland Government Statisticians Office 1999)

The bulk of this production is marketed interstate, with an estimated 60 per cent of produce sent across the border, mainly to Sydney and Melbourne (Queensland Government Statisticians Office 1999). Whilst producers have traditionally had a domestic focus, there has been an increasing amount of produce being exported (Table 2.2).

Table 2.2 Value of exports of fruit and vegetables Queensland 1988/89 to 1997/98

Product	Value 1988/89 (AUD\$ millions)	% of total	Value 1997/98 (AUD\$ millions)	% of total
Mandarins	2.23	17.81	14.07	17.23
Mangoes	N/R	0.00	10.61	12.99
Tomatoes	2.31	18.45	7.23	8.85
Broccoli	1.62	12.94	5.15	6.31
Asparagus		0.00	3.92	4.80
Chinese cabbage	0.19	1.52	3.02	3.70
Mushrooms	0.74	5.91	1.66	2.03
Citrus (other than mandarins, lemons or grapefruit)	0.12	0.96	1.62	1.98
Beans	0.48	3.83	1.42	1.74
Delicious apples	N/R	0.00	1.02	1.25
Other fruits	6.41	51.2	19.91	24.38
Other vegetables	4.19	33.47	12.02	14.72
TOTAL	12.52	100.00	81.65	100.00

N/R – Not recorded separately

Source: (Queensland Fruit and Vegetable Growers 1999)

The data shows that there have been significant gains in the exports of fruit and vegetables with increases in most lines. However, there is continued support for expansion of exports from Government and industry as they seek to encourage a dynamic and internationally competitive food industry that will generate new jobs and assist rural and regional Australia (Bourke 1998).

Unless we continue to build our exports out of Australia with improved technology, giving us a large increase in volume coming off our gardens, orchards etc., compounded by very slow population growth, we will oversupply our domestic markets and cause real disasters for Australian producers (Costa 1999, p. 89).

It is clear that development of horticultural exports is a key issue for Government and industry and that the future profitability and growth of horticultural producers and rural communities depends on expanding existing, and establishing new export markets.

2.2 Expansion of the export market

Exports have, for some time, been regarded as important to the long-term viability of Queensland horticultural producers (Reid et al. 1994). As horticultural production increases in Queensland, opportunities for profitable supply to the domestic market diminish and producers must focus on developing and maintaining export markets to sustain returns and diversify markets (Dunne 1991; ABARE 1992).

Not only is export vital to producers' viability, it is also critical to the economies of Queensland and Australia. The Australian food and fibre industries are valued at AUD\$64 billion and employ more than 500,000 Australians. (Supermarket to Asia 2001) Australian export earnings from food in 1998-99 were AUD\$18.7 billion (21 per cent of Australia's merchandise export earnings) and Queensland food exports were worth over \$4 billion, (25 per cent of Queensland merchandise export earnings) (Queensland Government Statisticians Office 2001; Supermarket to Asia 2001). Thus the food industries represent an important part of the Australian and Queensland economies.

Both State and Federal Governments have recognised the importance of exports and have provided dedicated resources to facilitate export development. In addition to providing resources to the major research bodies such as Horticulture Australia and the Rural Industries Research and Development Corporation for export development (Rural

Industries Research and Development Corporation 1993; Horticulture Australia 2002), the Prime Ministers' Supermarket to Asia Council was established in September 1996;

To provide the leadership and drive necessary to achieve success in export markets with a clear focus on Asia, where the opportunities are considerable (Bourke 1997, p. 1).

The Queensland Government has also made the development of exports one of its key priorities (Queensland Government 1999).

Growth in the value of Queensland horticultural exports averaged 57 per cent a year over the period from 1988/89 to 1998/99. Whilst exports represented only 9 per cent of the total value of production in 1998/99 significant gains have been made in export sales with exports rising from 2 per cent of total production in 1988/89 (Queensland Government Statisticians Office 2001).

The markets of Asia are a key focus for Australian and Queensland food exports. The Asian food market is estimated to be worth AUD \$700 billion with an annual growth rate of AUD \$20 billion (Supermarket to Asia 2001). The share of Australia's food exports taken by Asia rose from 49 per cent (AUD\$4.8 billion) to 64 per cent between 1991-92 and 1995-96. They fell to 56 per cent (AUD\$10.47 billion) in 1998-99 following the 1997 collapse of some Asian economies including Korea, Malaysia and Indonesia but have risen again with their recovery (Supermarket to Asia 2001). The largest and most important market is Japan, taking 37 per cent of our food exports to Asia.

Queensland accounts for only 1.5 per cent of the food imports into the Asian region so, given the size and diversity of the market, and its rapid rate of growth, there is considerable potential to increase market share and for expansion of Queensland's export earnings (Supermarket to Asia 1998).

2.3 The Japanese market for fruit and vegetables

Japan is the most important Asian economy to Australia. It has the second largest economy in the world behind that of the United States of America and, with a Gross Domestic Product of more than AUD\$7 trillion, the Japanese market is very important to Australia's future. Japan has a per capita income of US\$30,200 (1998) and accounts for some 15% of world Gross Domestic Product (GDP) and 70% of East Asian GDP.

(Department of Foreign Affairs and Trade 2000) Japan buys more than one fifth of Australian exports and supplies more than one sixth of Australian imports (East Asia Analytical Unit 1997). In 1998-99, total exports to Japan exceeded AUD\$18 billion, having fallen from a peak of AUD\$19 billion in 1997-98.

Despite a slowing down in its economy since the ‘burst’ of the economic ‘bubble’ in the early 1990’s, Japan’s share of Australia’s food exports has continued to be approximately 40 per cent, higher than that of any other country. Japan’s growth rate slipped from a high in 1988 of 6.2 per cent down to –2.5 per cent in 1998. After a return to a positive growth rate of 0.2 per cent in 1999, Japan is expected to continue to grow at a modest rate (Department of Foreign Affairs and Trade 2000).

Over the last three decades, Japan has not only become Australia’s largest trading partner (East Asia Analytical Unit 1997), it has also become Queensland’s largest trading partner although its importance has declined during the last few years. In the ten-year period from 1988/89 to 1997/98, Queensland exports increased in value from AUD\$3.4 billion to AUD\$4.6 billion. However, over the same period Japan’s share of Queensland exports fell from 37.7 per cent to 28.6 per cent, in value terms (Queensland Government Statisticians Office 1999).¹ Despite this, most observers believe that there is significant room for expansion of Australian and Queensland exports to Japan (Department of Foreign Affairs and Trade 1993; Jolly and Bredin 1995; Pan 1995; Welch et al. 1995; Asian Business Review 1997; East Asia Analytical Unit 1997; USDA Foreign Agricultural Service 1997a).

Fruit and vegetables are a small component (AUD\$15.4 million – 13.3 per cent in 1997/98) of the total food imports into Japan from Queensland. However the Japanese market for imported product is steadily growing. For example, Japan consumes about 17 million tonnes of vegetables each year of which over 2 million tonnes is imported. The import rate doubled during the 1990’s and is expected to increase as domestic production continues to decline (Japanese External Trade and Research Organisation 1998a). Despite the fact that consumption of fresh fruit and vegetables is dropping with the rise in consumption of convenience foods, the gap between demand and domestic supply is widening, creating opportunities for exporting countries such as Australia

¹ This decline is mainly due to expansion of exports into other Asian markets such as Hong Kong, China and Singapore.

(USDA Foreign Agricultural Service 1997b). Factors both internal and external to the Japanese economy suggest that this trend is likely to continue.

A key factor is the Japanese self-sufficiency ratio – the ability of Japanese agricultural production to meet the food needs of the nation. The Japanese self-sufficiency ratios for fruit and vegetables are rapidly declining and the area under agricultural production has dropped to 4.83 million hectares, down from 5.36 million hectares in 1986 (Ministry of Agriculture Forestry and Fisheries 1999). Between 1985 and 1995 the self-sufficiency ratios for vegetables dropped from 95 to 85 per cent and from 77 to 45 per cent for fruit (East Asia Analytical Unit 1997). One of the major demographic reasons for this is the rapidly ageing farming population.

Sixty three per cent of male farmers are over the age of 60 and 79 per cent are over the age of 50. It is expected that Japan will lose 1.2 million farmers over the next ten years from a total core population of 1.9 million. With only 2000 farmers entering farming each year, the sector faces a severe labour shortage in the near future (USDA Foreign Agricultural Service 1997b). Consequently, production of vegetables that require a large labour input and physical strength is in decline. Projections for the population show that the situation will only get worse as the birth rate continues to decline and the average age of farmers rises (Asahi Shimbun 1999).

Changes to the Japanese distribution system, import regulations and the retail sector have also contributed to the decline in self-sufficiency and increased the potential market for Australian products. These changes have increased the competitive pressures on Japanese retailers and food options available for Japanese consumers (USDA Foreign Agricultural Service 1997a; Japanese External Trade and Research Organisation 1998b; Riethmuller 1998). Key changes include;

- The signing of the Agricultural Agreement as part of Uruguay Round of the General Agreement on Tariffs and Trade in 1994
- The abolition of the Large Scale Retail Store Law in December 1997 which restricted store sizes and limited the penetration of large supermarkets
- The introduction of discount stores in the early 1990's (the so-called 'category killers') and
- The 'bursting' of the economic bubble in the early 1990's.

As a result, import barriers have reduced, competition in the retail food sector has increased and Japanese consumers have become more price conscious, seeking high quality at reasonable prices (Riethmuller 1994b; Jolly and Bredin 1995; Guided Business Research 1996; USDA Foreign Agricultural Service 1997b).

The Japanese market for vegetables and fruit represents a key growth market for Queensland horticultural producers.

2.3.1 Vegetables

Vegetables are an important part of the Japanese diet. Changes to diet and lifestyle, an increasing amount of Westernised foods and an increase in the number of working women (requiring more convenient foods such as frozen vegetables), have led to a steady decline in the volume of vegetables consumed over the last four decades (Vinning 1993a; USDA Foreign Agricultural Service 1995; Japanese External Trade and Research Organisation 1998a). Per capita consumption of vegetables was 116.3 kilograms per person in 1967, 117 kilograms per person in 1987 and approximately 100 kilograms in 1998 (Vinning 1993a; Japanese External Trade and Research Organisation 1998a).

Recent analyses have shown that the decline in weight of vegetables consumed is also due in part to a change in the type of vegetables eaten. Traditionally Japanese consumers have eaten the heavier vegetables such as Chinese cabbage, potatoes, white radish (*daikon*), taro, burdock and onions. As the amount of meat and fish has increased in the diet, consumers have switched to the Western green and leafy vegetables such as broccoli, cauliflower, celery and lettuce (Vinning 1993a). These vegetables also offer some perceived health benefits. Demand trends include a decrease in household consumption and an increase in industrial consumption of vegetables; an increase in demand for local fresh vegetables, organically grown vegetables and year round supplies. Supermarket sales of pre-cut vegetables in two to three person servings and an increase in the variety of vegetables available have also been evident over the last few years (Japanese External Trade and Research Organisation 1998a).

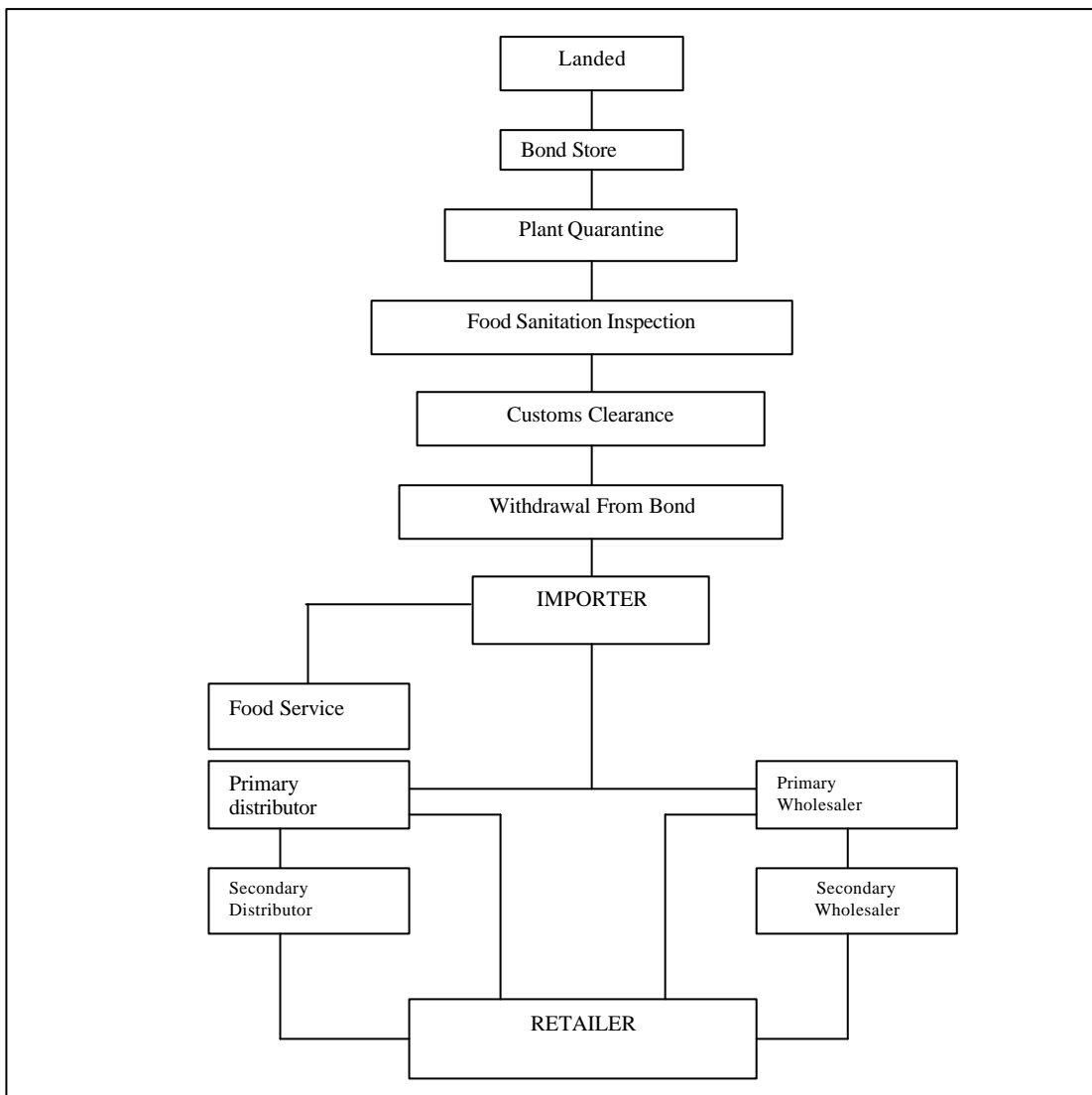
These changes, in conjunction with declines in domestic production of vegetables, have ensured that the demand for imported vegetables has been strong and rising consistently. Imports doubled in the 1990's and now exceed 2.4 million tonnes. The

share of the domestic market has also grown steadily. In 1992 only two imported vegetables (ginger and asparagus) had a share of over 30%. By 1996 soybeans, broccoli and pumpkins also had shares exceeding 30% (Japanese External Trade and Research Organisation 1998a).

Imported vegetables have therefore developed a strong place in Japanese consumption, despite the relatively high overall self-sufficiency rate of local production. With imported vegetables increasing in value at an average growth rate of around 14 to 18 per cent a year, this is an expanding market that Queensland producers may enter. Further, many of the vegetables for which demand is rapidly increasing can be supplied from Queensland during periods when Japanese domestic supply is low. Fresh products such as onions, broccoli, asparagus, pumpkins, sweet corn, green soybeans and carrots can all be supplied from Queensland farms during the off season period of production in Japan.

The distribution system for fresh imported vegetables is different to that for domestic products. Whilst most domestic produce is sold directly to the supermarkets or by auction through the wholesale markets, imported produce is almost exclusively imported by trading companies and sold directly to the primary wholesalers (Vinning 1993a; USDA Foreign Agricultural Service 1995; Japanese External Trade and Research Organisation 1998a). As shown in Figure 2.3, imported vegetables can follow a number of paths once they have passed customs and quarantine inspection.

The major importers are trading houses or *soga shoshas* such as Mitsui, Mitsubishi and Nitchiku. In addition to ensuring that products pass through all the necessary import procedures they may also arrange for production of the product in the exporting country; transport to Japan and distribution within Japan. They often provide their customers with detailed information on the production of the product and provide services to their customers such as in-market intelligence, finance and wholesaling services. They are also often affiliated with primary and secondary wholesalers and the transport companies delivering products to the food service sector and supermarkets. Usually the trading companies take ownership of the product and may pay the suppliers before they receive payment from their Japanese customers (Vinning 1993a).

Figure 2.3 Distribution channels for imported fresh vegetables

Source: (Vinning 1993a)

Some retailers (such as Daiei and Ito Yokado) have developed their own importing and wholesaling arms to ensure that their specifications are met. For smaller retailers this entails a much greater level of risk and management skills due to the need to handle larger quantities and to be able to manage international transactions. A trend in recent years has been for some retailers to arrange for production to specifications in the exporting country and to use the skills and expertise of the trading companies to expedite delivery and import of the goods. In this case the trading company may not take the ownership of the product, instead acting as a broker (USDA Foreign Agricultural Service 1995).

2.3.2 Fruit

Japanese consumers do not regard fruit as a staple part of their diet. Fruit is traditionally viewed as a luxury item and is often used for gifts, desserts and special occasions (USDA Foreign Agricultural Service 1995). Japanese Ministry of Health and Welfare data shows that fruit consumption per person almost doubled in the period from 1960 to 1980 (79.6 grams per person per day up to 155.2 grams per person per day) dropping back to 118 grams per person per day in 1996 (Asahi Shimbun 1999). The main reasons given for this decline are the comparatively high cost of fruit relative to other foods; competition from new desserts and a growing availability of reasonably priced fruit juices (Asahi Shimbun 1999).

Despite the overall decline in fruit consumption, there are a number of important changes in the market which have created opportunities for imported produce. The key ones are the increasing demand for year round supply of fruit and the demand by consumers for new and exotic fruits. Whilst there have been significant declines in the consumption of watermelons, *mikan* oranges, pears and grapes, other fruits such as persimmons, bananas, grapefruit, strawberries, peaches, melons and cherries have all increased or remained stable. Other fruits which have developed in the Japanese market over the last ten to fifteen years are avocados, kiwi fruit, papaws and berry fruits (Miyauchi 1994). Mangoes are one Queensland product which has taken advantage of the change in Japanese dietary preferences, and become a major export product.

Seasonality of fruit consumption has been an important factor in the demand for fruit in Japan. Japanese consumers have traditionally sought fruit when it is at its freshest and most delicious having an 'emotional preference' for products bought in season. However, the availability of fruit over longer periods due to imports; greater efficiencies in the handling of fruit which enables it to remain fresher for longer, and the change in Japanese diet to a more Western style, has resulted in less emphasis being placed on seasonality. This is particularly the case for imported fruits (such as pineapples, bananas, and kiwifruit) which have no historical basis in the Japanese diet (USDA Foreign Agricultural Service 1995).

Table 2.3 illustrates the seasonal preferences of Japanese consumers for fruit.

Table 2.3 Perceived seasons for fruit - Japan

Season	Fruit
Spring	Strawberries
Summer	Melons, pineapples, cherries, peaches
Autumn	Japanese persimmon (<i>kaki</i>), Japanese pear (<i>nashi</i>), grapes, apples, loquats, chestnuts
Winter	<i>Mikan</i> oranges, navel oranges
Year-round	Bananas, oranges, grapefruit, kiwifruit, “hot house” <i>mikan</i> , pawpaws, mangoes

Source: (USDA Foreign Agricultural Service 1995)

Imported fruit represents more than 53 per cent of consumption, with the major imported fruits (in volume terms) being bananas, grapefruit, oranges, pineapples, lemons, kiwi fruit, and grapes. There is an ever increasing demand for new and foreign fruit, and different forms of fruit such as fruit juices and processed fruits (Miyauchi 1994). Consumers’ willingness to try new products creates opportunities for Queensland producers who grow a wide range of tropical and sub-tropical fruits not commonly grown in Japan out of season with Northern Hemisphere production periods.

A major hurdle to be overcome, however, is the strict quarantine regulations enforced by Japanese authorities. In particular, restrictions on the import of products from areas subject to Queensland and Mediterranean fruit fly severely limit the export of Queensland fresh fruits to Japan. The development of suitable protocols for products such as mangoes and mandarins using vapour heat treatment and cold storage treatments respectively, have demonstrated that this problem can be overcome for Queensland producers.

Miyauchi (1994) identified the following characteristics of fruit as critical to their success in the Japanese market:

- Good nutritional value: Survey respondents said that they considered nutrition as more important than taste and price.
- Taste (Sweetness): Consumers prefer products that are sweet. It is not uncommon for supermarkets to feature products with their Brix content (a measure of the sugar content) prominently displayed beside details of the source and price. ‘Acid’ or ‘sour’ fruits are not popular with most consumers.
- Ease of consumption: Japanese consumers (who like to eat fresh fruit simply, with the skin peeled off and/or sliced), prefer fruits such as bananas, apples, grapes and kiwi fruit that are relatively easy to eat and handle.

- Presentation: The Japanese are said to ‘eat with their eyes’. The appearance of fruit (colour, shape and blemishes) is important. This is also a key factor because fruit is often used as a gift (presented individually wrapped) for colleagues and superiors. Fruit may also have its appearance enhanced (such as cupids on the skin of an apple for gift giving on St Valentines Day) to increase appeal to the consumer.

Other researchers have also found that consumers are concerned about:

- Freshness: Local products are preferred because they are said to be fresher. Maintenance of product freshness during transit is an important factor in the success of imported fruit products. Japanese consumers prefer to eat fruit fresh, although there is an increasing demand for processed products such as frozen fruit and vegetables both in the supermarket and the food service industries (USDA Foreign Agricultural Service 1995).
- Product safety: Japanese consumers are very conscious of product safety and will give preference to products that have been grown without chemicals (organic) or with reduced chemical usage (Ada and Kawasaki 1997).
- Product quality: As fruit is a ‘luxury item’, product quality (appearance, freshness, taste and attention to detail) is an important factor in the purchase. Another quality that is considered by the consumer is the source of the product, with preference often given to locally produced products (USDA Foreign Agricultural Service 1995; Ada and Kawasaki 1997).
- Price: Consumers have become more price conscious due to the economic downturn in the economy. However price is not an overriding consideration in fruit purchase, as it may be in the purchase of staple products such as vegetables (Ada and Kawasaki 1997).

Queensland producers must take these factors into consideration when developing export options to Japan. They affect the selection of not only the variety and production methods, but also the choice of transport, distribution and marketing methods (Miyauchi 1994; USDA Foreign Agricultural Service 1995).

2.4 Japanese consumer co-operatives

One sector of the Japanese food retail and distribution system that has responded to the economic and social changes in Japan is the Japanese consumer co-operative movement, which is the largest food retail group in Japan. The group has an annual turnover of more than AUD\$49 billion; membership of more than 19 million and access to over 25 million of the 40 million households in Japan (Japanese Consumer Co-operative Union 2001). Despite their size and importance, the available information (in English) on the market requirements of Japanese consumer co-operatives is limited. References to the co-operatives as part of the distribution system are made in the literature by researchers (Jussaume 1991; Vinning 1993b; Riethmuller 1994b; Riethmuller 1994a; Riethmuller and Tsuchiya 1994; Guided Business Research 1995; Jolly and Bredin 1995). Limited information is available on the operations of the co-operatives in publications produced by the Japanese Consumer Co-operative Union (Japanese Consumer Co-operative Union 1997) and on a home page established on the internet by the JCCU. A detailed document produced on the Japanese market by the East Asia Analytical Unit of the Department of Foreign Affairs and Trade (East Asia Analytical Unit 1997) contains only scant information on the co-operatives.

Comprehensive studies of the co-operatives provide detailed information on their philosophy, history and operations. Recent studies provide some details on the co-operatives' market requirements, product mix, attitudes to imported products or supply chain relationships (Nomura 1993; Ada and Kawasaki 1997; Department of Primary Industries 1997; Ada 2000). There is however, a gap in available published information on the specific product requirements of the consumer co-operatives, their attitudes to expansion of the sale of imported products, supply chains used and potential market entry strategies.

2.4.1 The Japanese distribution system and co-operatives

Rapid changes have been taking place in Japanese retail and distribution systems. Along with declines in the number of retail and wholesale firms, larger retailers are establishing their own distribution systems and restructuring their distribution channels. Japan's distribution system has in the past been seen as a major impediment to trade and singled out for criticism by many countries, including the US and the European Union. The East Asia Analytical Unit of the Australian Department of Foreign Affairs and

Trade described the system's 'notorious inefficiency and support for the status quo' and 'characterised by excessive regulation and protection' (East Asia Analytical Unit 1997, p. 251). However, Japanese authorities see its development into a multi-layered system with a plethora of primary and secondary wholesalers and retailers, as a result of the Japanese consumer's desire to shop locally and to buy small amounts at more frequent intervals (Japanese External Trade and Research Organisation 1998b).

Features of the distribution system have been:

- A large number of retail stores (12.9 per 100 people in 1991 versus 10.1 per 100 people in Australia);
- Many layers in the distribution chain (primary and secondary wholesalers with a ratio of 3.5 to 4.5 wholesale sales units to retail sales units compared to around 1 for the US) and,
- The tied relationships between wholesalers and retailers (*keiretsu*) (Riethmuller 1994b).

However, changes to Government policy and economic conditions, have forced significant changes in the food distribution system. The main changes have been the rise in the size and power of supermarkets and convenience stores. Between 1991 and 1994, sales of supermarkets and convenience stores grew from 23.2 per cent of retail sales to 27.1 per cent while their store numbers increased by around 18 per cent. During the same period, total store numbers decreased from 1,605,583 to 1,499,948 (Riethmuller 1998). By 1997 store numbers had further declined to 1,419,685 (Asahi Shimbun 1999).

Studies by the Guided Business Research Unit in Osaka have shown that the growth in purchasing power of the supermarkets has given them the ability to alter the food distribution system. This has changed the balance and the relationships between the traditional members of the distribution channels (Guided Business Research 1996). Researchers have also noted there is an increase in direct importation of food by supermarkets, bypassing wholesalers and the wholesale markets (Riethmuller 1994c; FAS Online 1996; Guided Business Research 1996). Supermarkets now have the option of using the wholesale markets only to cover shortages in products imported directly, or to use them to make regular purchases, leaving potential exporters three options for sales to the Japanese market;

1. Selling to an importer at a fixed price
2. Selling to an importer on a commission basis
3. Selling directly to end users, including bigger supermarkets and manufacturers (Guided Business Research 1995).

The purchase of products directly from producers is an important feature of the operations and philosophy of the Japanese Consumer Co-operatives and their rapid growth has been an outstanding feature of the changes to the food distribution system. Japanese consumer co-operatives currently account for some 2.7 per cent of total retail sales and are the largest food retailers with around 7 per cent of the food market (Japanese Consumer Co-operative Union 1999).

The Japanese consumer co-operative movement has a history dating back to the late 19th Century. The first co-operative was established in 1889 and was based on the English Rochdale Co-operative model. The co-operatives were established to improve the welfare of their members and have now become an important part of Japanese society. As Riethmuller notes, they fit well into a society that favours mutual aid and co-operation (Riethmuller 1994a, p. 522). The co-operatives struggled through the years prior to World War II. Following the war, their numbers grew rapidly as people sought to organise to buy food directly from producers. This tradition of buying directly from producers has continued in the modern co-operatives and is a key feature of their operations (Ada and Kawasaki 1997).

During the rapid development of Japan during the 1960's the co-operatives also grew and developed. However it has been the last ten to fifteen years in which they have seen their most spectacular rates of growth. In 1985, co-operative membership was 9.2 million members and total turnover was ¥1,691 billion. By 1997, membership had grown to 18.6 million members (up by 102 per cent) and turnover had increased to ¥3294 billion (up by 95 per cent) (Japanese Consumer Co-operative Union 2001). Over the same period total retail sales increased from ¥101,719 billion to ¥147,754 billion, an increase of 45.24 per cent (Asahi Shimbun 1999). Despite difficult times for the retailers in recent years, the co-operatives have continued to grow both in membership and turnover. Their philosophies and ideals are consumer oriented and have provided the foundation of their success (Guided Business Research 1995).

Co-operatives are now the largest consumer organisation in Japan with operations extending to retail stores, insurance, funeral services, travel, holiday resorts, education facilities, hospitals, housing and community activities (Ada and Kawasaki 1997).

There are approximately 650 co-operatives spread throughout Japan. The largest are the regional (retail or citizens) co-operatives that account for over 80 per cent of the total turnover of the co-operatives (Japanese Consumer Co-operative Union 2001). Each Prefecture or State in Japan has at least one major regional co-operative. These regional co-operatives specialise in the provision of food and daily household goods to members through their 2,400 outlets, and directly to consumers who are members of their *Han* or neighbourhood groups.

The *Han* groups form the basis of the democratic system in the co-operatives. They provide the co-operatives with direct feedback on products and the policies of the co-operatives. It has been claimed that the *Han* groups are primarily responsible for the rapid growth of co-operatives during the 1970's and 1980's (Ada and Kawasaki 1997)

Although each co-operative operates as an independent entity, the majority of co-operatives belong to the Tokyo based Japanese Consumer Co-operative Union (JCCU) which was established in 1951. The JCCU provides a number of important functions including co-ordination of member activities at a national level; management support for co-operatives and supply of the nationally recognised co-operative brand products. The JCCU is one of the largest food wholesalers in Japan. Through its subsidiary Co-op Trade Japan, it has established trading relationships with co-operatives and businesses in 25 countries (Japanese Consumer Co-operative Union 2000a).

The philosophy of the co-operatives is very important to their operations. In their effort to provide members with a better quality of life, the focus of the co-operatives has become the provision of safe and natural foods, and they draw many of their customers because of their attention to safety and reliability of their products (Riethmuller 1994a; Guided Business Research 1995; Ada and Kawasaki 1997). The consumer co-operatives have developed their own food standards that they contend are stricter than national standards (Jussaume 1991). They also maintain their own testing laboratories and set strict conditions for the production of both fresh and processed foods, particularly those produced for the Co-op Brand label. The co-operatives have

over 9000 private brand products and continue to develop additive and artificial colouring-free products. Guided Business Research notes that;

low cost, high quality products are not necessarily the key to market entry in this area. The fundamental criteria are safety and reliability together with favourable price and quality (Guided Business Research 1995, p. 58).

The environment is also an issue for many co-operatives. For example the Seikatsu Club Consumer Co-operative in Tokyo uses glass wherever possible for the cheap, chemical free milk it provides to members, because glass is easier to recycle (Riethmuller 1994a). Most other co-operatives encourage their members to recycle and they promote products that are produced in environmentally sound ways. Incentives offered by the co-operative supermarkets to cut back on the usage of plastic bags for shopping, were estimated to reduce the number of plastic bags used by 290 million. This reduced carbon dioxide emissions by an estimated 1,230 tonnes (Japanese Consumer Co-operative Union 2000b).

Guided Business Research notes that:

The special characteristics and policies of consumer co-operatives appear to make it an attractive outlet for many products...entry to the Japanese retail market using the citizen co-op distribution system may be ideal for niche products...furthermore, products that are seen to be beneficial to personal health and to the environment may also have an edge (Guided Business Research 1995, p. 58-59).

2.5 Conclusion

This chapter has demonstrated that there is a need for the Queensland horticultural industries to develop new international markets and that the Japanese market continues to provide opportunities for Queensland producers. A particular sector identified as a large potential opportunity for Queensland producers was the Japanese consumer co-operatives. The search of the literature has also shown that the co-operatives purchase directly from producers and have special requirements for products and of their suppliers, however only limited information exists to assist potential Queensland exporters.

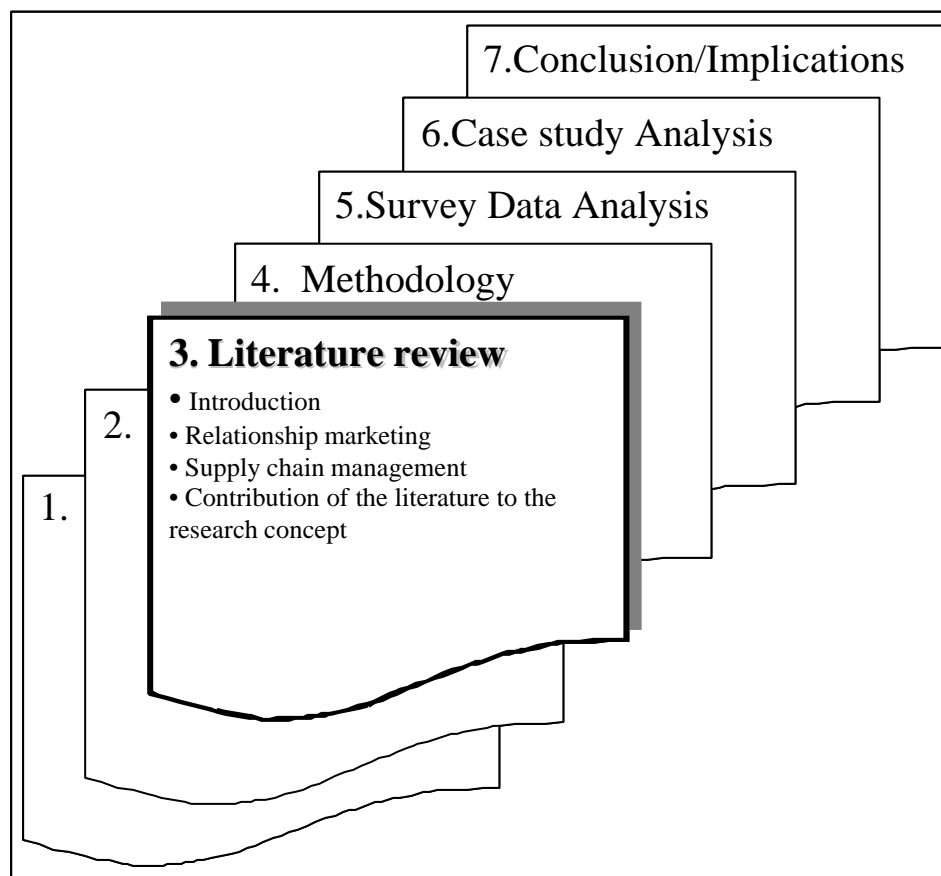
CHAPTER 3 LITERATURE REVIEW

3.1 Introduction

This chapter builds the theoretical foundation on which the research is based. This literature review provides detailed background to the research; information on how others have approached this problem; and validates that the research issues are important and justifies the approach taken.

Relationship marketing and supply chain management are discussed as these form the theoretical basis for a firm to gain competitive advantage. The relationships in the Japanese distribution system are reviewed. The operations of the consumer co-operatives are placed in the context of supply chain management and the potential for Queensland producers to enter this market. An outline of the chapter is shown in Figure 3.1.

Figure 3.1 Outline of Chapter 3



3.2 Relationship marketing

Relationship marketing refers to establishing, developing, and maintaining successful relational exchanges (Frazier 1999, p. 231). The term has become widely used to refer to both business-to-business and business to customer exchanges.

Relationship marketing is not a new concept. 'Relationships between buyers and sellers have existed since humans began trading goods and services' (Wilson 1995, p. 335). Indeed Palmer (1996) notes that relational transactions were a feature of exchange between textile manufacturers in Victorian England. They continue to be a fundamental feature of exchange in many eastern cultures.

Rapid industrialisation in western economies, and the development of distribution systems which placed greater distance in space and time between buyer and seller, diminished the importance of relationships and increased the emphasis on adversarial, price based transactional exchanges (Palmer 1997).

However, over the last fifteen years there has been an increased emphasis on the relational aspects of exchanges between buyers and sellers and a realisation that the effectiveness and efficiency of marketing channels is affected by the relationship between the participants (Wilson 1995; Berman 1996; Bowersox and Closs 1996; Gronroos 1997; Palmer 1997; Healy et al. 2001).

Many reasons are given in the literature for the rise in the popularity of relationship marketing. These include;

- Recognition among chain or channel partners that long-term relationships, trust and sharing of information is necessary to secure the advantages of electronic data interchange (EDI) and Just in Time inventory management (Berman 1996).
- Globalisation of business and the recognition of the importance of customer retention (Gronroos 1997).
- The need to compete effectively in global markets by targeting marketing efforts more closely and developing capabilities to produce high value-added products (Campbell 1998).
- Recognition that to compete effectively firms need to be good co-operators (O'Keefe 1998).

- That ‘one of the roles for marketing in the 1990’s is to focus on managing strategic partnerships and positioning the firm in the value chain with the ultimate aim of delivering superior value to the consumer’ (Hogarth-Scott and Dapiran 1997).
- The perceived advantages of long-term relationships including price/production stability, enhanced marketing efficiency, optimal capacity planning and customer orientation (Berman 1996).

These reasons are summarised by Palmer (1996) who states that;

The increasingly competitive nature of markets has resulted in good product quality alone being inadequate for a company to gain competitive advantage – superior ongoing relationships with customers supplement a firm’s competitive advantage; and the emergence of powerful user friendly databases has enabled large companies to know more about their customers, recreating in a computer what the small business owner knew in his or her head (Palmer 1996, p. 19).

Gronroos (1997) sees the development of relationship marketing as a return to customer focussed marketing, arguing that the marketing mix theory constituted a production oriented definition of marketing and not a market oriented or customer oriented one. Drawing a clear distinction between transaction marketing and relationship marketing he notes that relationship marketing is focussed on building relationships with customers. It is at one end of the marketing strategy continuum, while transaction marketing is focussed on one transaction at a time and is at the other end of the continuum.

The key attributes of transactional and relationship marketing, according to Berman (1996), are summarised in Table 3.1

Table 3.1 Differences between transactional marketing and relationship marketing

Attribute	Transactional marketing	Relationship Marketing
Analysis perspective	Single transaction	Multiple transactions
Time perspective	Short term	Long term
Measurement of customer satisfaction	Ad hoc measurement	Ongoing
Transaction cost perspective	Single transaction	Multiple transactions
Marketing focus	One-time sale	Buyer loyalty
Number of suppliers	Many	Few
Nature of exchange relationship	Ad hoc exchange	Pre-planned exchange
Customer understanding	Independent buyer and seller	Interdependent buyer and seller
Switching costs	Low	High
Nature of goals	Individual	Shared
Benefit to customer	Higher service/price mix than competitor	Long-term problem solving
Marketing emphasis	Get new customers	Keep present customers
Trust	Low	High
Commitment	Low	High
Level of communication	Low	High

Source: (Berman 1996, p. 205)

The clear emphasis in relationship marketing is on pursuing and developing longer-term relationships between buyers and sellers that are based on trust and commitment (Morgan and Hunt 1994). Key features are shared values, trust, mutual respect, mutual benefit, effective communications, honest feedback, co-operation, flexibility, understanding and relationship commitment (Berman 1996, p. 204). Whilst outlining the main attributes of the two extremes, there is recognition of the fact that there are levels of relationship marketing, and that relationships may exhibit some but not all of the attributes shown in Table 3.1.

Berman (1996) defines three levels of relationship,

- Level 1: Relationships are based on financial benefits to the customer and do not have a special social relationship. The bond to the customer is basically a lower price or an upgraded service.
- Level 2: Relationships add social relationships and a medium level of service customisation to the price based relationship. A level two relationship is more difficult for a new competitor to copy than a level one relationship.
- Level 3: Relationships are characterised by high levels of service customisation as well as structural change in the customer relationship. A firm usually has level three relationships with only a small number of its customers. Level three relationships represent the highest level of competitive advantage and are most difficult for competitors to copy.

In contrast O’Keeffe (1994) ignores the Level one relationship in summarising two stages of relationships based on the work of Wilson (1995).

- Stage 1: Relationship in which strong buyer seller relationships develop over time and is characterised by customer satisfaction, social bonds and trust.
- Stage 2: Relationship with structural bonds that tie the two firms together such as irretrievable investments made by each partner, social pressure to maintain the relationship and contractual barriers.

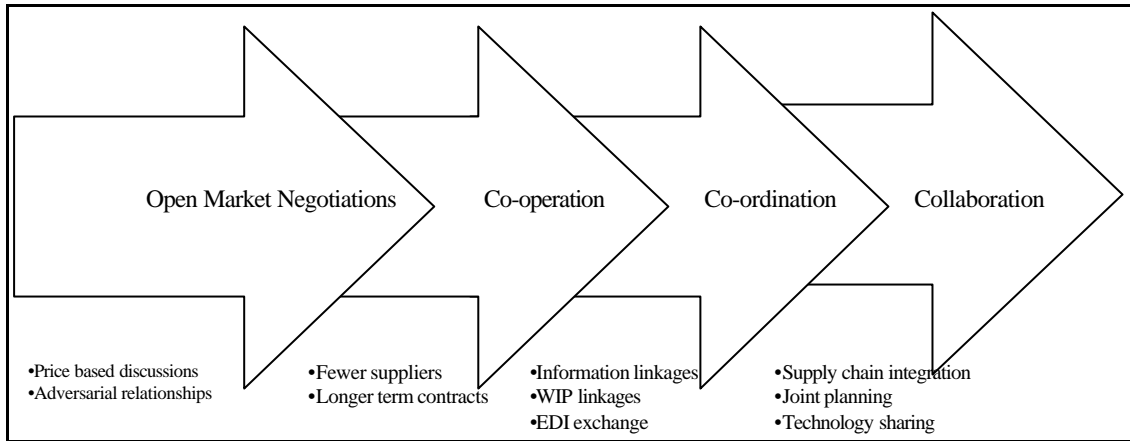
These stages correspond closely with the Level 2 and Level 3 relationships outlined by Berman (1996).

Particular elements of the relationship marketing model may also be present in relationships to varying degrees. Gronroos (1997), in defining relationship marketing, notes that relationships between customers and other partners are commonly but not always, long term. This is qualified by noting that long term relationships enable both parties to learn best how to interact, leading to decreasing relationship costs (Gronroos 1997, p. 6).

Spekman et al (1998) recognise that relationships evolve as the level of intensity between the trading partners increases (Figure 3.2). Co-operation is seen as the starting point and a necessary condition for relationship development. At the next level of intensity is co-ordination whereby specified workflow and information are exchanged

allowing such activities as Just in Time, Electronic Data Interchange and other mechanisms to make the linkages between the firms seamless. The next and final step to collaboration requires a strong foundation of trust and commitment.

Figure 3.2 The key transition from open-market negotiations to collaboration



Source: (Spekman et al. 1998, p. 57)

Bowersox and Closs (1996, p. 107) support this model concluding that there are eight factors that create successful business relationships;

- **Individual excellence:** both partners are strong and have something of value to contribute to the relationship. They have positive motives for entering into the relationship (eg to pursue future opportunities).
- **Importance:** The relationship fits major strategic objectives of the partners, so they want to make it work. Partners have long-term goals in which the relationship plays a key role.
- **Interdependence:** The partners need each other. They have complementary assets and skills. Neither can accomplish alone what both can do together.
- **Investment:** The partners invest in each other (for example, through equity swaps, cross-ownership, or mutual board service) to demonstrate their respective stakes in the relationship and each other. They show tangible signs of long-term commitment by devoting financial and other resources to the relationship.
- **Information:** Communication is reasonably open. Partners share information required to make the relationship work, including their objectives and goals, technical data and knowledge of conflicts, trouble spots or changing situations.

- **Integration:** The partners develop linkages and shared ways of operating so they can work together smoothly. They build broad connections between many people at many organisational levels. Partners become both teachers and learners.
- **Institutionalisation:** The relationship is given formal status, with clear responsibilities and decision processes. It extends beyond the particular people who formed it, and cannot be broken on a whim.
- **Integrity:** The partners behave toward each other in honourable ways that justify and enhance mutual trust. They do not abuse the information they gain, nor do they undermine each other.

Wilson (1995) observes that the importance of relationship factors change over time as the relationship develops and matures. For example, trust, performance and satisfaction are key active constructs during the period when firms are selecting partners and defining the purpose of the relationship, however:

We expect that variables such as trust, performance and satisfaction become latent in the maintenance of the relationship phase (Wilson 1995, p. 343)

Lambert et. al. (1996, p. 2) summarise by defining a relationship based partnership as

...a tailored business relationship based on mutual trust, openness, shared risk and shared rewards that yields a competitive advantage, resulting in business performance greater than would be achieved by the firms individually.

They further define a model for partnerships that has three major elements: drivers, facilitators and components. (Table 3.2.)

Table 3.2 Parts of the partnership model

Drivers (Compelling reasons to partner)	Facilitators (Supportive environmental factors that enhance partnership growth)	Components (Joint activities and processes that build and sustain the partnership)
Asset/cost efficiencies	Corporate compatibility	Joint planning
Customer service	Managerial philosophy and techniques	Joint operating controls
Marketing advantage	Mutuality	Communications
Profit stability/Growth	Symmetry	Risk/reward sharing
	Exclusivity	Trust and commitment
	Shared competitors	Contract style
	Close proximity	Scope
	Prior history	Financial investment
	Shared end user	

Source: Adapted from Lambert et. al. (1996)

Thus the literature suggests that firms may add value and decrease costs, and gain competitive advantage by developing closer relationships between firms, and between firms and customers. However there are limitations to the application of the model.

3.2.1 The limitations of relationship marketing

Relationship marketing theory provides a strong model for the development of closer integration between businesses and customers as a means of gaining competitive advantage. However it is unrealistic to assume that relational exchanges will, or should, completely replace transactional exchanges. There are a limited number of relationship marketing exchanges that any supplier or buyer can maintain and the cost of establishing high levels of relationships may, in fact, exceed the benefits (Berman 1996). Palmer (1996) suggests that in practice, relational exchange is not universally applicable nor always the most appropriate method of securing profitability. Circumstances where transactional exchange is more appropriate include,

- Where there is no reason why the buyer would ever return to the seller
- Where buyers seek to avoid becoming dependent on a seller
- Where buying becomes formalised in such a way as to prevent the seller developing relationships based on social bonds
- Where buyers' confidence lowers the need for risk reduction
- Where the costs associated with relationship development put a firm at a cost disadvantage in a price sensitive market
- Where relationships have been associated with anti-competitive practices which limit buyers' choice. (Palmer 1996, p. 20)

These limitations imply that any firm will maintain both transactional and relational exchanges (at various levels) depending on the market being serviced and their perception of the requirements to meet the market. 'The decision to use a given form of exchange relationship should be based on an analysis of customer and supplier attributes, as well as on an examination of the products sold' (Berman 1996, p. 213).

Thus individual firms must assess the most appropriate form of transaction for their circumstances and products. While the adversarial approach to business-to-business exchanges results in companies seeking to achieve cost reductions or profit

improvement, it is at the expense of their supply chain partners. This transfer of costs upstream or downstream does not make the chain any more competitive. Ultimately all costs make their way to the final market place and are reflected in the price to the end-user (Martin 1994).

The focus of relationship marketing is on the firm-to-firm relationships and not adding value for the total supply chain from producer to consumer. However it is a key component of supply chain marketing because as Spekman et al (1998, p. 53) note 'it is only through close collaborative linkages through the entire supply chain, can one fully achieve the benefits of cost reduction and revenue enhancing behaviours.'

3.3 Supply chain management

To compete effectively in global markets, exporters need to develop the capabilities to produce high value-added products and to target their marketing efforts more closely. This requires more than just relationship marketing but demands closer linkages with suppliers and with customers (Campbell 1998; Dunne 2001).

Supply chain management (SCM) has emerged during the 1990's as the basis of developing these closer linkages between suppliers, producers and customers.

It is increasingly recognised worldwide and belatedly in Australia, that export success depends on the co-operative strength of the whole supply chain, from producer to consumer (Gifford et al. 1998, p. 5).

Researchers now argue that a collaborative relationship between all the members (rather than just firm to firm) of the supply chain is essential to achieve the full benefits of cost reductions and revenue enhancing behaviours (added value), and that the real competition is between supply chains and not company against company (Martin 1994; Campbell 1998; Gifford et al. 1998; Spekman et al. 1998). Supply chain management is 'simply the most practically and intellectually significant theme within current managerial and economic research' (New 1997, p. 15).

Supply chain management practice has been embraced by a number of different disciplines including logistics management marketing channel management, operations management, transaction economics, Efficient Consumer Response (ECR), relationship marketing and partnership development (Martin 1994; Fernie 1995; Akermanns et al. 1999).

The paradigm of supply chain management was developed in the United States following studies of the Japanese business practices and their non-confrontational ways of conducting exchanges. The concept is built on the theories of the firm and Porter's value chain optimisation and networking approach (Wilson 1996a). The history can be traced back to the quick response program in the textile industry (1984) and Efficient Consumer Response in the grocery industry in 1993. Both these industry programs focussed on developing partnerships between suppliers and retailers to share information and respond more quickly to consumer needs (Lummus and Vokurka 1999). However, despite the increasing use of the term supply chain management, there is still no precise definition (Akermanns et al. 1999).

Lummus and Vokurka summarise the definitions from a wide range of sources concluding that the supply chain is:

all the activities involved in delivering a product from raw material through to the customer including sourcing raw materials and parts, manufacturing and assembly, warehousing and inventory tracking, order entry and order management, distribution across all channels, delivery to the customer and the information systems necessary to monitor all of these activities. Supply chain management,...co-ordinates and integrates all of these activities into a seamless process. It links all the partners in the chain including departments within an organisation and the external partners including suppliers, carriers, third party companies, and information systems providers (Lummus and Vokurka (1999, p. 11).

Wilson (1996b, p. 9) introduces some economic and social variables seeing supply chain management as 'a networking approach to value chain optimisation, integrating the best of the value-creating competencies of all the actors'.

Gifford (1998) succinctly defines supply chain management as

An integrated approach that aims to satisfy the expectations of consumers, through continual improvement of processes and relationships that support the efficient development and flow of products and services from producer to consumer (Gifford (1998, p. 8)

The additional concepts of collaboration, competitive advantage and customer value are introduced by Spekman et al (1998, p. 54) in referring to supply chain management as 'These attempts at integrating this value-added network to achieve both customer value and competitive advantage'.

Thus the definitions vary according to the perspective of the discipline of the writer. However the various definitions highlight the key elements of supply chains and supply chain management and can be summarised as;

- Linkages of companies from producers to consumers with a focussed consumer orientation
- Collaboration/co-operation between members of the supply chain, rather than the 'traditional' adversarial approach
- Networks of companies adding value for consumers
- Sustainable competitive advantage for members of the supply chain with the focus of competition between supply chains, not between the individual companies
- Greater economic efficiency and long term profitability through reducing costs, reducing stock levels and more responsive (to consumer demand) companies
- Stronger relationships between companies and with consumers
- Product differentiation through participation in the supply chain and supply chain management.

Supply chains have become an important issue in the 1990's as firms seek to improve efficiency and their competitive position through innovation, differentiation and increased customer satisfaction (Dunne 2001). Supply chain management is more critical as companies become increasingly specialised and less vertically integrated. It becomes more important for companies to manage the entire network from supplier to consumer in order to optimise overall performance. Increased national and international competition has given consumers greater choice; increased the risks of holding large inventories of product and led to a much more dynamic marketplace. Maximum customer accessibility and minimum cost are crucial to success. Firms realise that maximising performance in one department or function may lead to less than optimal performance for the whole company (Lummus and Vokurka 1999).

Martin (1994) sees the most pressing issues impacting on supply chain management and the logistics environment to be:

- The customer service explosion: Consumers are becoming more demanding of product quality and service. The need is to create differential advantage through added value – customer service and providing consistent *time and place utility* - products in the hands of the consumers at the time and place required.
- Time compression: Shorter product life cycles call for better feedback from the marketplace and a responsive research and development, production and procurement system.
- Globalisation of industry: Global businesses source materials and components worldwide, manufacture and sell in many countries and provide local customisation of their products.

As a result it has become important for firms to expertly manage their supply chains.

Supply chain management is a paradigm shift that provides a new appreciation of the concepts of co-operation and competition. Co-operation is no longer just between individual trading partners, but exists along the whole of the supply chain (and between supply chains). The resulting network of interrelated firms seeks competitive and strategic advantage for the whole supply chain (Spekman et al. 1998).

The ultimate objective should be to improve the overall market. In theory, the final product should be better. It should be produced at a lower cost, provide value for money, with long term innovation combined with improved service and enhanced consumer satisfaction (Wilson 1996a).

However, achieving effective supply chain management is recognised as being difficult. In particular the difficulties of establishing and maintaining relationships and partnerships is highlighted. SCM theory is not relevant to all firms and market situations and as the world is complex, the variables influencing the supply chain cannot be analysed in isolation. Wilson (1996b) notes that partnerships are notoriously difficult to manage and co-operation will only endure as long as there is a mutually competitive advantage (Wilson 1996b, p. 11).

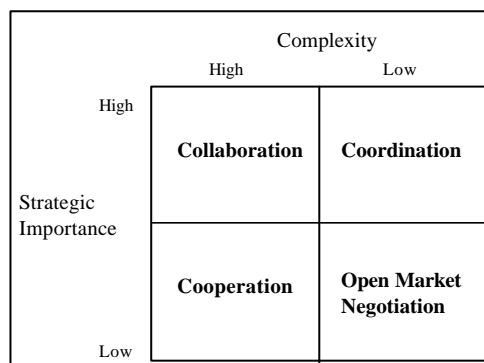
Spekman et al (1998, p. 65), in conducting an empirical analysis of supply chain relationships, concludes that 'it is not surprising that supply chain practices are difficult

to implement'. Buyers are reluctant players and are far more sceptical about the benefits of supply chain management than sellers. Shared vision and goals between buyers and sellers are seen as critical to collaborative partnerships and firms must select both partners and supply chain strategies carefully.

The road from open market negotiations to co-operation to co-ordination and to collaboration is a long one and should not be travelled by each and every buyer-seller relationship (Spekman et al. 1998, p. 66).

The relationship between complexity and strategic importance in supply chain management is illustrated in Figure 3.3.

Figure 3.3 Supply chain management strategy



Source: (Spekman et al. 1998, p. 66)

Open (or spot) market negotiation is the least strategically important and the least complex supply chain management strategy. Collaboration is the most important and complex strategy, as well as the hardest to achieve. Fernie (1995) supports this view stating that to achieve greater profitability (cost reductions and improved sales) throughout the supply chain, collaboration is required between suppliers and retailers. Important enablers for this collaboration are reciprocal trust and product stability, adoption and implementation of information technology and management commitment. Akermans et al (1999) identify the key roadblocks to integrated supply chain management as;

- Taking a short rather than a long-term view,
- Partners in the supply chain holding different beliefs and goals,
- Partners not seeing the need for open exchange of information,
- 'Functional silos' within organisations which prevent 'out of the box' thinking

- Lack of top management support, partially due to the lack of visibility of logistics costs and benefits
- A lack of vision by sales staff.

This study showed that the international dimension was not identified as a major obstacle to SCM.

Other studies have found that SCM in the agri-food industries can facilitate access to international markets (Gifford et al. 1998; Hobbs et al. 1998). Hobbs, Kerr and Klein (1998) noted that SCM was a key to obtaining access to the Japanese market for the Danish pork industry. Co-operation between different sectors of the pork supply chain enabled the industry to effectively manage production and processing so that Danish pork could be clearly differentiated in the market place.

Wilson (1996a; 1996b) observed that SCM has become important in the supply of perishable products in northern Europe. Supply chain management has become an important competitive tool in a market;

- Where there is relatively slow growth;
- Where consumers are demanding that fresh produce be available all year round;
- Where the supermarkets dominate and supply lines are becoming increasingly concentrated and
- Where food safety and animal welfare have become major issues and there is pressure on retailers to have a closely monitored audit trail.

Fearne (1998) confirms that the drive for development of partnerships in the UK beef supply chain is based on changing consumer demand, food safety, a concentrated and competitive retail sector and the 1997 Bovine Spongiform Encephalitis (BSE) food scare. This example highlights the value of SCM in Identity Preservation – ensuring that product delivered to the consumer is the same as that grown specifically for that market by the primary producer.

3.3.1 Application of relationship marketing and SCM to export markets

Few researchers have explored the impact of cross-culture, cross-national trading on relationship marketing and SCM. However in evaluating the development of co-operative relationships between domestic suppliers and international customers, Campbell (1998) found that the principles of relationship marketing applied equally to both situations and that co-operative customer and supplier relationships need to be managed in the same way.

Co-operation takes time to develop, especially with international customers. Cultural difficulties may impede the development of trust with foreign firms, however once trust is established, it acts to safeguard both a firm's customer and supplier relationships. To successfully compete, exporters need to evaluate their needs for co-operation, their potential suppliers and customers, and initiate behaviours that foster long-term trust.

Campbell (1998) reflects on the paucity of information available noting that understanding 'how exporters use channel relationships to improve their competitiveness and provide more value-added to their international customers is a priority for future research' (Campbell 1998, p. 34).

3.3.2 Relationship marketing and SCM in the Japanese market

'Working with Japanese firms and customers is done not on a transaction basis, but rather on a relationship basis' (Czinkota and Woronoff 1993, p. 179). Foreign companies and researchers have seen the internal relationships between Japanese firms, as both a strength of the business system and a non-tariff trade barrier or 'conspiracy to achieve worldwide dominance of industry' (Abegglen and Stalk 1992; Czinkota and Woronoff 1993; East Asia Analytical Unit 1997).

An example, and one of the most contentious of the Japanese business relationships is described by the term *keiretsu*, of which there are three main forms; financial *keiretsu*, distribution *keiretsu* and vertical *keiretsu* (East Asia Analytical Unit 1997).

Essentially firms within a *keiretsu* share some ownership and contribute to a final product, but function with complete autonomy. Inter company co-operation is based on closely co-ordinated research and development, production scheduling and quality

control (East Asia Analytical Unit 1997). The *keiretsu* is contentious because the close relationships between *keiretsu* members are seen as shutting out new foreign and domestic suppliers, impeding competition and providing corporate stability and a longer-term outlook that gives Japanese firms a competitive advantage.

The *keiretsu* contain many of the features of successful supply chain relationships, including sharing of technical and market information, reduced inventories and reduced management costs (East Asia Analytical Unit 1997, p. 224). In the food distribution system, the *keiretsu* provides advantages to participants by supplying reliable information on consumer trends and avoiding the costs associated with constantly forming and breaking business relationships (Riethmuller 1994b). Whilst it is difficult to determine the full extent of *keiretsu* arrangements, a survey in 1986 revealed that approximately 22 per cent of wholesalers belonged to a *keiretsu* (Riethmuller 1994b, p. 521). The widespread presence of the *keiretsu* in Japanese business provides a clear lead to businesses wishing to enter the market – relationships are an important factor in Japanese business.

It is well recognised that, in the Japanese market, relationship development is a key to success.

From the initial contact to the establishment of actual operations, one must remember that the relationship between partners is a foremost consideration for the Japanese business person. ...foreign business people eyeing the Japanese market must keep in mind that leading Japanese firms expend tremendous amounts of effort and time in developing and maintaining long-term business relationship (Japanese External Trade and Research Organisation 1999).

The formation of these relationships must therefore become a prime focus for firms wishing to export to Japan. This requires exporters to be patient, persistent and willing to do their 'homework'.

Japanese consumer co-operatives also rely heavily on the development of relationships between the co-operatives and members, and the co-operatives and their suppliers. A specialised form of these supply chain relationships is highlighted in the *sanchoku*, or direct delivery system.

Sanchoku is described 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 co-operate with producers; operate contracted production with producers; and challenge to solve the above problems. Secondly – in the present society where there is the trend to split consumers and producers, and consumers are becoming stronger – a means to strengthen the links between producers and consumers. The basic principles of *sanchoku* are that:

- The origin of the product and the producer must be clear to the consumer
- The method of production must be clear to the consumer
- Exchanges between producers and consumers must occur (Suhara 1994)

In this system, producers are contracted to grow products specifically for the co-operatives on the basis that the co-operative members know who the producers are and that there are regular information exchanges between producers and consumers (Ada and Kawasaki 1997; Japanese Consumer Co-operative Union 1999). Co-operatives encourage their members to visit farms to discuss the production system with the producer, and also encourage producers to visit co-operative stores to speak to members about their produce. The relationship is mutually beneficial ensuring 'safe' product to the co-operatives and a stable market with stable prices, to the producer.

It is estimated that around 20 per cent of all fresh products sold by the co-operatives are supplied directly by producers, producer co-operatives and fisheries co-operatives (Japanese Consumer Co-operative Union 1999). In these cases the consumer co-operative specifies to the producer the type of product required and how this product is to be produced. Commonly the co-operative will specify that the product must be grown with reduced levels of synthetic pesticides and avoid the use of specific pesticides which are known to be particularly harmful to humans or wildlife. Post harvest chemicals are specifically banned by most co-operatives. Producers are given contracts which may guarantee the farmer's cost of production, or at least buffer the farmer against wide variations in the market price (Riethmuller 1994b).

The co-operatives actively promote their *sanchoku* products, displaying details of the farmer and his family and the production system in the stores and in the brochures sent out to the *Han* members. The supply chain between the producer and the consumer is

shortened where possible to ensure that the product is fresh and to reduce the costs of delivery to the co-operatives (Ada and Kawasaki 1997).

Although the focus of the co-operatives is on supply of products from local producers, the pressure on price and lack of domestic supply, especially during the off season, has resulted in the co-operatives extending the *sanchoku* concept to international suppliers. Examples include bananas from the Philippines, shrimp from Indonesia and pumpkins from New Zealand (Riethmuller 1994b; Ada and Kawasaki 1997).

The features and operation of *sanchoku* as outlined in Ada and Kawasaki (1997) are summarised relative to the features of successful supply chains as defined by Bowersox and Closs (1996) in Table 3.3.

Table 3.3 Sanchoku and supply chain relationships

Feature of successful supply chain	Sanchoku operation
Individual excellence – both partners are strong and have something of value to contribute to the relationship.	Producers and producer co-operatives providing production skills to meet consumer demand for safer products
Importance – The relationship fits major strategic objectives of the partners, so they want to make it work.	Producers seeking stable markets and prices and consumer co-operatives looking for stability in supply, pricing and guaranteed quality (safety).
Interdependence – The partners need each other. They have complementary assets and skills.	Producers provide production skills and assets; co-operatives provide marketing skills and consumer feedback.
Investment – The partners invest in each other (for example, through equity swaps, cross-ownership, or mutual board service) to demonstrate their respective stakes in the relationship and each other.	Producers may be co-operative members; in some cases the consumer co-operatives provide resources to assist producers (eg. Organic fertiliser in Saitama)
Information – Communication is reasonably open.	Producers visit co-operative stores to talk to consumers and provide notes with their produce on events during the season. Consumer co-operatives meet regularly with producers to discuss changes to marketing strategies and plans for the coming season. Regular exchanges between producers and consumers are a feature of the operation.
Integration – The partners develop linkages and shared ways of operating so they can work together smoothly.	Pricing is based on shared risk. Low prices in the market are subsidised by the co-operative; higher prices are subsidised by the growers. Producer co-operatives manage supply to assist the consumer co-operatives.
Institutionalisation – The relationship is given formal status, with clear responsibilities and decision processes.	The consumer co-operatives have strong commitment to <i>sanchoku</i> products and producers are given clear recognition and prominence by the co-operatives.
Integrity – The partners behave toward each other in honourable ways that justify and enhance mutual trust.	Contracts are minimal and flexible. Trust is a key part of the relationship reflected in the pricing mechanism and management of over and undersupplies.

Source: Adapted from Bowersox and Closs (1996) and Ada and Kawasaki (1997).

This suggests that *sanchoku* is a specialised form of supply chain management incorporating most of the principles of relationship marketing which may be a potential entry method into the Japanese market. Whilst there are cited examples of international producers developing *sanchoku* style relationships with the co-operatives, (Riethmuller 1994b; Ada and Kawasaki 1997), the literature does not provide detailed information on the basis of these relationships and the parameters on which these relationships developed and are maintained.

3.4 Contribution of the literature to the research concept

Review of the literature on relationship marketing and supply chains has shown that there is a strong theoretical basis for, and practical examples of, establishment of direct supply and relationships between producers and consumers. This provides competitive advantage. Supply chain relationships allow companies to create levels of vertical co-ordination that can assure customer needs are met efficiently and effectively, whilst retaining the profitability of individual companies in the supply chain. Exchanges among chain members become based on a strong relationship and are not solely based on transactional criteria. Trust and commitment are critical to the success of the businesses and the competitive strategy becomes supply chain versus supply chain, rather than firm versus firm. The literature highlights the difficulties in establishing strong supply chain structures and provides a means of assessing the key characteristics of supply chain relationships.

The literature review has shown that changes to the Japanese distribution system, with the introduction of large stores and an increasingly competitive environment, have created new opportunities for market entry by foreign products. There is increasing direct importation by supermarkets and a decrease in the level of control of the distribution system by manufacturers, changing the nature of the supply chains for fresh food and processed products. A key feature of the changes to the distribution system has been the growth in the consumer co-operatives. These have become a major force in food retailing and have developed a market position as a supplier of safe, quality foods. The consumer co-operatives have established direct supply relationships with food producers, both domestically and internationally, and created supply chains that feature close relationships between suppliers, the co-operatives and the consumers. These relationships potentially offer Queensland horticultural producers an opportunity

to enter the Japanese market. However little research has been done to define the nature of these relationships and the characteristics which will assist exporters to gain entry to this large and growing market.

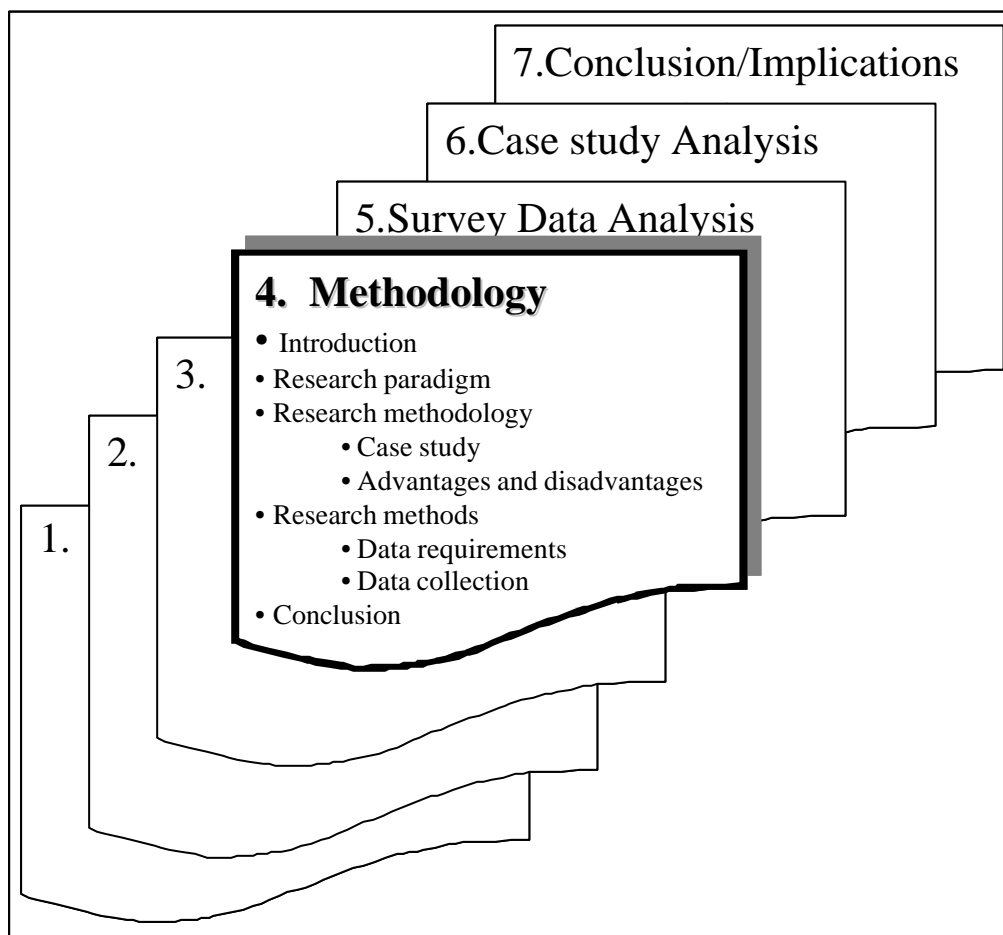
The main contribution of the literature review is in identifying the importance of relationship marketing in supply chain development and maintenance. The literature also emphasises the importance of relationships in Japanese business practice and the need for exporters to understand, not only the distribution system, but also the nature of the relationships between the chain members. Critical to this research is the recognition of the desire of Japanese businesses to establish long-term relationships with both suppliers and customers. As revealed in the review of literature on the consumer co-operatives, the co-operatives have developed a form of supplier plus co-operative plus customer relationship known as *sanchoku*. This is potentially a means by which Queensland horticultural producers may establish long term trading relationships with the co-operatives which may give access and a competitive advantage in the Japanese market. The literature review has shown that there is a gap in the research, which if filled, could materially assist Queensland horticultural producers to target this market.

CHAPTER 4 METHODOLOGY

4.1 Introduction

This chapter discusses the methodology which formed the basis of the research methods used to collect the data and analyse the results. It begins with a justification of the paradigm used in the thesis and concludes with a detailed description of the research methods used. An outline of the chapter is shown in Figure 4.1.

Figure 4.1 Outline of Chapter 4



4.2 Research paradigm

Paradigms are fundamental to the day-to-day work of any discipline. They serve as:

- A guide to the important problems and issues facing the discipline;
- A framework for issues and problems that assist practitioners to solve them;
- Criteria for establishing the appropriate tools, and
- Providing the epistemology in which these tasks can be viewed as organising principles for carrying out the work of the discipline (Deshpande 1983).

Thus the selection of a research paradigm is critical to the design, implementation and interpretation of results for any research project.

Based on the review of the research paradigms it is clear that the relevant paradigm to inform and guide the research in this thesis is the qualitative paradigm (Deshpande 1983; Tsoukas 1989; Patton 1990; Easterby-Smith et al. 1991; Guba and Lincoln 1994).

The characteristics of the qualitative paradigm are outlined in Table 4.1.

Table 4.1 Characteristics of the Qualitative Paradigm

Qualitative Paradigm

1. Qualitative methods preferred
 2. Concerned with understanding human behaviour from the actor's frame of reference
 3. Phenomenological approach
 4. Uncontrolled, naturalistic observational measurement
 5. Subjective; "insider's" perspective; close to the data
 6. Grounded, discovery-oriented, exploratory, expansionist, descriptive, inductive
 7. Process-oriented.
 8. Validity is critical; "real", "rich", and "deep" data.
 9. Holistic – attempts to synthesise
-

Source (Deshpande 1983, p. 103)

Table 4.2 demonstrate the fit of the conduct of this thesis to the paradigm parameters as defined by Patton (1990).

Table 4.2 The fit of the thesis to Patton's themes of qualitative inquiry

Theme	Brief description	Theme in thesis
Naturalistic inquiry	Studying real world situations as they unfold naturally; lack of predetermined constraints or outcomes	The supply chain relationships are studied as they develop in this thesis
Inductive analysis	Exploring the genuinely open questions rather than testing theoretically derived hypotheses	Questionnaires used open questions inviting comments from participants
Holistic perspective	Emphasis on the whole phenomenon under study and interdependencies	The relationships in the supply chain were placed in the context of the co-operative movement and the social, political and economic situation in Japan
Qualitative data	Detailed descriptions capturing peoples' perspective	People's feelings on development of trade with Australia and the relationships between supply chain members were collected
Personal contact and insight	Researcher has direct contact with the phenomenon under study	Face to face interviews, close observation of the operations of the co-operatives and the researcher's experience were incorporated into the analysis
Dynamic systems	Treating inquiry as a process of change	The researcher was closely involved in the process of development of the supply chain, influencing the relationship between co-operatives and the Australian companies
Unique case orientation	Each case is treated as unique and special	Only one case was studied in detail with parameters for the establishment of other relationships based on comparison of the factors influencing direct supply relationships in other co-operatives.
Context sensitivity	Places findings in social, historical and temporal context	The social, cultural and economic conditions affecting the case were outlined in Chapter 2.
Emphatic neutrality	Researcher's passion is understanding not objectivity or subjectivity	Data were collected to provide detailed understanding, with the researcher maintaining a neutral stance on the outcome.
Design flexibility	Adapting approach as understandings or situations emerge	The research questions in the thesis were modified and the data collection extended as more information became available and the subject of the case study developed.

Source: Adapted from Patton (1990)

Selection of the qualitative paradigm for the conduct of this research provides the foundation for the selection of suitable research methodologies with an 'emphasis on

the processes and meanings that are not rigorously examined or measured in terms of amount, intensity or frequency' (Denzin and Lincoln 1994, p. 3)

4.3 Research methodology

Qualitative research is multi-method in focus with the option to combine both qualitative and quantitative methods and to select from a range of methodologies including interview, personal experience, observations and case studies. The aim of this section is to provide justification for the selection of the case study methodology as the primary methodology used in this thesis and an explanation of the advantages and disadvantages of this approach.

4.3.1 Case study research

Case studies are the preferred methodology when “how” and “why” questions are being posed, when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real life context.

Yin (1989) defines case study research to be:

an empirical inquiry that investigates a contemporary phenomenon within its real life context when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used. (Yin 1989, p. 23)

Alternative views of case study research reveal that it is a very flexible and robust methodology that;

- Can be used selectively to meet the three objectives of research - problem solving; development of new theory and testing existing theory. (Sterns et al. 1998, p. 312)
- Can focus on understanding the dynamics present within single settings. (Eisenhardt 1989, p. 534)
- Is pluralistic in its epistemology and eclectic in its methodology, drawing on positivistic, pragmatic, normative and phenomenological philosophies, making it capable of generating a robust, comprehensive array of “knowledge”, of highly interdependent and dynamic economic phenomena.’ (Sterns et al. 1998, p. 316)

Case studies can be explanatory, exploratory and descriptive (Yin 1994). The explanatory case study looks at the cause effect relationships. The descriptive case study aims to present a description of the phenomenon. The exploratory case study is designed to determine the feasibility of desired research procedures or to define the questions or hypotheses of a subsequent study. ((Yin 1993) cited in (Miyauchi 1994))

The research conducted in this thesis is exploratory and descriptive in nature and does not test any existing hypotheses, although it does attempt to provide some explanations for the relationships and the actions of the participants involved in the case study.

4.3.2 Justification for the methodology

Table 4.3 highlights the position of case studies as a research strategy relative to other forms of investigation, as outlined by Yin (1994).

Table 4.3 *Research strategies*

Strategy	Forms of research questions	Requires control over behavioural events?	Focuses on contemporary events?
Experiment	How, why	Yes	Yes
Survey	Who, what, where how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes/no
History	How, why	No	No
Case study	How, why	No	yes

Source: (Yin 1994, p. 6)

Whilst it is noted that case studies can incorporate elements of all the strategies (Eisenhardt 1989), the choice of overall strategy depends on three conditions; (1) the type of research questions; (2) the extent of control the investigator has over events; and (3) the degree of focus there is on contemporary as opposed to historical events. (Yin 1994) In selecting the case study strategy for this thesis, the following factors were taken into consideration:

- **The form of question:** As outlined in Chapter 1, the primary research question is; *Are Japanese Consumer Co-operatives a means of gaining access to the Japanese market for Queensland horticultural products that can create value for all stakeholders?* Yin (1994) specifies that “what” questions may be exploratory (in which case any of the strategies may be used). However, “how” and “why” questions are likely to favour the use of case studies, experiments and histories.

- The extent of control over behavioural events: Experiments are the preferred option when the researcher can manipulate behaviour directly, precisely and systematically. In the case of this research into the Japanese consumer co-operatives, the researcher has little or no control over the behaviour of the phenomenon under study.
- Focus on contemporary events: This research is focussed on the current and planned operations of the consumer co-operatives and supply chains. Whilst the historical events provide some depth and richness to the investigation, the research relies on the elicitation of present attitudes, opinions and operational procedures to provide the picture. Case studies are the preferred strategy for examining contemporary events when relevant behaviours cannot be manipulated. (Yin 1994, p. 7)

4.3.3 Advantages of the case study methodology

For the conduct of this research, the case study methodology offered many advantages:

- Allowing the researcher to explore the research phenomenon within the real life context. Little was known about the operation and attitudes of the consumer co-operatives in relation to imported products, so there was no established theory that could be tested in the research. There was also a clear need to provide some explanation for the phenomenon under study. The case study allowed an extensive amount of information to be collected from a few cases.
- Allowing the researcher to use a range of data collection methods, including surveys, observations and data from external sources.
- Providing useful and useable information that could be readily extended to other businesses considering entering the market. Demonstrated examples of success provide a powerful incentive to potential businesses looking for supply chain opportunities.

4.3.4 Disadvantages of the case study methodology

Yin (1994) identifies the key criticisms of the use of case studies;

- There is the risk that the investigator will not be rigorous and allow equivocal evidence or biased views to influence the direction of findings and the conclusions drawn. In this regard the researcher must work hard to report all the evidence fairly.
- Case studies provide little basis for scientific generalisation. The specific nature of cases and the unique characteristics of an individual case restrict the researcher's ability to draw general conclusions that can be seen to apply to the larger group. This is considered to be a major drawback of case studies by those who subscribe to the positivist paradigm. However, Yin (1994) defends the efficacy of case studies, noting that;

case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes' and that the 'investigators goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation) (Yin 1994, p. 10).

In the case of this research, the goal was to explore and describe the Japanese co-operatives and the relationship with supply chain members, not to draw definitive conclusions about the nature of all relationships between co-operatives and their suppliers.

- Case studies take too long. Considerable resources can be required to conduct case studies with the only output being a massive unreadable document. The requirement to conduct face to face interviews in-market for this research, restricted the number of cases that could be investigated, however the use of triangulating data to verify interview information, assisted in reducing the need to expand the number of co-operatives included in the study.

4.4 Research methods

This section outlines the methods used to address the research questions. As specified in Chapter 1, the thesis aims to answer the following research problem:

Are Japanese Consumer Co-operatives a means of gaining access to the Japanese market for Queensland horticultural products that can create value for all stakeholders?

Three questions emerge in relation to the research problem:

RQ 1: What are the characteristics of the supply chains for imported fruit and vegetables that are preferred by consumer co-operatives?

RQ 2: What are the benefits accruing to the members of the supply chain from a supply chain relationship?

RQ 3: How can a Queensland producer establish and maintain a supply chain relationship with a Japanese consumer co-operative?

4.4.1 Data requirements

The research problem and the three resultant research questions require collection of detailed information on;

- The operations of the Japanese co-operatives, their philosophies and their attitudes and policies for imported fruit and vegetables;
- The nature of supply chains used and preferred by the consumer co-operatives and
- The benefits to horticultural exporters in using relationship based supply chains, when compared to traditional supply channels.

The inquiry necessitates the collection of primary data from the co-operatives in both quantitative and qualitative terms. The data would also be enhanced by the analysis of a supply chain relationship between an Australian horticultural producer and a Japanese consumer co-operative. Some qualitative assessment of the applicability of this supply chain is also required to boost the usefulness of this research to other Australian horticultural producers.

The primary sources of evidence selected for this research were interviews, direct observations and documentation (reports, web pages) from the consumer co-operatives and the case study firm. These multiple sources also provide construct validity (Yin 1994).

Semi structured face-to-face interviews were selected as these provide considerable flexibility in the collection of data. The interviews utilised questionnaires with a combination of quantitative directed questions and non-directive, open-ended questions which focussed on attitudes and personal views. These questions were designed to enable the researcher to capture real, rich and deep data whilst minimising the potential for problems in interpretation of the questions due to language differences. (See Appendix 2)

Through visits both to the Japanese co-operatives and the case study firm, the researcher could physically inspect the products, production and marketing systems as the research was conducted in situ. In concert with the constructivist methodology, direct observations provide for ‘constructions to be elicited and refined through interaction between and among investigator and respondents.’ (Guba and Lincoln 1994, p. 111).

Documentation relevant to the case study would include faxes, brochures, in-store promotion materials, written reports, memos, letters, newspaper clippings, web pages and agendas. All these materials were used to substantiate and support observations and interview data.

4.4.2 Stages of data collection

4.4.2.1 Case study protocol

The key elements of the case study protocol, as outlined by Yin (1994), include an overview of the study, the field procedures to be followed, interview questions and a guide for the research report.

The overview provides the background for the research and the essential issues to be investigated. These are detailed in Chapter 1 of this thesis.

The field procedures provide a clear guide to others on the methods used to gain access to the sites and the context of the research. These must be carefully planned. Yin (1994) specifies four key issues; credentials, access to the site, general sources of information

and procedural reminders. In the case of this research, these issues were addressed as follows;

- Credentials: The researcher's credentials were established through the use of suitable business cards (*meishi*) and, where required, letters of support from senior managers within the Queensland Department of Primary Industries.
- Access to the site: Rapport was developed with staff of Iwate Consumers Co-operative and the Japanese Consumers' Co-operative Union, during the initial exploratory phase of the research carried out in Japan. This rapport provided a significant boost to enable access to the major co-operatives in Japan, with the support of a letter from the Director General of the Queensland Department of Primary Industries (QDPI). The Australian case study firm was approached to take part in establishing the questions for the initial survey, and through this process, both ownership of the survey data and a working relationship was developed with the company.
- General sources of information: The researcher utilised all available sources of information, including the Japanese Consumer Co-operative Union, the QDPI and University of Queensland libraries, Austrade, the Queensland Government offices in Tokyo and industry sources.
- Procedural reminders: A broad outline of the purpose of the interviews was developed prior to each interview that served to prepare the interviewees and the interpreters. In addition, a full interview program, with times and dates of each interview was negotiated well in advance of the in-market research. This was done with the assistance of staff of the Japanese Consumer Co-operative Union and the Queensland Government Office in Tokyo. Timetable flexibility was incorporated to allow for unexpected changes in the program.

The case study questionnaires are included in the appendices (Appendices 2, 4 and 5). They demonstrate the breadth of the investigation and the richness of the data sought during the interview phases.

4.4.2.2 Phases of data collection

The research was divided into four stages:

1. Collection of basic information on the co-operative movement
2. A detailed survey of ten of the major influential co-operatives to establish their modes of operation and philosophies
3. Monitoring of the development of a supply chain relationship between a Japanese co-operative and a Queensland horticultural firm
4. A follow-up survey, based on the results of the previous activities, conducted with some of the co-operatives in the original survey and the case study Queensland firm. This was done to clarify some of the supply chain issues which emerged during the research.

An outline of the timetable of the stages is shown in Table 4.4

Table 4.4 Timetable for research

Research stage	Period of investigation
Collect basic data on consumer co-operatives	January 1993 to December 1995
Set up consultative group and survey preparation	July to December 1996
Undertake survey of consumer co-operatives	February 1997
Monitor development of supply chain relationship	March 1997 to January 2000
Follow-up survey of co-operatives and case study firm	November 1998

4.4.2.3 Phase 1: Collection of basic data on the consumer co-operatives.

An extensive literature search was completed on the operations of the co-operatives. Personal visits were made to some of the co-operatives over a two-year period, with informal discussions held with co-operative staff to establish the basis of the co-operative philosophy, basic operational methods and the potential for trade between consumer co-operatives and Queensland producers. This phase of the research was critical as it established the basis on which further work could be undertaken and also gave the researcher the credibility and contacts necessary to conduct the co-operative survey. The co-operation of co-operative staff was a key ingredient to the success of this stage of the research. It would not have been possible to gain access to the co-operatives and the staff, without their support. A published report completed after this phase of the project details the findings from this exploratory stage. (Ada and

Kawasaki 1997) This information provided the insight required to design the first questionnaire. (Appendix 2)

4.4.2.4 Phase 2: Formal survey of co-operatives.

Due to the anticipated language and cultural differences, personal interviews were selected as the preferred instrument to maximise the response rate. The time and budget for the in-market visit restricted the numbers of co-operatives which could be interviewed, but allowed the researcher to personally observe the products in the market and to develop a personal relationship with the interviewees.

To assist with this stage of the research, six Queensland horticultural producers who were potential suppliers were selected. A widely advertised expression of interest process was used to attract the broadest possible group of suitable producers (application form - Appendix 1). These producers were asked to assist with questionnaire design and to provide feedback on the approach to be taken with the Japanese co-operatives. The questionnaire was also developed and tested with the assistance of staff of one of the Japanese co-operatives with which the researcher had developed a close relationship.

Based on input from the Queensland companies and the previous exploratory research, a questionnaire (Appendix 2) was developed around a number of key areas of interest:

- Co-operative policy on imports
- Co-operative specification for products
- Co-operative attitudes to *sanchoku*-like transactions conducted internationally (Direct transactions between the co-operatives and international producers)
- Types of products currently imported and expected future growth

The questionnaire was refined in discussion with the business participants and the draft forwarded to a co-operative employee in Japan for testing. On the basis of this consultation and testing, modifications and refinements were made to the questionnaire. The final questionnaire was then translated into Japanese and distributed, with the cooperation of the JCCU, to the targeted consumer co-operatives.

The co-operatives were forwarded the questionnaire one to two months prior to the scheduled interviews with an outline of the project (Appendix 3). This enabled them to have a clear understanding of the issues, prepare responses for the personal interview session and collate statistical data on co-operative operations, level of imports and total sales figures.

The use of relatively open-ended questions enhanced the effectiveness of the questionnaire by not severely restricting the scope of the answers and reducing the potential for misunderstanding. All interviews were conducted in Japanese with the assistance of interpreters from the co-operatives, Austrade and the Queensland Government office in Tokyo.

Ten Japanese co-operatives were selected to provide information to represent the 479 retail co-operatives throughout Japan. Co-operatives included in the research were selected according to four primary criteria:

1. Type of operation: – regional retail. Only regional retail co-operatives were included in the study because the regional² retail co-operatives represent 80% of the total turnover of consumer co-operatives in Japan. Based on the

² Whilst these co-ops are classified as ‘regional’, many are located within the larger cities and service the regions surrounding these cities.

JCCU classification, regional retail co-operatives provide a wide range of goods to their members including fresh foods, daily necessities and household goods.

2. Size of operation: – annual turnover and membership. Based on annual turnover and membership, the nine largest regional retail co-operatives were included in the survey (JCCU, 1996a). These co-operatives were considered by the JCCU to be some of the most influential in the co-operative movement. They form key parts of co-operative federations such as K-Net (Co-op Kobe), U Co-op Federation (Co-op Kanagawa), SUNNET (Miyagi Co-op) and F Co-op Federation (Fukuoka) (various co-operative staff, pers. comm.). Because of their size and scale of operations, the co-operatives had the potential to import directly and establish direct overseas links. These co-operatives were regarded by the JCCU as being leaders and the most progressive and innovative.
3. Location – adequately represent Japan. One goal of the survey was to determine if there were differences between co-operatives (e.g. regional differences between policy, structure, or products) and to explore the opportunities to export directly into the large regional areas of Japan. The nine largest co-operatives were well distributed throughout the archipelago, being based from Fukuoka in the south to Sapporo in the north.
4. Access – research time constraints. The in-market research had to be completed within a three-week period to meet budgetary constraints on the project. The support of the Rural Industries Research and Development Corporation was a vital component in the research enabling the interviews to be conducted in person, and across a range of co-operatives in geographically distant areas of Japan. Within the budget constraints, the maximum possible number of co-operatives was interviewed. In addition to the larger co-operatives, one medium sized co-operative (Iwate Co-op) and the Japanese Consumers' Co-operative Union were included in the survey. Iwate Co-op was included, as the researcher had developed a close relationship with staff of this co-operative during the initial phase of the research. Iwate Co-op was also a suitable choice to represent the perspective of a smaller co-operative and to compare how well the larger co-operatives

reflected general opinion. The JCCU was included to represent the perspective of an importer, wholesaler and a coordinator of the co-operative movement.

Development of the interview schedule was completed with the assistance of the Japanese Consumer Co-operative Union and staff of Iwate Consumers Co-operative. Prior to visiting Japan, JCCU staff (International Section) organised interview times and dates with survey participants. (Contacts list – Appendix 6)

All interviews were conducted over a two to three hour period in the offices of each of the co-operatives. Each co-operative assisted by providing access to their facilities - including stores, testing laboratories, administration and distribution centres. In all cases the co-operative senior buying staff were interviewed in Japanese, with the assistance of skilled interpreters from the Queensland Government office in Tokyo and Austrade officers in Sapporo, Fukuoka and Osaka. Iwate Consumers' Co-op also provided assistance with many of the interviews, as well as assisting with reviewing the data collected from the co-operatives and helping to ensure that the data set was as complete as possible. The skills and knowledge of the interpreters was important in ensuring accurate translation. Questionnaires sent to the co-operatives prior to the interviews were collected and discussed.

Handwritten notes were taken during interviews and other relevant materials were provided by the co-operatives. Most co-operatives had completed the questionnaire and filled in the statistical data section. A second researcher took part in the interviews, completing independent notes as a detailed record. This provided partial triangulation of the data. A hand held tape recorder also assisted in verifying the data collected during the interviews.

Data collected during the first interviews was compiled and sent back to the interviewees for clarification and to test for accuracy. Data collected was also scrutinised by Mr Hiroto Kawasaki from Iwate Co-op who provided comment on the issues raised.

Quantitative data was analysed using simple statistical measures including range and average. Qualitative data was summarised and through the process of induction, patterns and categories inferred from the data were compiled.

4.4.2.5 Phase 3: - Case Study of a Supply Chain

The development of a supply chain between an Australian horticultural producer and a Japanese consumer co-operative was monitored. Within the real life context of the research, the researcher was able to assist with this development. It was monitored over two years and the case study reported in this thesis. The Queensland company was also asked to complete a similar questionnaire to that given to the co-operatives during the second set of interviews (Appendix 5), to elicit their views on the relationship and the importance of some key parameters. This supply chain was analysed with inferences drawn on its general applicability to the co-operative movement, based on the responses from the survey of the co-operatives

4.4.2.6 Follow-up interviews of co-operatives

A second series of interviews was undertaken two years after the first with a selected group of the original co-operatives to obtain more detailed information on the co-operative attitudes and operations and to attempt to quantify the key supply chain parameters for each of the co-operatives. This survey utilised the experience gathered during the first set of interviews and the monitoring of the development of the supply chain relationship between the Queensland company and Iwate Consumer's co-operative. The procedures used in the first survey were followed, however only five of the original co-operatives were interviewed as this survey was conducted over a one-week period and budgetary constraints prohibited coverage of all of the co-operatives. A copy of the questionnaire is in Appendix 4.

4.5 Conclusion

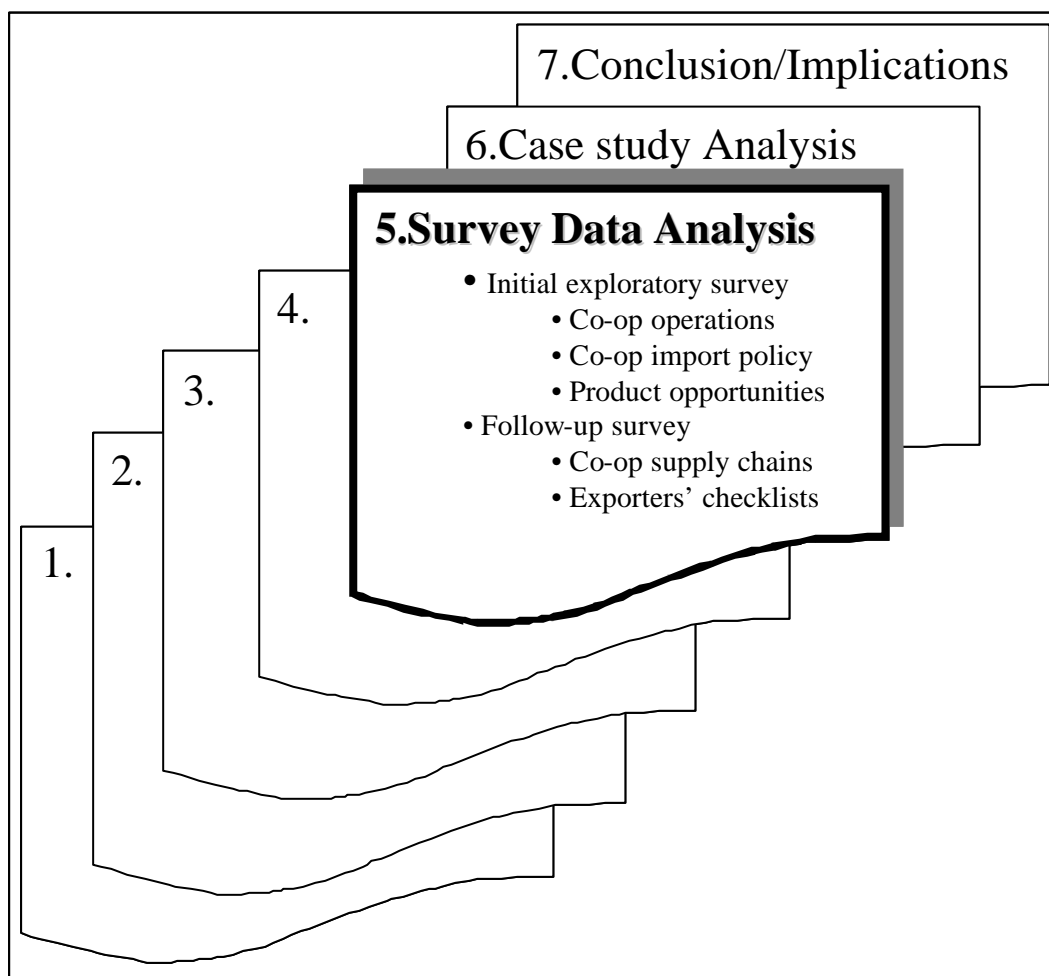
This chapter reviewed the research paradigms, settling on qualitative inquiry as the most appropriate for this research. The case study methodology was then justified as the most suitable to provide an answer to the research problem and resultant research issues raised in Chapter 1. The research methods were clarified and described within the context of the research paradigm.

CHAPTER 5 SURVEY DATA ANALYSIS

5.1 Introduction

Chapter 4 described the methods used to collect the data for the research problem. The data analysis is divided into two chapters. Chapter 5 analyses the data collected from the two surveys of the co-operatives leading into Chapter 6 which presents the details of the case study of the supply chain between a co-operative and a Queensland horticultural producer. An outline of Chapter 5 is shown in Figure 5.1.

Figure 5.1 Outline of Chapter 5



5.2 Exploratory survey of co-operatives

The objective of the survey conducted in February 1997, was to obtain detailed information on the co-ops, their operating methods, their attitudes to imported products, and how these may affect a potential supplier. This section describes and analyses the results of interviews with ten regional consumer co-operatives and the Japanese Consumer Co-operative Union under headings for the three key areas explored during the interviews.

5.2.1 The interview process

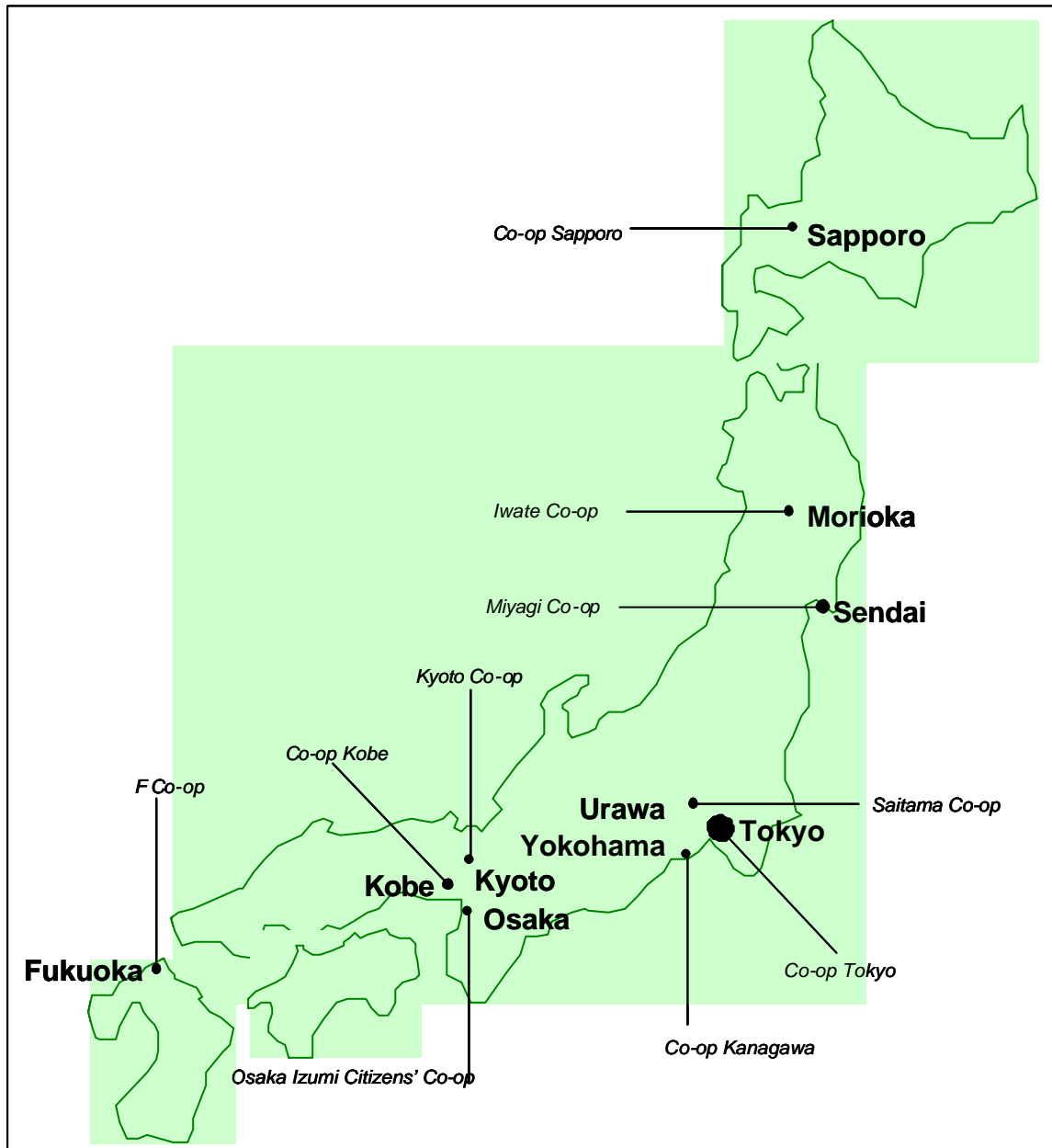
As described in Chapter 4 the survey was conducted using personal interviews of staff and management of a sample of consumer co-operatives in Japan building on the information obtained through the initial investigation of the co-operative movement (Ada and Kawasaki 1997).

The interviews were conducted with the nine largest retail consumer co-operatives, plus one medium sized co-operative and the Japanese Consumer Co-operative Union (JCCU). A map showing the location of each of the co-operatives interviewed is shown in Figure 5.2.

The interviews were exploratory in nature focussing on the following key questions:

- Basic operations of the co-operatives
- Co-operative policy on imports (including information on types of products currently imported and expected future growth) and co-operative specification for products
- Co-operative product development and attitudes to international *sanchoku*.

Figure 5.2 Locations of co-operatives interviewed



5.2.2 Interview topic 1: Basic operations of the co-operatives

The purpose of this interview topic was to establish the general operations of the co-operatives and the environment in which they were operating. Each co-operative was asked to supply details of their turnover, membership, number of *Han* groups and stores, breakdown of sales and use of imported product. They were also asked to give

an outline of their operations, philosophies and their attitude to *sanchoku*. In addition, an overview of national co-operative operations was provided by interviews of senior staff in the Japanese Consumer Co-operative Union (JCCU). An outline of each of the co-operatives is shown in Appendix 7. The following discussion highlights and analyses some of the key issues raised by the co-operatives during the interviews.

5.2.2.1 Annual turnover and sales methods

As shown in Table 5.1 the size of the co-operatives interviewed ranged from more than ¥24.5 billion to ¥370 billion turnover in 1996, with corresponding memberships of 120,653 to 1.21 million. Sales methods (store sales and the use of the joint buying system (*Han*)) also varied widely between the co-operatives. There was no clear relationship between the size of the co-operative (as measured by turnover) and the method of operation. *Han* sales varied from 17% to 78% of turnover.

The 1999 data shows that whilst membership increased between 1996 and 1999 for all the co-operatives, annual turnover increased in only 5 of the 10 co-operatives, reflecting their overall success in attracting members but variable success in increasing their sales. The co-operatives with higher levels of store sales appear to have increased their turnover more than the ones with high *Han* sales. However this may not be reflected in profits, as most co-operatives stated that their *Han* sales are more profitable than store sales.

Table 5.1 Details of Co-operatives Interviewed

Co-operative	Annual Turnover ¥ million (March 1996)	Membership (March 1996)	Annual Turnover ¥ million (March 1999)	Membership (March 1999)	<i>Han</i> share of sales (1996)
1. Co-op Kobe	374 408	1 216 180	365 068	1 367 565	22%
2. Co-op Sapporo	174 473	781 507	154 641	866 674	17%
3. Co-op Kanagawa	134 590	1 012 324	137 951	1 023 659	25%
4. Co-op Tokyo	116 733	603 746	129 467	655 232	57%
5. Miyagi Co-op	90 057	432 653	101 348	438 773	26%
6. Saitama Co-op	83 155	395 997	100 399	462 133	56%
7. Kyoto Co-op	69 985	408 049	67 496	444 910	57%
8. F Co-op	63 430	350 396	60 877	384 188	74%
9. Osaka Izumi Citizens' Co-op	61 602	288 915	61 500	294 000	78%
10. Iwate Co-op	24 586	120 653	35 100	127 119	38%

Source: (Japanese Consumer Co-operative Union 1997; Japanese Consumer Co-operative Union 1999)

5.2.2.2 Use of imported products

The co-operatives were asked to provide data on their use of imported products. All co-operatives were using imported fresh fruit and vegetables and provided information on sales. However they indicated that they did not keep accurate data on this category and that the figures provided were estimates. Details of the co-operative policies on imports and the range of imported products are shown in section 5.2.3.

5.2.2.3 Other operational issues

Other characteristics of the co-operatives' operations investigated, which may impact on the attitudes and policies to imported products and the import process, included their membership of other groupings of co-operatives, their location and store sales and their import policy.

As shown in Table 5.2, all the co-operatives interviewed belonged to a larger grouping of co-operatives, either within their immediate region, or across the nation. Co-op Kobe, Co-op Kanagawa, Miyagi Co-op, Saitama Co-op and F Co-op, were the largest co-operatives in their group and took the lead with their group. The co-operatives interviewed saw these groups as an important source of technical expertise and influence on their purchasing decisions and sourcing of products. For example, Kyoto Co-op stated that they sourced much of their imported produce through K Net, relying on the ability of Co-op Kobe (due to size and facilities) to negotiate supply arrangements with producers.

Table 5.2 Key features of co-operative operations

Co-operative	Grouping	Leader in group	Rural Membership Base	Use <i>sanchoku</i> products	Import policy
1. Co-op Kobe	K Net	Yes	No	Yes	Yes
2. Co-op Sapporo	COMO	No	Yes	Yes	Yes
3. Co-op Kanagawa	U-Co-op	Yes	No	Yes	Yes
4. Co-op Tokyo	COMO	No	No	Yes	Yes
5. Miyagi Co-op	SUNNET	Yes	Yes	Yes	Yes
6. Saitama Co-op	Co-opNet	Yes	Yes	Yes	Yes
7. Kyoto Co-op	K Net	No	Yes	Yes	Yes
8. F Co-op	F Co-op	Yes	No	Yes	Yes
9. Osaka Izumi Citizens' Co-op	K Net	No	No	Yes	Yes
10. Iwate Co-op	SUNNET	No	Yes	Yes	Yes

The location of the co-operative in a rural area with ready access to local fresh product also arose as having an impact on the purchasing policies of the co-operatives. Whilst all co-operatives expressed a desire to obtain Japanese product first, those co-operatives with a strong rural base (Miyagi, Saitama, Kyoto and Iwate) were the most definite about sourcing local product and espoused the strictest import policies. The main exception to this was Co-op Sapporo which, despite being located in one of Japan's major agricultural prefectures had a more open policy on imports.

All co-operatives were sourcing product directly from producers using the *sanchoku* system and all of the co-operatives interviewed said that they had clear policies on imported products. These policies were explored in detail during the interviews and are expanded on in the next section.

5.2.2.4 Implications

The information provided by the co-operatives showed that despite the fact that the co-operatives were based on a similar philosophical base, their operations varied considerably with different combinations of store to *Han* sales and varying levels of use of imported products. This suggests that they are not uniform in their behaviour and that each co-operative may require a slightly different approach by Australian exporters. The strong linkages between the co-operatives in groups such as SUNNET and Co-op Net may provide an opportunity for exporters to gain access to a larger market base by targeting the lead co-operative in each group. *Sanchoku* is common to all co-operatives suggesting that a compatible approach by an exporter may facilitate entry to the co-operative market.

5.2.3 Interview topic 2: Co-operative import policy

These questions aimed to establish the co-operatives' attitudes towards the use of imported products; the current level of imports and plans for expansion; their preference for methods of obtaining imported products and their requirements for imported products.

5.2.3.1 Policies on imported products

In general, the co-operatives expressed very conservative attitudes to imported products. All co-operatives had developed specific policies on the use of imported products that

are summarised in Table 5.4. These policies ranged from limiting imported products in support of the development of food self-sufficiency in Japan (Saitama Co-op), to an open door policy that placed imported product in direct competition to domestic products (Co-op Kanagawa).

Saitama Co-op, the lowest user of imported products, stated that they had a strict import policy that gave first priority to buying local product. They would only use imported products that were out-of-season or could not be grown in Japan. They strongly supported attempts to build the food self-sufficiency of Japan and were seeking greater protection against imports for Japanese producers.

By comparison, Co-op Kanagawa were not concerned about the source of the product, and that they would offer imported produce to members in competition to domestic produce. They stated that they would not accept poor domestic produce in preference to good imported produce. This attitude was not shared by the other co-operatives whose policy is to give preference to local produce.

All co-operatives said that members were concerned about the safety of imported produce. The Japanese Consumer Co-operative Union stated that the safety of imported products was the key issue for consumers, as they could not easily visit the place of production to verify its safety. It is important for exporters to prove the safety of imported produce. The JCCU placed this as a key issue in the development of products from overseas, quoting examples of pumpkin squash from New Zealand and bananas from the Philippines where JCCU staff had visited the places of production to examine the production systems and use of agricultural chemicals. They emphasised that this communication was important in establishing the safety of the product for their members.

5.2.3.2 Current use of imported products

Data provided by the co-operatives showed that there is significant variation in the estimated use of imported products between co-operatives and between fruits and vegetables.

As shown in Table 5.3, use of imported vegetables ranged from a low of 2 per cent (Kyoto Co-op) to 20 per cent (Co-op Kanagawa). By comparison, imported fruit ranged from a low of 9 per cent (Kyoto Co-op) of sales to 40 per cent (Co-op Kanagawa). In

all cases, the import levels of fruit exceeded that for vegetables. The co-operatives revealed that this was primarily due to the high levels of sales of bananas (a product not grown in Japan) in the co-operatives. The product with the highest rating for all the co-operatives was seafood, with most co-operatives importing over 50 per cent of sales. Beef was also shown to have a variable rate of imports from 20 per cent (Iwate Co-op) to 60 per cent (Co-op Sapporo).

Table 5.3 Estimated rate of imports for fresh food products (% of value)

Co-operative	Imported vegetables	Imported fruit	Imported seafood	Imported beef
1. Co-op Kobe	6	25	NA	NA
2. Co-op Sapporo	5	15	50	60
3. Co-op Kanagawa	20	40	60	30
4. Co-op Tokyo	6	13	60	25
5. Miyagi Co-op	5	20	48	29
6. Saitama Co-op	6	25	60	20
7. Kyoto Co-op	2	9	30	30
8. F Co-op	3	21	52	30
9. Osaka Izumi Citizens' Co-op	5	18	47	25
10. Iwate Co-op	10	20	60	20

NA – Not provided by the co-operative

The variation in use of imported product between co-operatives was reflected in the import policies of the co-operatives. Saitama Co-op, which had the strictest policy on imports, had the lowest level of imports whilst Co-op Kanagawa had the highest level of imports. The other co-operatives had policies that lay between these two extremes.

Table 5.4 Import policies and products by co-operative

Issue	Co-op Tokyo	Co-op Kanagawa	Saitama Co-op	Miyagi Co-op	Iwate Co-op	Sapporo Co-op	F Co-op	Co-op Kobe	Kyoto Co-op	Osaka-Izumi
Import Policy:	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Source imported products directly	Yes. Use JCCU and trading companies	Yes	No. Use JCCU and trading companies	No. Use JCCU and wholesale market.	No	Yes. Carrots and onions from Tasmania	No	Yes, under contracts with producers	Yes – Chinese banana. Use Co-op Kobe, JCCU and wholesale markets	No.
Strong preference for local produce	Local first but will buy overseas product	No. Members prefer local produce but policy to source from best location.	Yes	Yes. Preference order: 1. <i>Sanchoku</i> product 2. Japanese product 3. Imported product grown to co-operative specification 4. Other imported products	Yes but seeking supply for out of season products and products not grown in Japan.	Yes, but want to obtain year round supply for members	Yes. Preference order: 1. Local produce; 2. Produce from Kyushu; 3. Produce from other Japanese areas; 4. Imports	No	No. promote local product but try not to discriminate against imported products.	Yes. Strong policy against imported products.
Check conditions in exporting areas?	Yes and also use JCCU.	Yes. Offices in Thailand	Yes	Yes, in conjunction with JCCU.	No. Rely on information from JCCU	Yes.	Yes, through JCCU.	Yes	Yes for Chinese banana	Yes. Through JCCU and Co-op Kobe
Main imported fruit and vegetable products	Bananas, grapefruit, oranges, pineapples, honeydew, kiwifruit, avocado, chestnut, peanut, mango, lychee, Sweetie, lemon, American cherry, pawpaw, asparagus, broccoli, okra, paprika, sweet corn.	Citrus, pumpkin, squash, cherry, bananas, broccoli, carrot, frozen products - green beans, sweet corn, pumpkin, squash, mixed vegetables and green soy beans	Broccoli, asparagus, American cherries, paprika, pumpkins, bananas, papaws, melons, mangoes, lemons, oranges, carrots.	Bananas, grapefruit, kiwi fruit, oranges, lemons, pineapples, grapes, cherries, pumpkins, asparagus, broccoli, mushrooms, potatoes and bamboo.	Pumpkins, bananas, citrus.	Asparagus, broccoli, pumpkin, bananas, kiwi fruit, lemons, oranges, frozen vegetables	Broccoli, pumpkin, squash, grapefruit, orange, lemons, kiwi fruit, bananas.	Bananas and pumpkins obtained through contracts with overseas growers. Full range of other products bought through trading companies and wholesale markets.	Pineapples, paw Paw, cherries, mangoes, avocado, lemons, kiwi fruit, grapefruit, <i>Sweetie</i> , bananas, broccoli, paprika, garlic sprouts, <i>wasabi</i> , <i>shitake</i> (mushrooms),	Bananas, pumpkins, grapefruit; lemons; oranges; Sweetie; asparagus; okra.

Use International <i>sanchoku</i>	Yes. Want to know place of production and methods of production. Developed co-operative banana. Do not use this term.	Use a similar system, but do not call it this	No	No and will not use this term. Direct supply organised through JCCU.	No, but interested.	Yes, but very limited.	No, but see no difference between local and international <i>sanchoku</i> .	No, but contracts with overseas producers which restrict production methods.	boiled bamboo, dried sweet potato, beans, snow pea, soybeans, asparagus, <i>sato imo</i> , carrot, okra, <i>renkon</i> (lotus roots), pumpkin, garlic No. Contracts with Chinese banana producers	No.
Plan to actively expand imports	Yes, to have product out of season and to offer choice to consumers.	Yes	No. Want to build Japanese self sufficiency	No. Want to build Japanese self sufficiency	Yes as recognise the declining supply in Japan.	Yes	No, but not averse to increasing imports	Yes, have started an international division	Yes.	No, but accept that imports will have to increase.
<i>Sanchoku</i> policy	Yes	Yes	Yes	Yes. Well defined.	Yes. Similar to Miyagi Co-op	Yes	Yes	Yes	Yes. Leader in this area	Yes. As for Kyoto and Co-op Kobe

The co-operatives all recognised the need to obtain imported products to supplement a declining production base in Japan. Some, such as Co-op Tokyo, said they must actively seek products outside Japan.

We must go outside Japan. In the next 5 years we will go outside Japan to obtain product.

We will try to develop product suited to Japanese needs (Mr Fukuzawa, Co-op Tokyo).

They emphasised the fact that whilst their members are concerned about the safety of imported products, providing detailed information on the products clears their anxieties. The source of the product becomes a less important issue. In almost all cases the co-operatives stated their desire to support Japanese agriculture and that their preference was to buy Japanese product first, seeking to buy imported product only when local product was unavailable or too highly priced. Miyagi Co-op clearly outlined its purchasing policy – a policy shared by many of the other co-operatives (see Table 5.4). Their priority order for obtaining produce was as follows:

1. *Sanchoku* product grown in Japan (local product, if possible)
2. Domestic Japanese product
3. Imported products that are grown to co-operative specifications
4. Imported products grown without co-operative specification

5.2.3.3 Product requirements

The JCCU outlined specific requirements for imported products that were supported by the regional co-operatives interviewed. In particular, they noted that an essential requirement was safety. Japanese consumers were interested in knowing how the produce was grown and also in visiting where the products were grown as a way of assuring themselves that the product is safe. The co-operatives also regularly tested imported and domestic products, not only for harmful bacteria and fungi, but also for chemical residues. The co-operatives have a list of banned agricultural chemicals and restricted use chemicals (Ada and Kawasaki 1997).

As shown in Table 5.5, the co-operatives prioritised the key product attributes for fruit and vegetables.

Table 5.5 Priority of key product attributes for fruit and vegetables

Priority	Vegetables	Fruits
1	Safety	Safety
2	Freshness and quality	Taste
3	Price	Freshness and Quality
4	Taste	Price

The variation in key product attributes between fruit and vegetables was explained as being a function of the product use. Vegetables are a daily use food, where fruit is more of a luxury item. For fruit, price is less important and taste and appearance are a high priority. The co-operatives said that for vegetables freshness, quality and taste are hard to guarantee for imported products due to the travel time from production to market. Consumers also lack knowledge of the procedures and methods of production in exporting countries. However they conceded that modern transport systems allowed fresh products to arrive in Japan, sometimes in better condition than local produce. They also said that if producers could make clear to consumers how they had produced their product, and meet consumer priorities (as per Table 5.5) then consumers would buy the product.

In a discussion of the product opportunities, other issues such as the use of genetically modified organisms (GMO's), organic products and fumigation were raised.

All co-operatives stated that they would prefer to buy non-GMO products. They noted that while the demand for organic produce was increasing, they recognised the difficulties in obtaining consistent supplies and quantities of fresh product. However they believed there was a growing opportunity for frozen organic vegetables. In regard to fumigation of fresh product by the Japanese government, the co-operatives agreed that, whilst they did not like the practice, there was little they could do about it and they would not discriminate against an imported product because it had been fumigated.

5.2.3.4 Supply chains and product development

None of the co-operatives import directly nor was any interest expressed in development of joint ventures. Most imported product was bought through agents at the

wholesale markets, or from trading companies as most co-operatives considered it too difficult to manage international purchases.

Only two co-operatives, Co-op Kanagawa and Co-op Kobe, had international trading staff who could negotiate with international suppliers. Even with these staff, both co-operatives used the traditional supply channels including exporters, importers, trading companies and distribution companies.

All co-operatives expressed a desire to be able to communicate with producers; to negotiate on the production methods at the farm level and to inspect the sites of production, even when the trading company was the chain driver. This illustrated that communication from consumer to producer is an issue, even in the traditional supply chains.

During the interviews, two examples were provided of supply chains where the co-operative was selling imported products grown to co-operative specifications. These examples provided insights into the way in which the co-operatives were able to conduct business internationally and form their relationships in the supply chain. The examples given were for bananas from the Philippines and pumpkin squash (*kabocha*) from New Zealand and Mexico.

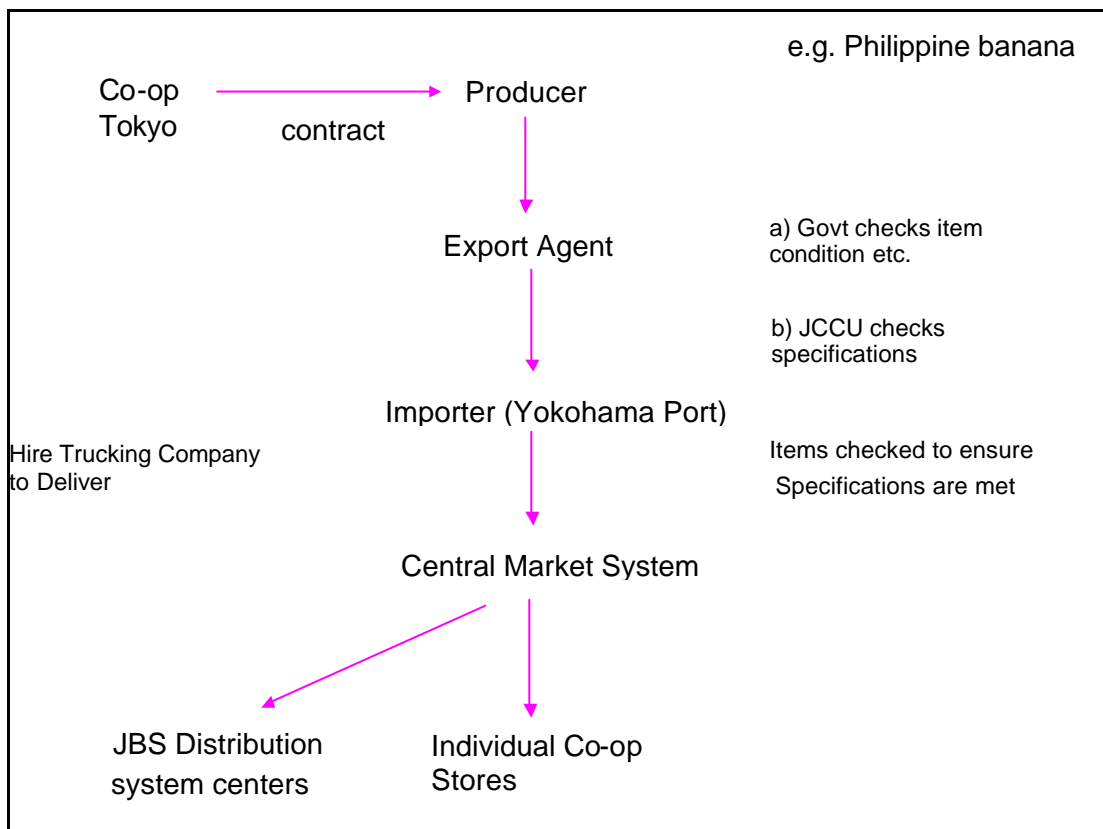
For the Philippine bananas, Tokyo Co-op negotiated with a major trading company (Dole) to establish a production area and grow the bananas to the co-operatives' specifications. In their words, Tokyo Co-op went to 'considerable expense' to establish this business, sending staff to the production site to assist in establishing production and to ensure that the product was grown to their specifications. Sales had grown 1.7 times since trade commenced in 1994 and the trading company continued to manage the production, transport, handling and importation for the co-operative. Details of the production system were explained to co-operative members and were on display in co-operative stores. This had assisted in expanding the sales growth.

The supply chain for the Philippine bananas is shown in Figure 5.3

Pumpkin squash from New Zealand provided another good example of supply chain practice and product development by the co-operatives. In this case a group of growers in New Zealand were encouraged by the JCCU to grow pumpkin squash (*kabocha*) using reduced rates of chemicals. The JCCU provided the seed and some production expertise, using a local exporter to assist in the development. They stated that trade had

commenced in 1994 with 30 tonnes, was 700 tonnes in 1997 and was expected to grow to 1000 tonnes in 1998. New Zealand growers had visited Japan to talk to co-operative members and members had visited the site in New Zealand. The exporter in New Zealand maintained regular communication with the JCCU, and the pumpkin was sold in co-operative stores throughout Japan as a co-operative brand product – a position reserved for only the most ‘trusted’ products.

Figure 5.3 The supply chain for co-op Philippine bananas into Co-op Tokyo



Source: Co-op Tokyo

Whilst the cases were slightly different in their development, the supply chains were based on the traditional exporter/importer distribution system. However there were important differences to the usual supply channels for imported products including:

- Direct communication between producers and the co-operative;
- Clear investment by both the producers and the co-operatives in the relationship;
- Interdependence; trust and integrity; individual excellence and,
- The importance placed on the relationship.

Bowersox and Closs (1996) identify all of these features as those of successful supply chains.

5.2.3.5 Intentions for future use of imported products

All co-operatives recognised that they would have to continue to buy imported products and that they would have to buy increasing amounts of imported product. The interviews confirmed that issues such as changing eating habits, the rising value of the Yen and declining regional self-sufficiency are affecting import policies.

Other issues raised included:

- Income decline in the 20 to 30 years age group: This group is most affected by the recession. Incomes are not rising and goods must be purchased as cheaply as possible. The co-operative may alter imports to meet the demand for well-priced products.
- Poor regional product diversification: There is a regional focus on subsidised rice production and a resistance to shift into fruit and vegetable production as these are considered to be not as profitable and more labour intensive. With the average age of farmers at around 60 years, the co-operative recognises the need to use imports to meet demand levels.

The co-operatives stated that these trends have accelerated over the last 5 to 10 years with recognition that demand can only be met by sourcing produce from outside Japan. The need to negotiate with overseas producers to develop product specifically suited to the Japanese consumer was understood.

The co-operatives, with the exception of Co-op Kobe, were unable to be specific about the expected rate of growth in their imported produce. Co-op Kobe stated that they intended to expand their range of imported products (fruit to 30 per cent by 2000, and vegetables to 8 per cent by 2000). For Co-op Kobe this increase represents an expansion of import sales of approximately AUD\$15 million per year.

5.2.3.6 Product opportunities

Given the co-operatives' import policies, the interviewees pointed to those products that are not grown in Japan, or can be grown during the off-season in Japan, as having the greatest likelihood of success. The products most commonly nominated were

asparagus, broccoli, organic products, onions, pumpkin, Fuji apples, bananas, oranges, grapes, mangoes, watermelon, mandarins and soybeans. The range of products varied from co-operative to co-operative with the most frequently mentioned products being asparagus and broccoli (Table 5.6).

Table 5.6 Imported product opportunities by co-operative

Co-operative	Nominated vegetables	Nominated fruit
JCCU	Soybeans, broccoli, asparagus, sweet corn, frozen vegetables, organic vegetables	Apples, bananas, mandarins, oranges, rockmelons, organic fruit
Co-op Tokyo	Onions, broccoli, asparagus, carrot, pumpkin	Fuji apples, out of season fruit
Co-op Kanagawa	Out of season	Out of season
Saitama Co-op	Not stated	Not stated
Miyagi Co-op	Not stated	Not stated
Iwate Co-op	Pumpkin, asparagus	Oranges, grapes, Andes melon, mango and avocado, pawpaw, watermelon, pears (<i>Nashi</i>), bananas, persimmons
Co-op Sapporo	Asparagus, broccoli, pumpkin, frozen vegetables	Bananas, grapefruit, lemons, oranges,
F Co-op	Asparagus, frozen mixed vegetables, broccoli, sweet corn, pumpkin	Not stated
Co-op Kobe	Broccoli, capsicum, frozen carrot juice extract	Mangoes, mandarins, watermelons, frozen lychees and mangoes
Kyoto Co-op	Pumpkin, broccoli, asparagus, organic vegetables	Citrus
Osaka-Izumi Co-op	Cabbage and Chinese cabbage, green beans, onions, carrots, broccoli, asparagus, sweet corn	Melons, strawberries, citrus

5.2.3.7 Implications

The responses of the co-operatives showed that there are product opportunities in the co-operatives due to the expected growth in imported product as local production declines. Food safety is a prerequisite of entry to the co-operative market. Whilst the co-operative members in general are ‘suspicious’ of imported products, the co-operatives indicated the provision of detailed information on production systems; quality control and use of chemical treatments and inspections of the production areas could overcome this. Exporters will need to build the confidence of co-operative members in the safety of their product by providing detailed information on the methods of production, post-harvest handling and use of agricultural chemicals. Use of internationally recognised and independently audited systems such as HACCP (Hazard Analysis Critical Control Points) was well regarded by the co-operatives.

Additional requirements for success identified by the survey include out-of season supply; direct information sharing between producers and consumers; a focus on product quality and reliability of supply, low level use of agricultural chemicals and the development of *sanchoku*-like relationships. The survey identified that the co-operatives do not have extensive experience in dealing with international suppliers and would be expected to rely on the traditional supply chain members (trading companies, wholesalers) to assist in product development and distribution.

5.2.4 Interview topic 3: Co-operative product development and *sanchoku*

The co-operatives were asked to provide information on how they developed new products and relationships with suppliers. They were also asked for their views on obtaining new products from Australia.

5.2.4.1 Product development

The JCCU, as a wholesaler, stated that they were seeking foreign producers who would seriously aim to produce goods to meet the needs of consumers in Japan. If initially they were interested in a product from Australia, they would ask for details of production from a recognised authority such as the Queensland Department of Primary Industries. If this information was positive, they would send a merchandiser to Australia to look at the product quality; check the taste; check the chemicals used in production and the price. If these were satisfactory, JCCU would begin trading. The key to starting is with small quantities of one product. If these were successful then JCCU would increase the volume and the number of items. It would be important that the producer would be able to increase volume with increasing demand. They cited an instance where they had begun sourcing asparagus from Australia, but had ceased trading with the company when it had been unable to provide consistent supply and increase quantity in line with demand. At all stages the JCCU would be testing for chemical residues and product safety whilst monitoring the reliability of the suppliers.

The other co-operatives interviewed mirrored the ideas expressed by the JCCU. However they also indicated that their preference is for products grown according to the *sanchoku* style, where the co-operative specifies the methods of production, the

consumers know the place of production and the producer, and there is regular exchange between producers and consumers.

A key to the development of business with the co-operatives was building a relationship between the producers and the co-operative. Part of this process is visits by the co-operative staff and members to the production area and by the producers to the co-operative.

All the co-operatives indicated that whilst they may be involved in the initial product development, they would utilise the existing supply chain (trading companies, distribution houses, exporters etc) to carry out the business.

Most co-operatives noted that the word *sanchoku* was reserved for produce grown in Japan and would not be applied to products produced for the co-operative overseas. Miyagi Co-op preferred to call these *sanchoku*-like arrangements ‘contracted imported products’, rejecting the idea that products bought from overseas could be called *sanchoku* products.

Most co-operatives gave examples of special international products sold by their co-operative. These are detailed in Table 5.7.

Table 5.7 'International *sanchoku*' - style products used by co-operatives

Co-operative	<i>Sanchoku</i> example
JCCU	<i>Kabocha</i> pumpkin from New Zealand
Co-op Tokyo	Bananas from Philippines (Mindanao)
Co-op Kanagawa	US broccoli from California
Co-op Sapporo	Citrus from Florida
Co-op Kobe	Philippine bananas, NZ <i>kabocha</i>
Kyoto Co-op	Bananas from China
Osaka Izumi Co-op	NZ <i>kabocha</i> pumpkin

5.2.4.2 Image of Australia

The co-operatives had a good image of Australia from a food safety viewpoint. However there were reservations expressed as to Australia’s ability to supply both the quality and volume required. The co-operatives indicated that this perception was based on their previous experience with sourcing products from Australia. However, it appeared that this had been limited as they knew very little of the range of products and

production capability of Australia. Their main experience had been with ‘Aussie’ beef, a product that they sourced primarily through the JCCU.

5.2.4.3 Implications

The co-operatives indicated a clear preference for *sanchoku* style relationships with international producers. Australian producers seeking entry to the Japanese co-operative movement should have a clear competitive advantage if they understand and can comply with the requirements for *sanchoku* supply. Relationship development is very important so companies should expect to spend time developing their relationship and establishing their credentials with the co-operatives. There are examples of international *sanchoku* style relationships being established with the co-operatives. However it is evident that they are few in number, suggesting that they may be difficult to establish. The positive view of Australia in terms of our environment and food safety is an advantage. Firms seeking market entry, however, will have to make an extra effort to demonstrate their capacity to supply the quantity and quality required in view of the co-operatives’ generally poor view of Australia’s ability to meet these requirements.

5.2.5 Summary and exporters checklist

The survey of the co-operatives provided valuable information on the attitudes and actions of the co-operatives, and the opportunities for Queensland horticultural producers. Significantly, the survey established that the co-operatives were seeking supply of specific imported horticultural products and that their preferred means of supply was through a strong relationship with the producers (*sanchoku*). This enables them to provide detailed information on producers and production systems to co-operative members. They had special product requirements, with the key issues being product safety and supply during periods when the Japanese product was not available.

On the basis of the information collected during the survey and preliminary investigation, the following checklist has been developed as a guide to potential exporters seeking access to the Japanese co-operatives.

Table 5.8 Exporter checklist for co-operative supply

Characteristic	Supplier requirement
PRODUCT	
Safety	Able to demonstrate implementation of recognised food safety systems (eg HACCP) Use low levels of agricultural chemicals (compared to standard rates) and no use of chemicals specifically banned by the co-operatives
Quality	Able to meet co-operative quality standards for appearance, shelf-life, taste and freshness
Supply	Able to supply out-of-season with Japanese producers Able to guarantee consistency and continuity of supply
Product type	Able to supply products identified as high priority for the co-operatives (eg asparagus, broccoli, oranges)
Price	Competitive with other sources
RELATIONSHIP	
Values	Understand and relate to the philosophies and values of the co-operative movement. May be an advantage to be operating under a co-operative structure Be prepared to work co-operatively with the co-operatives
Investment	Be prepared to invest time and money in developing the relationship with the co-operative, including visits to Japan and hosting visits from the co-operative members and staff Be prepared to invest in production systems to meet the co-operative standards, for example reduced chemical usage and environmental programs Demonstrate commitment to the Japanese market through experience or willingness to invest in market and product development in Japan
Information	Be prepared to fully disclose details of production systems and to subject those systems to objective testing Be prepared to exchange information regularly with the co-operative on seasonal conditions, product supply etc. Be willing to develop a transparent business relationship Be prepared to assist the co-operative in marketing the product to members through provision of production information and some product promotion.

5.3 Follow-up survey of the co-operatives

The first survey (in 1997) was undertaken to establish a general overview of the co-operatives' attitudes to imports and potential for fruit and vegetable products. From this data, a checklist providing guidelines for potential suppliers was developed.

Funding from the Rural Industries Research and Development Corporation provided an opportunity to follow-up on the first survey and to explore specific details of the supply chains used by the co-operatives and details of the relationship parameters in standard supply chains and *sanchoku* supply chains. In addition, issues raised during the first

survey such as demand for organic products; attitudes to Genetically Modified Organisms (GMO's) and use of frozen vegetables (which had been identified as a potential product in the first set of interviews) were also examined in November 1998 (see Appendix 4: for the questionnaire). These issues were identified as requiring further investigation following analysis of the data collected during the first interview and were regarded as important to the researcher's employer but are not reported on in this thesis due to their limited relevance to the research questions.

5.3.1 The interview process

Due to time and budgetary restrictions only a sub-set of the original co-operatives was included in the second interview. The co-operatives included were Iwate Co-op, Saitama Co-op, Co-op Tokyo, Co-op Kanagawa and Miyagi Co-op. They were selected due to their proximity to Tokyo.

The results of the 1997 survey also indicated that these co-operatives could be regarded as a representative sample of the larger co-operative group. The interviews were arranged with the assistance of the JCCU and the Queensland Government Office in Tokyo and were conducted at each of the co-operatives in November 1998 with senior fruit and vegetable buying staff using professional interpreters. The respondents were sent the interview questions prior to the interview and most had prepared answers to the questions. Notes were taken at each interview and the interviews were taped for later transcription.

5.3.2 Interview topic 1: Co-operative supply chains

5.3.2.1 Preferences for source of product

In the first survey, the co-operatives had indicated that they had a strong preference for supply of fresh fruit and vegetables via the *sanchoku* system. In the follow-up survey, they were asked to specify the order of preference for supply of product, ranging from *sanchoku* product to imports. The co-operatives were asked 'Where do you prefer to obtain fruit and vegetables for your co-operative? (Number in order from 1 to 6 – 1 being the most preferred). The co-operative responses are shown in Table 5.9.

Table 5.9 Co-operative product source preferences

Source	Co-op 1	Co-op 2	Co-op 3	Co-op 4	Co-op 5
1 <i>Sanchoku</i> product - local	1	1	6	1	3
2 <i>Sanchoku</i> product – Japan	2	2	1	2	2
3 Local produce	4	3	3	3	4
4 Produce grown in Japan	3	5	2	3	6
5 “ <i>Sanchoku</i> ” products from overseas	5	4	4	5	5
6 Other products from overseas	6	6	5	6	7
7 “Green Program”					1

All co-operatives responded to this question. One co-operative (Co-op 5) added another category based on a special program that they conduct for their members. This ‘Green’ program is very similar to the first category (*Sanchoku* product – local). For the purpose of this research, the ‘Green Program’ is interpreted as being a ‘1’ response for category 1. Details of the ‘Green Program’ are shown in Appendix 8:

As expected, the co-operatives showed a strong preference for locally sourced *sanchoku* product with four of the five co-operatives giving it their first preference. *Sanchoku* product (local or Japanese) was preferred above all other categories with all co-operatives indicating that imported product sourced under a *sanchoku*-like system, was preferable to other imported product. Noticeably the responses were not identical indicating that there is some variability in policies between the co-operatives.

In discussion on this question the co-operatives reiterated the point made in the first questionnaire, that consumers prefer Japanese products. Also mentioned by two of the co-operatives was the fact that they did not believe that there was such a thing as imported *sanchoku* product – only Japanese products could be called *sanchoku* products. They did, however, say that ‘*sanchoku*-like’ systems were possible with imported products. One co-operative called these products *Yunyu teikeihin* – contract grown imported products.

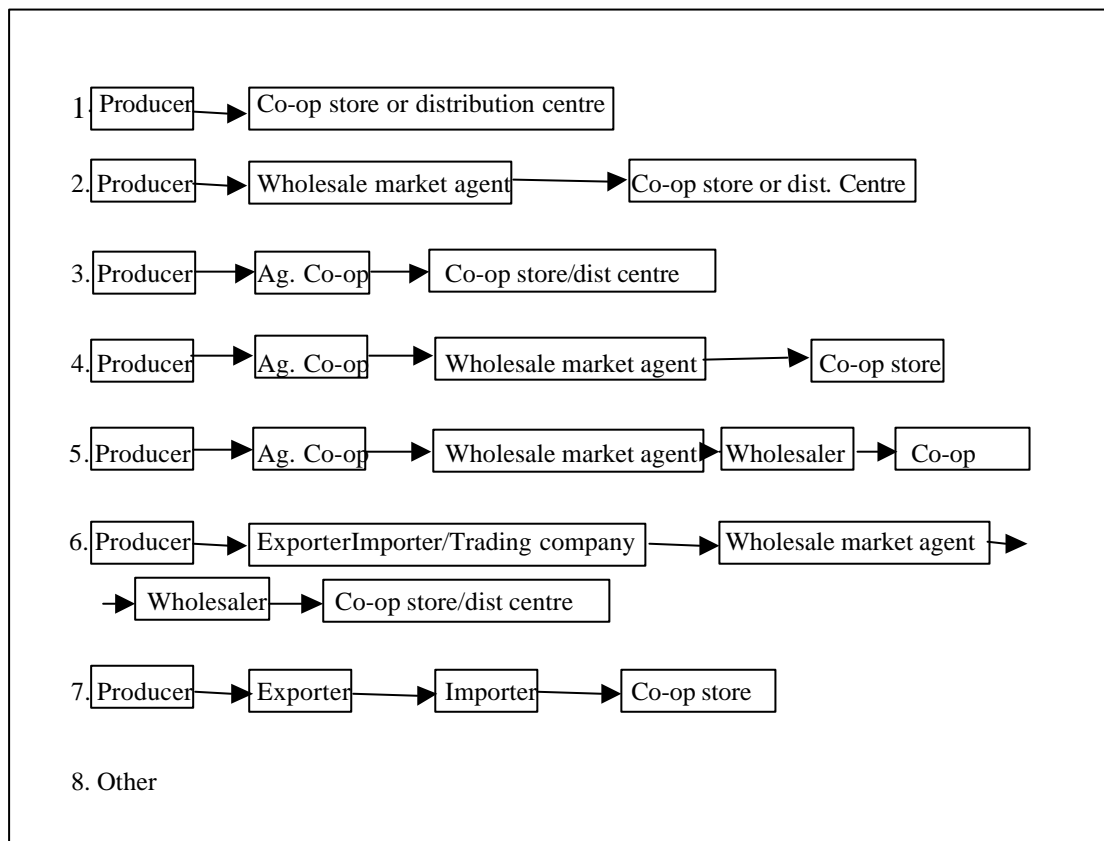
5.3.2.2 Supply chains

During the 1997 survey, the co-operatives provided only broad guidelines as to the nature of the supply chains used to obtain fruit and vegetables. In general they expressed a desire to reduce the number of intermediaries in the chain from producer to consumer. However they all recognised the important role played by agricultural

co-operatives, market agents and trading companies in consolidating orders and facilitating supply to their stores and distribution centres. No definitive data was collected on the supply chains currently in use.

The five co-operatives interviewed during the 1998 survey were asked to nominate their usual forms of supply chain and were asked to select from the options shown in Figure 5.4. These options were selected based on the exploratory questions asked during the first survey. The purpose of this question was to establish the range of options and the predominant chains in use by the co-operatives.

Figure 5.4 Co-operative supply chain options



In response, the co-operatives supplied their estimated usage of each of these options as shown in Table 5.10.

Table 5.10 Percentage usage of fruit and vegetable supply chains by co-operatives

Chain	Co-op 1	Co-op 2	Co-op 3	Co-op 4	Co-op 5
1	3	10	10	37	25
2	1	5	10	54	20
3	15		20		20
4	70	70	20		30
5	5		20		
6	5	15		6	
7	1		20	3	5

The data showed that there was considerable variation between co-operatives in the mix of supply chains they used to obtain produce. High levels of direct deliveries by producers to co-operative stores or distribution centres (supply chain 1) were utilised by co-operatives 4 and 5. Both had strong policies for the use of local produce (see Table 5.9). In the case of co-operatives 1 and 2, despite their location in rural areas, they made extensive use of the market agents to consolidate orders and deliver to stores and distribution centres. The co-operatives indicated that these agents were also responsible for supplying imported produce. Four of the five co-operatives bought product directly from the importer with one co-operative sourcing a significant quantity of product (20%) via this supply chain.

In discussion, one co-operative indicated that the choice of supply chain depended to some extent on the type of produce. Bulky products (such as potatoes and onions) and products grown within the local area, were supplied directly from producer to the co-operatives stores and distribution centre (supply chain 1). High sale volume products were primarily bought through market agents (supply chain 4).

5.3.3 Interview topic 2: Supply chain characteristics

To establish the importance of key characteristics of their supply chains, the co-operatives were asked to provide information on features identified in the literature and the 1997 survey (Gifford et al. 1998; O'Keefe 1998; Dunne 2001). They were asked to rate the importance of each of the characteristics using a four point scale to compare and contrast the *sanchoku* supply chains against the 'usual' fruit and vegetable

chains,. On the scale 1 was ‘Not important’; 2 was ‘Slightly important’; 3 was ‘Important’ and 4 was ‘Very important’. A four-point scale was selected to simplify the translation to Japanese. A larger scale (say from 1 to 10) may have been preferable, as it would have yielded a broader range of data points however it may have also caused more confusion for the interviewees.

A deficiency in the data was that the table in the questionnaire was completed by only four of the five co-operatives. Despite multiple attempts to obtain the missing data through contacting the co-operative both directly and indirectly, the data was not provided and the table was unable to be completed.

The responses for each of the four contributing co-operatives are shown in Table 5.13

The data showed, as expected, that the importance of the supply chain characteristics varies between the Japanese and *sanchoku* supply chains and that there was variation between co-operatives. Whilst three of the co-operatives showed considerable variation between the ratings for the chains, the responses given by Co-op 3 showed little variation. Review of the notes of the discussions during the interview suggests that this result is inconsistent with the attitudes expressed by the co-operative as they stated that they were strong supporters of *sanchoku* supply and that this was the preferred method. It is possible that the respondent did not fully understand the question or may have completed the questions to ‘be polite’ without much thought going into the responses.

To test the significance of the variation, the data were analysed using a simple analysis of variance test using the GENSTAT® statistical software.

The comparison between supply chains is shown in Table 5.11.

Table 5.11 Difference between supply chains based on characteristics

Co-operative by Product Source Interaction				
Supply chain coefficients of variation				
Co-operative	<i>Sanchoku</i> (A)	Japanese (B)	Difference (A-B)	Significant Difference?
Co-op 2	3.556	3.167	0.389	Yes
Co-op 3	3.222	3.056	0.166	No
Co-op 4	3.167	2.222	0.945	Yes
Co-op 5	3.000	2.556	0.444	Yes
lsd (P=0.05) =0.32				

With the exception of Co-op 3, there was a significant difference between their ratings of the characteristics of the *sanchoku* and the Japanese product supply chains. As stated above, the results for Co-op 3 are inconsistent with the views they stated during the interviews.

The individual questions were further analysed to determine if there were significant differences between the responses for each question. The results are shown in Table 5.12

Table 5.12 Differences between supply chains by question

Question - Product Interaction				
Question	Supply chain coefficients of variation			Significant Difference?
	<i>Sanchoku</i> (A)	Japanese (B)	Difference (A-B)	
1	3.75	2.75	1.00	Yes
2	4.00	3.25	0.75	Yes
3	3.00	2.25	0.75	Yes
4	3.50	1.25	2.25	Yes
5	3.00	3.00	0	No
6	3.75	3.50	0.25	No
7	3.00	3.25	0.25	No
8	3.50	3.00	0.50	No
9	3.25	3.25	0	No
10	4.00	3.75	0.25	No
11	3.50	3.75	0.25	No
12	2.50	2.00	0.50	No
13	2.75	1.75	1.00	Yes
14	3.00	2.50	0.50	No
15	3.25	2.50	0.75	Yes
16	2.00	2.00	0	No
17	3.00	2.75	0.25	No
18	3.50	3.00	0.50	No
lsd (P=0.05) = 0.67				

The data showed that for questions 1 to 4, there were significant differences between the *sanchoku* and the ‘usual’ Japanese product supply chain. The data confirmed the statements by the co-operatives that they place importance on knowing the producer and production system, having regular exchanges and that lower rates of chemical will be used for the *sanchoku* products chain, but do not have the same expectations of the standard supply chain.

Table 5.13 Co-operative responses to question on supply chain characteristics

Characteristic	Importance							
	Co-op 2		Co-op 3		Co-op 4		Co-op 5	
	J	S	J	S	J	S	J	S
Usual Japanese chain (J)/ <i>Sanchoku</i> supply chain (S)								
1 The name of the producer is known	3	4	4	4	2	4	2	3
2 The methods of production are known	3	4	4	4	3	4	3	4
3 Lower rates of chemical are used	3	4	1	1	3	4	2	3
4 There are regular exchanges between members and producers	1	4	1	4	2	3	1	3
Performance of the Supply Chain								
5 Product is delivered to the co-operative within 24 hours of harvest	4	4	1	1	4	4	3	3
6 Products meet co-operative quality standards (freshness, appearance, size etc.)	4	4	4	4	3	4	3	3
7 Quantities supplied are able to be varied to suit co-operative needs	3	3	4	4	2	3	4	2
8 The supply chain is very efficient (low cost and a short time from producer to consumer)	4	4	4	4	1	3	3	3
9 In general, there is enough profit to the co-operative from selling the produce	3	3	4	4	2	3	4	3
10 Members are very satisfied with the products	4	4	4	4	4	4	3	4
11 Prices are very competitive	4	3	4	4	3	4	4	3
Relationship between chain members								
12 There are strong written contracts	3	3	1	1	2	3	2	3
13 Chain members believe that it is better to work together than to work separately	3	3	1	1	1	3	2	4
14 There is good communication between the co-operative and all other members of the chain	3	4	4	4	1	2	2	2
15 Members of the chain are well known to each other	3	4	4	4	1	2	2	3
16 Members of the chain share confidential business information	1	1	2	2	3	3	2	2
17 Members of the chain tell each other about any changes which will affect other businesses in the chain	4	4	4	4	1	1	2	3
18 The members of the chain have good long term business relationships	4	4	4	4	2	3	2	3

Operationally (questions 5 to 11) however, the performance of both supply chains is expected by the co-operatives to be similar. The co-operatives placed the same level of importance on the performance of the supply chains, irrespective of the source of the product. On a relationship basis, the only issues that were significantly different were Questions 13 and 15 that relate to the attitude of chain members to being a member of the chain, and knowing all the members of the chain. The results show that the co-operatives' relationship and performance expectations were similar for all chains, but that there was an expectation for higher levels of commitment and knowledge of the chain members in the *sanchoku* chains.

5.3.3.1 Meeting the supply chain characteristic

Co-operatives were asked to rate the performance of the *sanchoku* and 'usual' product supply chains for each of the characteristics identified. The question asked was as follows: '*How often does this supply chain meet this characteristic?* Rating Scale: A. Never, B. Sometimes, C. Often, D. Always'³. To conduct the statistical analysis, the alphabetical scale was converted to a numeric basis (A=1, D=4). The result of the analysis of variance is shown in Table 5.14

Table 5.14 Comparison of performance of supply chains

Product Effect				
Supply chain coefficients of variation				
Product Score	<i>Sanchoku</i> (A)	Japanese (B)	Difference (A-B)	Significant Difference?
	3.208	3.028	0.18	Yes
lsd (P=0.05) = 0.134				

In summary, the analysis of the responses by the four co-operatives shows that the *sanchoku* supply chains met the expectations more often than the standard supply chains. This may be due to the fact that the co-operatives placed greater emphasis on the *sanchoku* supply chain and put greater effort into ensuring that it functions well.

³ An alphabetic scale was used to avoid confusion with the first scale used, as both answers had to be provided by the respondents in the same table in the questionnaire. (see Appendix 4)

Alternatively, the strength of the relationships in the chain may result in better performance.

5.3.3.2 Maintaining a strong relationship

The co-operatives were asked what strategies they used to maintain strong relationships with their *sanchoku* suppliers. All the co-operatives stated that they organised meetings between co-operative staff and the suppliers. In addition, all the co-operatives arranged opportunities for members to visit the producers and for producers to talk to members at forums. Negotiations on price and production were held at least once every year and the focus was on regular and personal communication between the co-operative, co-operative members and suppliers.

5.3.3.3 Implications

The survey results confirm that there is an opportunity to export products to the co-operatives using a *sanchoku*-like system, and demonstrate that, whilst there are strong similarities between co-operatives, their policies on product sourcing are variable. Exporters should note that imported products will not be called *sanchoku* products but will be identified as specifically grown for the co-operative. However they will have a status well above product sourced through the conventional supply chains.

The survey showed that there are similarities between the supply chains used by each co-operative but that they do operate differently. For imported produce, the co-operatives generally rely on the extended supply chain and the greatest opportunities to reduce the number of partners in the supply chain lie with the major city based co-operatives. Cost savings made by reducing the number of members of the chain are unlikely to be achieved by *sanchoku*-style relationships for imported products.

The data show that there are some clear differences in the supply chain characteristics between *sanchoku* supply chains and 'usual' Japanese supply chains. However, the co-operative expectations regarding performance and the relationships are similar. Firms wishing to do business with the co-operatives should be aware of their requirement to establish strong relationships and their preference for good long-term relationships with their supply chain partners.

Communication is vital. Potential suppliers need to factor in regular visits to the co-operatives to speak with the co-operative staff and co-operative members. As highlighted by O’Keeffe (1998) and others, developing relationships requires a significant investment in people, time and in sharing information. The co-operatives indicated that they are ready to make this investment to ensure that there is a better understanding of each other’s business and that goals are well aligned and compatible.

5.3.4 Summary and revised exporters checklist

The second survey provided confirmation of the conclusions drawn on the co-operative supply chains and *sanchoku* from the 1997 survey data. The survey confirmed that there are distinct differences between the characteristics of the supply chains used for *sanchoku* products and the chains used for other products. However these differences are limited to product characteristics and a few relationship variables. Expectations for many of the relationship characteristics and the performance characteristics are identical, suggesting that irrespective of the supply chain, the co-operatives expect high levels of performance and the development of strong relationships.

Based on the results of the second survey, the exporter’s checklist developed in Table 5.8 is expanded in Table 5.15.

As in the case with the relationship audit checklist developed by O’Keeffe (1998) and the Partnership Evaluation checklist developed by Dunne (2001), the co-operative exporters checklist provides an opportunity for potential exporters to evaluate their business operations and values prior to attempting to target the Japanese consumer co-operative movement. For the case study firm studied in this thesis, the checklist developed following the 1997 survey, allowed them to establish whether the co-operatives were a likely market and prepare their strategy for entering this market. The case study experience is covered in the following chapter.

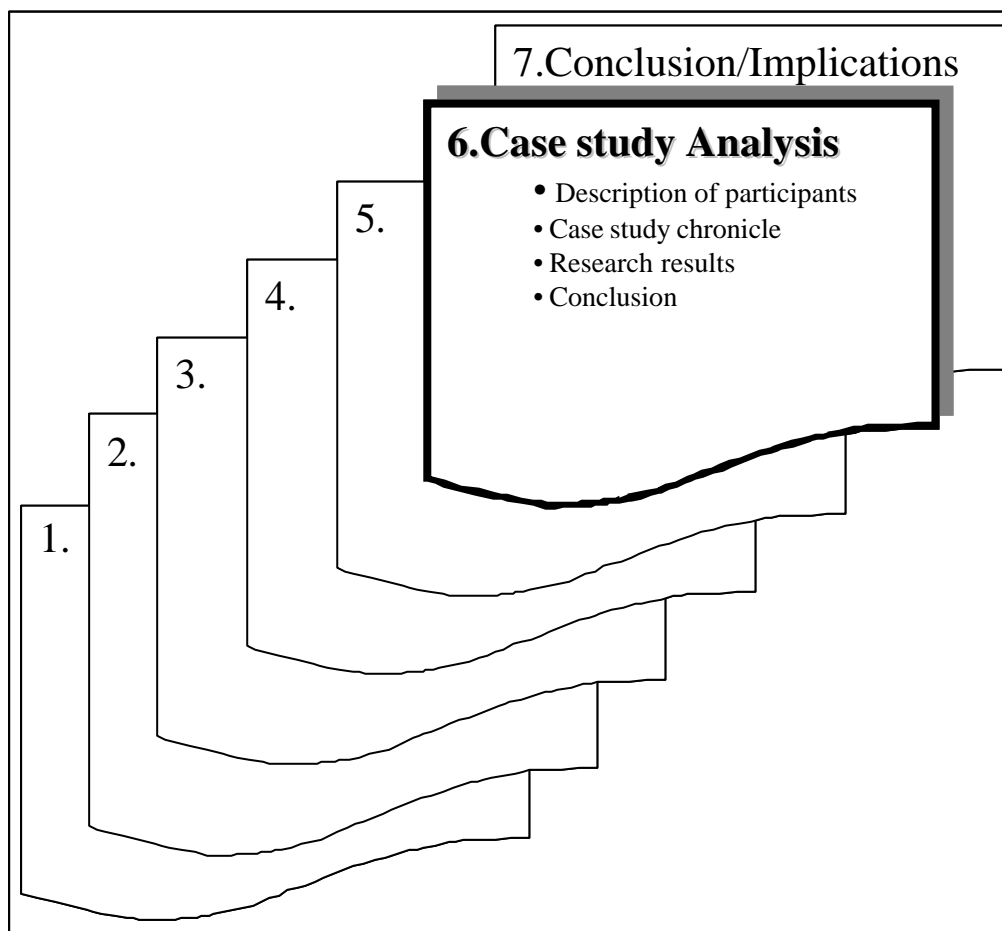
Table 5.15 Expanded exporters checklist (factors from the previous table in italics)

Characteristic	Supplier requirement
PRODUCT	
<i>Safety</i>	<i>Able to demonstrate implementation of recognised food safety systems (eg HACCP) Use low levels of agricultural chemicals (compared to standard rates) and no use of chemicals specifically banned by the co-operatives Source of the product and the name of the producer is able to be identified to the consumer</i>
<i>Quality</i>	<i>Able to meet co-operative quality standards for appearance, shelf-life, taste and freshness</i>
<i>Supply</i>	<i>Able to supply out-of-season with Japanese producers Able to guarantee consistency and continuity of supply</i>
<i>Product type</i>	<i>Able to supply products identified as high priority for the co-operatives (eg asparagus, broccoli, oranges)</i>
<i>Price</i>	<i>Competitive with other sources</i>
RELATIONSHIP	
<i>Values</i>	<i>Understand and relate to the philosophies and values of the co-operative movement. May be an advantage to be operating under a co-operative structure Be prepared to work co-operatively with the co-operatives Be prepared to make a long term commitment to supply the co-operative</i>
<i>Investment</i>	<i>Be prepared to invest time and money in developing the relationship with the co-operative, including visits to Japan and hosting visits from the co-operative members and staff Be prepared to adapt to the differences between the co-operatives and their operational methods to be able to supply more than one co-operative Be prepared to invest in production systems to meet the co-operative standards, for example reduced chemical usage and environmental programs Demonstrate commitment to the Japanese market through experience or willingness to invest in market and product development in Japan Be prepared to work closely with the members of the co-operatives' usual supply chain and do not expect to make savings by reducing the number of partners in the supply chain</i>
<i>Information</i>	<i>Be prepared to fully disclose details of production systems and to subject those systems to objective testing Be prepared to exchange information regularly with the co-operative on seasonal conditions, product supply etc. Be willing to develop a transparent business relationship Be prepared to assist the co-operative in marketing the product to members through provision of production information and some product promotion.</i>

CHAPTER 6 CASE STUDY ANALYSIS

Chapter 5 described and analysed the data collected from the surveys of major consumer co-operatives and prepared a checklist of the key factors in establishing a supply chain relationship with these co-operatives. This chapter summarises the information collected through interview and observation of the development of a supply chain relationship between the Iwate Consumers Co-operative, Japan and Miandetta Farms, Queensland and evaluates the validity of the checklist developed from the surveys. The chapter is outlined in Figure 6.1.

Figure 6.1 Outline of Chapter 6



6.1 Case study participants

6.1.1 Iwate Consumers' Co-operative

Iwate Co-op is based in the northern Japanese prefecture of Iwate and is a medium-sized regional retail co-operative. The co-operative, in the fiscal year ending March 2000, had a gross turnover of ¥35.1 billion and a membership of 127,119 (Ikeda 2000). Iwate Co-op staff had assisted this researcher with access to the co-operative movement and the general co-operative information that formed the basis of a booklet on the co-operatives published in 1997 (Ada and Kawasaki 1997). It was one of the ten Japanese co-operatives interviewed in the preliminary survey conducted in 1997. Whilst the co-operative was based in a rural area and the management expressed a desire to assist Japanese agriculture, they recognised that imported products formed an important part of the co-operatives sales and that there were opportunities to develop their use of these, for the benefit of their members (see section 5.2.3). The co-operative had a strong commitment to the use of *sanchoku* systems to provide safe, reliable products to members. The potential for Iwate Co-op as a supply chain partner is evaluated in Table 6.1 according to the criteria developed by Gifford et al (1998).

In discussions with the co-operative prior to, and during the preliminary survey, they revealed that they faced a strong competitive situation and were seeking product advantage through sourcing high demand imported products. *Sanchoku* was seen as giving them a competitive advantage in the market for domestic product, yet they had to rely on traders to source imported product with little information on how the product was grown. There appeared to be an opportunity for a win-win situation for Iwate Co-op by linking Iwate Co-op with a Queensland based producer. This opportunity came about through the relationship the researcher had developed with Iwate Co-op. The co-operative, during the course of discussions on their operations, expressed an interest in obtaining supplies of asparagus from Australia. With knowledge of the co-operative requirements (see the checklist – Table 5.15) and the operations of Miandetta Farms, the researcher was able to introduce Miandetta Farms to Iwate Co-op.

Table 6.1 Key characteristics of Iwate Co-op as a supply chain partner

Characteristic	Feature of Iwate Co-op (Gifford et al. 1998, pp. 14-20)	Comments
Chain co-ordination (whole of chain focus)	Co-operative management with chain partners Understanding end user needs and assumption of responsibility for customer satisfaction Active search for opportunities to improve the efficiency of the chain	Iwate Co-op had well established <i>sanchoku</i> relationships with Japanese producers and a strong desire to meet members' needs. Chain efficiency was important to guarantee product quality and reduce costs.
Customer responsive quality (flexibility and personalised design of total supply package)	Understanding end user needs (product and service) Meeting total customer needs, both product and service attributes Customer focus in internal business culture	Iwate Co-op were very focussed on their customer members with members deciding purchasing policy and reviewing new product opportunities.
Investment in market knowledge		Iwate Co-op had a long established system for communication between members and producers and had expressed a desire to source product in a similar fashion from overseas suppliers.
Global outlook		Iwate Co-op, whilst strongly supporting Japanese agriculture, had recognised the need to expand their supplies from international sources.

Source: Adapted from Gifford et al (1998)

6.1.2 Miandetta Farms.

Miandetta Farms Pty Ltd is a privately owned family company based near Warwick in Queensland. The company has been operating its piggery and asparagus farms since the early 1980s and has gradually increased both divisions' productive capacity. In 1997 it was farming 1400 sows (14,500 pigs) and growing 100 hectares of fresh asparagus. The piggery produced 29,000 pigs for the domestic market each year while the asparagus division targeted both export and domestic markets. Miandetta had been exporting to Japan under the Koala Asparagus label since 1993 and had a reputation in the trade, for producing very high quality asparagus. This was supported by the rapid growth in their sales to Japan and the development of a close working relationship with one of the leading asparagus trading companies in Japan. In 1996 the company was producing 450 tonnes, over half of which was exported to Japan and Hong Kong. The

company was expanding production and looking for additional outlets for their product. Their production plan for export is shown in Table 6.2

Table 6.2 Miandetta Farms asparagus export plan 1997

Year	1997	1998	1999	2000	2001	2002
Production	378t	438t	588t	594t	666t	708t

Source: Miandetta Farms

Miandetta Farms has more than met these production targets and in 2001 exported 900 tonnes of asparagus.

Production from the farm is managed in stages, with the main production periods from the beginning of August through to the end of October and again from mid December to the end of February. These periods coincide with the end of the Japanese production season and the end-of-year period when product is in short supply internationally. In 1997 the company had plans in place to extend the season further by increasing production and dedicating specific blocks for specific time periods. Additionally, Miandetta had a number of contract growers who supplied from an area of 14 hectares which was expected to rise to 35 hectares over the following two years. Both these objectives were achieved.

Miandetta has strict quality controls and a sophisticated computerised asparagus grading system that ensures that high quality standards can be met. In 1996 it had established a cool chain from paddock to airport. This could take the asparagus from harvest to Japan within 30 hours. While the company could not claim full organic farming status, very few agricultural chemicals were used and the farm was making good use of the large amounts of organic fertiliser available from the piggery. Insects were not a major problem and virtually no insecticides were used.

When Miandetta commenced supplying the Japanese market through an Australian agent in 1993, they found they lacked the market information and control they needed to get the best returns possible for their efforts. In 1996 they established a direct relationship with a Japanese importing company, but were seeking the opportunity to get closer to the end-user and to develop additional markets that could take their expanding production. When approached by this researcher they were very interested to become one of the reference group of companies who assisted with questionnaire design for the initial co-operative survey described in Chapter 5.

The characteristics and operations of Miandetta Farms were well suited to the needs of the co-operatives. Table 6.3 compares the checklist developed from the survey (Table 5.15) with the characteristics of Miandetta Farms. It was evident from the study of the co-operatives and the understanding of the operations of Miandetta farms that it was a good candidate for the case study.

Miandetta Farms also exhibited the majority of the characteristics of firms that can operate successfully as supply chain partners.

According to Gifford et al (1998) businesses that operate successfully as partners in a supply chain approach are characterised by four key features. Table 6.3 outlines an evaluation of the key characteristics of Miandetta Farms relative to these key features. Based on these features and the fit relative to the checklist in Table 6.4, Miandetta Farms was a suitable candidate for developing a supply chain relationship with Japanese co-operatives.

Table 6.3 Key characteristics of Miandetta Farms as a supply chain partner

Characteristic	Feature of Supply Chains (Gifford et al. 1998, pp. 14-20)	Feature of Miandetta Farms
Chain co-ordination (whole of chain focus)	Co-operative management with chain partners Understanding end user needs and assumption of responsibility for customer satisfaction Active search for opportunities to improve the efficiency of the chain	Miandetta had developed a chain into Japan monitoring the performance; and building relationships with all stages up to the Japanese wholesaler.
Customer responsive quality (flexibility and personalised design of total supply package)	Understanding end user needs (product and service) Meeting total customer needs, both product and service attributes Customer focus in internal business culture	Miandetta had established defined product standards and were using innovative packaging to meet customer needs. Also had regular visits to user operations to better understand the reasons for specifications.
Investment in market knowledge		Miandetta had begun regular visits into the Japanese market to meet with customers.
Global outlook		Miandetta were export focussed but regarded every market as important and having specific requirements.

Source: Adapted from Gifford et al (1998)

Table 6.4 Comparison of Miandetta Farms with checklist developed for co-operatives

Characteristic	Supplier requirement	Miandetta Farms
PRODUCT		
Safety	Able to demonstrate implementation of recognised food safety systems (eg Hazard Analysis Critical Control Points - HACCP) Use low levels of agricultural chemicals (compared to standard rates) and no use of chemicals specifically banned by the co-operatives	Miandetta were using HACCP and were developing a Quality Assurance system to the international ISO 9002 standard Minimal chemical usage on farms so could guarantee safety of product and no use of banned chemicals.
Quality	Able to meet co-operative quality standards for appearance, shelf-life, taste and freshness	Miandetta had an excellent reputation and had implemented a sophisticated grading system and cool chain.
Supply	Able to supply out-of-season with Japanese producers Able to guarantee consistency and continuity of supply	Asparagus grown out of season to Japanese producers and able to be supplied during December/January when supply is short in Japan. Had demonstrated consistent supply to Japan and had contracted growers to assist in meeting any shortfalls from the main farm.
Product type	Able to supply products identified as high priority for the co-operatives	Asparagus producer
RELATIONSHIP		
Values	Understand and relate to the philosophies and values of the co-operative movement. May be an advantage to be operating under a co-operative structure	Miandetta were seeking long-term partners and were a family operation.
Investment	Be prepared to work co-operatively with the co-operatives Be prepared to invest time and money in developing the relationship with the co-operative, including visits to Japan and hosting visits from the co-operative members and staff Be prepared to invest in production systems to meet the co-operative standards for reduced chemical usage and environmental programs Demonstrate commitment to the Japanese market through experience or willingness to invest in market and product development in Japan	Miandetta wished to establish stable relationships with customers. Miandetta had made visits to the Japanese market and were prepared to invest time and money into building their markets. They understood need to build relationships with Japanese customers. The farm was already into recycling and energy efficiency. Miandetta were prepared to modify production to suit their customers' needs.
Information	Demonstrate commitment to the Japanese market through experience or willingness to invest in market and product development in Japan Be prepared to fully disclose details of production systems and to subject those systems to objective testing Be prepared to exchange information regularly with the co-operative on seasonal conditions, product supply etc. Be willing to develop a transparent business relationship Be prepared to assist the co-operative in marketing the product to members through provision of production information and promotion.	Miandetta had a good 'track record' in Japan with their Koala Brand asparagus. This was yet to be tested. There was already some exchanges with their Japanese importer. This was yet to be tested. This was yet to be tested.

6.1.3 Potential for a successful supply chain relationship

As shown in the previous sections, both Iwate Co-op and Miandetta Farms closely fitted the criteria for good supply chain partners as determined by Gifford et al (1998) (see Table 6.1 and Table 6.3). In addition, Miandetta Farms also fitted the requirements of the supplier checklist for co-operatives developed from the co-operative surveys (see Table 6.4). The chances of establishing a successful relationship between the two organisations were thus evaluated to be high by the researcher. This was reinforced by comparing the characteristics of the case study firms with the critical success factors developed by Bowersox and Closs (1996). This demonstrated the fit between the case study firms and the theory for supply chain success and is summarised in Table 6.5

Despite the close fit to theory a major barrier to the establishment of strong supply chain relationship was the fact that Iwate Co-op did not have experience in dealing with foreign companies and had only limited capacity to conduct business in a foreign language. Likewise, Miandetta lacked a full understanding of the environment in which Iwate Co-op was operating and did not have Japanese speakers on staff.

Table 6.5 Evaluation of potential for success in a supply chain relationship

Critical Success Factor (Bowersox and Closs 1996)	Miandetta Farms	Iwate Co-op
Individual excellence – both partners are strong and have something of value to contribute to the relationship. They have positive motives for entering into the relationship (eg to pursue future opportunities)	Miandetta seeking long-term relationship and access to new market; market growth. Can provide safe, high quality product; out of season supply and direct access to producers.	Iwate Co-op growing rapidly needing supply. Can provide access to consumers and promotion of product. Seeking strong <i>sanchoku</i> - like suppliers to assist them to compete in the domestic market.
Importance – The relationship fits major strategic objectives of the partners, so they want to make it work. Partners have long term goals in which the relationship plays a key role	Miandetta objectives to expand production and gain stable long term market with strong brand presence giving recognition for quality farming and processing practices.	Iwate Co-op positioning in market as supplier of safe, quality product – using <i>sanchoku</i> to guarantee safety to members.
Interdependence – The partners need each other. They have complementary assets and skills. Nether can accomplish alone what both can do together	Miandetta can guarantee supply of quality safe product	Iwate Co-op provides opportunity to ‘market’ the quality attributes of Koala asparagus including safety; environmental consciousness and taste for a premium price.
Investment – The partners invest in each other (for example, through equity swaps, cross-ownership, or mutual board service) to demonstrate their respective stakes in the relationship and each other. They show tangible signs of long-term commitment by devoting financial and other resources to the relationship.	Miandetta not interested in direct financial investment in Iwate Co-op, but prepared to make considerable investment in the relationship	Iwate Co-op not seeking direct investment but prepared to invest time and effort in building the relationship.

<p>Information – Communication is reasonably open. Partners share information required to make the relationship work, including their objectives and goals, technical data and knowledge of conflicts, trouble spots or changing situations</p>	<p>Miandetta conducts open information sharing with current supply chain members and is seeking open relationship with customers.</p>	<p>Iwate Co-op demonstrates open information sharing with <i>sanchoku</i> suppliers in Japan.</p>
<p>Integration – The partners develop linkages and shared ways of operating so they can work together smoothly. They build broad connections between many people at many organisational levels. Partners become both teachers and learners.</p>	<p>Miandetta has a strong relationship with supply chain members into Japan, but were not obviously strong in this regard.</p>	<p>Iwate Co-op described strong linkages with <i>sanchoku</i> supply chain partners. Potential to do this with an international partner.</p>
<p>Institutionalisation – The relationship is given formal status, with clear responsibilities and decision processes. It extends beyond the particular people who formed it, and cannot be broken on a whim.</p>	<p>The concept has strong support by all the management team.</p>	<p>The concept is strongly supported by the highest level of management.</p>
<p>Integrity – The partners behave toward each other in honourable ways that justify and enhance mutual trust. They do not abuse the information they gain, nor do they undermine each other.</p>	<p>Miandetta has a strong reputation for integrity in its business dealings and relationship with Government.</p>	<p>Iwate Co-op and the co-operative movement in general is regarded as operating at the highest level of integrity.</p>

6.2 Case study chronicle

The business and trading relationship between Miandetta Farms and Iwate Consumers Co-operative developed over a two-year period commencing in February 1997. This relationship was monitored against the relationship criteria and supply chain characteristics identified in the literature and progressively evaluated in consultation with both Iwate Co-op and Miandetta Farms. Table 6.6 highlights the timetable and the activities and efforts made to develop this relationship over a two and half year period.

6.2.1 Case study observations relative to theory

6.2.1.1 Relationship marketing

The theory of relationship development and relationship variables developed by Wilson (1995) provides a sound basis on which to review the relationship and supply chain development between Iwate Co-op and Miandetta Farms.

Wilson (1995) identifies five stages in the relationship development process which incorporate thirteen relationship variables including commitment, trust, co-operation, mutual goals, interdependence, performance satisfaction, comparison with alternatives, adaptation, non-retrievable investments, shared technology, summative constructs, structural bonds and social bonds.

The five stages are partner selection, defining purpose, setting relationship boundaries, creating relationship value and relationship maintenance. Each of these stages is reviewed for the case study.

Stage 1 - Partner selection

Wilson (1995) notes that performance satisfaction and trust are the two key constructs for this stage. In the case study, the researcher assisted with partner selection providing an assessment of the supplier's ability to perform. Detailed information, on Miandetta Farms, targeted at their requirements, was provided to Iwate Co-op.

Table 6.6 *Timetable of activities between Miandetta Farms and Iwate Co-op*

Time Period	Activity
November – December 1996	Miandetta Farms agree to join industry consultative group for co-operative project and are informed of the general requirements of the co-operatives. They prepare brochures on their asparagus business – partially in Japanese
February 1997	Miandetta Farms brochures are provided to Iwate Co-op (and other co-operatives) during interviews
March 1997 – May 1997	Iwate Co-op request further information on Miandetta including details on their farming operations, soil and water test results, production and processing practices. Photos and information is sent to Iwate.
October 1, 1997	Researcher visits Iwate Co-op prior to the harvest season, providing additional information on the company and product and requesting information on the co-operative's requirements. Miandetta advise their Japanese importer of the building relationship with Iwate Co-op.
October 20, 1997	Iwate Co-op introduces Miandetta asparagus information to the SUNNET 4 staff meeting. Other co-operatives indicate that if the business is successful with Iwate, then they may also buy Koala asparagus. Co-op staff assesses koala asparagus already in Japan and the supply channels are evaluated.
October 28, 1997	Iwate Co-op ask for photos and detailed information on the contract farms supplying Miandetta (see Appendix 9). They also request photos of the directors to use in store displays of the product.
November 19, 1997	Iwate Co-op meet with the Japanese importer of Koala asparagus to sort out how they may obtain supply of product sent specifically for the co-operative from Miandetta.
November 21, 1997	First deliveries of sample product from Miandetta to Iwate Co-op via the Japanese importer. Co-operative staff and co-operative product development committee members evaluate product.
December 9, 1997 to January 14, 1998	Miandetta asparagus goes on sale in limited number of co-operative stores. Co-operative members are provided with brochures that explain where the product is from and how it is grown. A leaflet explaining

⁴ SUNNET is the grouping of Iwate, Miyagi and Kyoritsusha Co-ops established to share resources and increase their buying power.

	<p>the chemicals used on the farm, their toxicity and comments by a senior officer in the Iwate Prefectural Government, is distributed to co-operative members.</p> <p>Despite losing money on the sales, Iwate Co-op confirms their commitment to expanding their sales of Koala asparagus due to the quality and guaranteed safety of the product.</p>
February 1998	<p>A senior member of the co-operative fruit and vegetable buying staff visits Miandetta Farms to inspect their production methods. He homestays on the farm.</p>
February to June 1998	<p>Miandetta and Iwate Co-op regularly exchange faxes and information. Miandetta investigates the possibilities of exporting directly to Iwate Co-op.</p>
July 1998	<p>Iwate Co-op proposes a firm plan for sales for the period from August to December. Miyagi Co-op agrees to test buy Koala asparagus through their existing suppliers.</p>
August 1998 to January 1999	<p>Miandetta asparagus on sale in co-operative stores, including Miyagi Co-op and Kyoritsusha Co-op (SUNNET group). This is done with the assistance of the Japanese importer.</p>
November 1998	<p>Researcher visits co-operatives discussing progress on asparagus sales.</p>
January 1999	<p>Miandetta executive visits Iwate and Miyagi Co-ops meeting the Executive Directors and Presidents of both co-operatives.</p>
September 1999 to January 2000	<p>Full scale sales in Iwate Co-op of Koala asparagus. Sales data indicate that the volume of asparagus sold by the co-operative has increased 4.5 times since they introduced Koala asparagus as a 'semi-<i>sanchoku</i>' product. Sales have expanded to the Joint Buying System – a clear indication of full acceptance of the product by members.</p>

The basic research undertaken on the co-operative movement assisted both parties to evaluate the potential to partner. Information on the size of the co-operatives, their product requirements, attitudes and supply arrangements enabled Miandetta Farms to establish if the co-operatives were large enough to take their product and had the potential for growth needed to warrant the investment of time and effort in establishing the relationship.

Iwate Co-op was provided with information on the operations of Miandetta Farms that enabled them to establish if Miandetta could supply the right product at the right time.

A key factor in this process was the credibility of the researcher to both parties. The social bond between the researcher and both parties, plus the Government support reduced the risk for the partners. The level of trust was enhanced by the introduction being performed by the researcher.

Verification took place over a twelve month period, with Miandetta required to provide detailed information on their production processes (particularly chemical usage); soil and water test results; information on total production and supply chain partners and verification by external organisations (distributors, Government). Samples of asparagus product were also sent to Iwate Co-op during the first season, for testing.

Stage 2 - Defining purpose

An agreed upon set of mutual goals and objectives, the furthering of social bonding, and trust development are the ideal outcomes of the defining purpose stage. (Wilson 1995, p. 341)

Iwate Co-op and Miandetta Farms management were able to create a business friendship through the visits undertaken to Japan and to Australia. Senior staff of Miandetta visited Iwate Co-op and Iwate Co-op sent their senior buyer to Australia to visit Miandetta Farms. In both cases the business meetings were supported by social activities including dinners hosted by the co-operative in Japan, and homestay for the Iwate Co-op buyer on the farm.

In addition, the communication between Iwate Co-op and Miandetta Farms was regular (at least once per month) by fax and assisted by Austrade staff based in Sendai, south of Iwate. This demonstrated commitment and helped to build the trust between the two organisations.

Whilst there was no overt establishment of purpose through a formal document, the regular contact, both physically and by fax, allowed the two organisations to better understand each other's goals and to negotiate mutually beneficial arrangements.

Stage 3 - Boundary definition

Boundary definition defines the extent each partner becomes part of the other organisation and achieves joint action.

In the case study there was no physical or tied financial links established between the two firms. However, both organisations made changes to their operations in order to accommodate the needs of the relationship.

For Iwate Co-op, this meant changing their relationship with their usual distributor and encouraging them to source product from a supplier with whom they had never dealt. This was a significant change for them. Another co-operative that began buying Miandetta's asparagus but had less commitment to purchasing Miandetta's product gave up buying the product because it infringed on their established distribution network.

Iwate Co-op also changed their store arrangements, highlighting the source of the product to their members with photos of the Miandetta farm and the principals.

Adaptation is also a construct of boundary definition. In this case study, Miandetta Farms made changes to their production and distribution system to accommodate the requirements of Iwate Co-op. The development of the business required negotiation with their distributor, who had not traditionally supplied into that area of Japan. The maintenance of identity was also a significant issue for the distributor/importer who was required to change the way in which they handled the product to ensure that Iwate Co-op received only Koala asparagus. Miandetta Farms changed the sizes of product they were supplying to Iwate Co-op, to suit the co-operative's needs. This required modification of the packaging roster on the farm.

No formal contract was written. A single sheet of paper with details of specifications and a 'handshake' was all that was required – such was the trust and strength of the relationship.

Stage 4 - Creating relationship value

For a relationship to have value, each partner must see some benefit beyond working independently. In the case of Iwate Co-op, the main benefit was in being able to obtain a guaranteed supply of a high quality product that they could reassure customers was grown according to their standards.

For Miandetta Farms, Iwate Co-op offered a new market and the possibility of expansion that would allow them to grow their area of asparagus. Iwate Co-op, although buying only a small quantity, was a premium market offering prices above the market level. Miandetta was also able to obtain direct feedback from Iwate Co-op on product quality and consumer response. This factor was missing in their existing relationships. Thus the value created included market access, pricing and market information.

Non-retrievable investments, mainly in the form of costs associated with relationship establishment (travel, information transfer) were a feature of this relationship. The cost for both firms was not high relative to their turnover and is unlikely to be a deterrent to changing partners.

Stage 5 - Relationship maintenance

Wilson (1995, p. 343) notes that ‘variables such as trust, performance and satisfaction become latent in the maintenance of the relationship phase’.

During this research, the relationship between Miandetta and Iwate Co-op became very stable with Iwate Co-op continuing to purchase Koala asparagus each season and Miandetta Farms visiting Iwate Co-op at least once every year. The fact that Iwate Co-op does not send buyers to the farm every year and now relies on the information flow from the distributor/importer, rather than directly from the farm, indicates that the relationship has matured and that the trust, performance and commitment are well established. The costs to both firms of maintaining the relationship are not high.

6.2.1.2 Supply chains

The case study observations on the supply chain between Miandetta Farms and Iwate Co-op, relative to the model developed by Lambert et al (1996) are shown in Table 6.7.

Table 6.7 *Iwate Co-op/Miandetta Supply Chain vs Lambert et al (1996) model*

Lambert Supply Chain Model	Iwate/Miandetta Supply Chain
Drivers:	
Asset/Cost Efficiencies Potential for cost reduction	No indicated cost savings at this stage, although there is some potential for direct deliveries to the co-operative in the future. Not seen as a major driver for this relationship.
Customer Service Service improvements for customers	The priority given for Iwate Co-op product ensured on time delivery and higher quality than relying on the wholesale markets. Miandetta appreciate the direct customer feedback and firm orders prior to the season.
Marketing advantage Enhance marketing mix; ease entry into new markets; provide access to technology and innovation	Miandetta gained access to a new market offering significant potential for growth through this partnership
Profit Stability/Growth Potential for profit improvement Long term volume commitments Reduced variability in sales; joint use of assets	Iwate Co-op saw the fresh asparagus as being a product leader in their stores attracting greater sales and new customers. Miandetta saw the opportunity for growth in sales and a stable volume and well priced market.
Facilitators	
Corporate compatibility Shared compatible values Meshed cultures and business objectives	Iwate Co-op and Miandetta share values and a business philosophy focussed on long term shared gain for business partners.
Managerial philosophy and techniques eg organisational structure and attitudes towards employee empowerment	Both partners are very inclusive of their staff and involve staff in the decision making process. Quality management are high priorities.
Mutuality Management ability to put themselves in their partners shoes; developing joint goals, share sensitive information and take a long term perspective	Both partners shared detailed information on their operations and their relationship with others in the supply chain. Business exchanges were open and frank. Both partners had a long term perspective, with short term profit, not their highest priority.
Symmetry Demographically similar, relative size, market share, financial strength, company reputation	Both partners were medium sized businesses with good growth potential and excellent reputations.
Components:	
Planning Joint planning	The partners worked together to plan the supply required and to manage the available supply.
Joint operating controls Ability to change the operations of the other for the good of the partnership	Minor changes have been made to the Miandetta operation. Iwate Co-op changed their distributor to suit the change to using Miandetta's preferred importer.
Communications Effective communications on a day-to-day and a non-routine basis	Fax communications were regularly used and personal visits were important to developing the relationship
Risk/Reward sharing Concept of shared destiny	Prices were adjusted over the period to help each partner to make a profit. Iwate Co-op accepted losses during the establishment phase and actively promoted the product to other co-operatives to ensure the viability of the relationship and assist Miandetta to maintain and improve profits. Both companies saw the future of the other as important.
Trust and commitment Loyalty	This was demonstrated by both sides during the case study period through commitment to supply and price management.
Contract style -short, or non-existent	There is no formal contract.
Scope - including more of the economic activities in the partnership	Miandetta and Iwate Co-op commenced discussions about purchase of other products
Financial Investment Sharing of financial resources	There was no sharing of financial resources evident during the study period.

Source: Adapted from Lambert et al. (1996)

6.2.1.3 Summary

The case study supports the theory on relationship marketing and supply chain development. Some key observations from this case study are that the effective development of the relationship was assisted by:

- The support and recommendation of a recognised authority (the Queensland Department of Primary Industries) that provided a third-party view of both firms.
- The recommendation of a person trusted by the co-operative (the researcher)
- Miandetta was producing a quality product, setting and maintaining high standards of supply, and willing to modify their production to suit the customer
- Both Iwate Co-op and Miandetta believed in being open and honest with their partners
- Miandetta made sure that they understood as much about the co-operatives as possible before they began negotiations
- Miandetta was patient, accommodating all the requests from Iwate Co-op for information on their operations
- Iwate Co-op believed that this was a good opportunity to develop an overseas product for their members and were prepared to take some losses in the early period of the relationship
- Whilst the market with Iwate Co-op was small, Miandetta took a long term view, recognising the potential for market expansion to the greater co-operative movement
- Miandetta and Iwate Co-op were prepared to make the investment in time and money to build the personal relationship between their staff. They achieved this despite the language barrier
- Miandetta demonstrated an ability and willingness to grow with the demands of the co-operative
- Miandetta had a good relationship with their Japanese importer/wholesaler that enabled them to enlist this company's support for the venture.

6.3 Conclusion

This chapter presented the patterns of data as discovered through the case study of the consumer co-operatives and the development of a supply chain relationship between a Queensland horticultural company and one of the co-operatives. It showed that an understanding of the characteristics of the co-operatives could assist a Queensland firm to gain access to the co-operative movement. In combination with Chapter 5, this chapter displayed the observations and summarised information obtained from the surveys and case study methods. The final chapter will discuss the implications and conclusions that can be drawn from the results.

CHAPTER 7 CONCLUSIONS AND IMPLICATIONS

7.1 Introduction

This thesis examines the potential for Queensland horticultural exporters to gain access to the Japanese market through the Japanese consumer co-operatives. It establishes that the Queensland horticultural industry is expanding and that it is essential that producers develop new export markets in order to maintain sales and profitability. Japan is identified as one of Queensland's major markets with potential for growth and that within this market the Japanese consumer co-operatives are major retailers with a membership representing approximately 25 per cent of the Japanese population. On the basis of this information the proposition that the co-operatives may offer a significant market opportunity was advanced and the following research problem was introduced to form the basis of this research investigation (Chapter 1):

RP: Are Japanese Consumer Co-operatives a means of gaining access to the Japanese market for Queensland horticultural products that can create value for all stakeholders?

A review of the literature revealed that the consumer co-operatives have established direct supply relationships with food producers and created supply chains that feature close relationships between suppliers, the co-operatives and the consumers (Chapter 2). The review of the literature on relationship marketing and supply chains (Chapter 3) showed that there is a strong theoretical basis for, and practical examples of, establishment of direct supply and relationships between producers and consumers, providing competitive advantage. The literature also provided a theoretical background on which to evaluate relationships and supply chains.

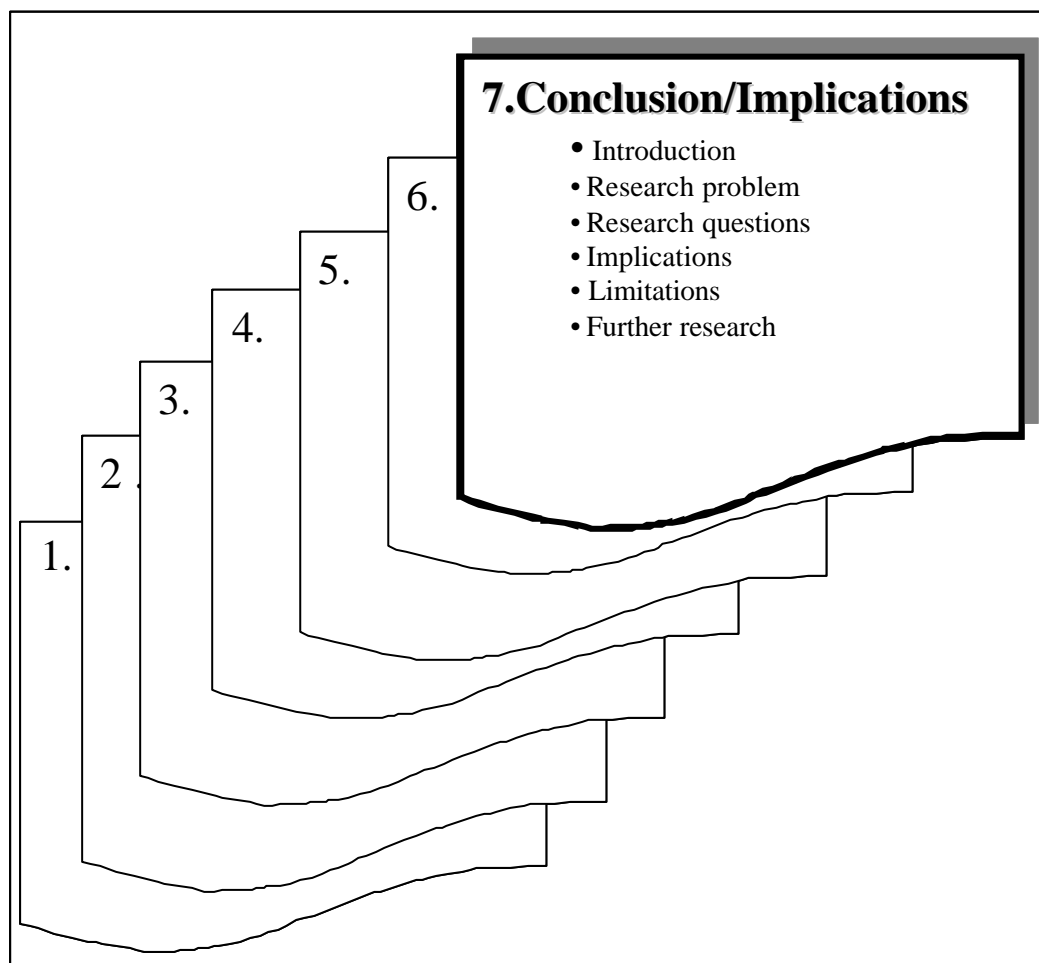
The two surveys conducted of a sample of the Japanese co-operatives provided comprehensive information on the co-operatives, their supply relationships and supply chain preferences which were related to the theory of relationship marketing and supply chain analysis. These surveys showed that principles of relationship marketing and supply chain analysis could be applied to operations of the co-operatives and that their system known as *sanchoku*, was a model which could be used by international

suppliers. From this information a checklist of key success factors was developed to assist potential exporters.

A case study examining the establishment of a supply chain relationship between a Queensland company and a Japanese consumer co-operative provided insight into the practical issues faced by companies seeking to export to the co-operatives and clearly demonstrated that Japanese consumer co-operatives provide a market entry point for Queensland producers (Chapter 6).

In this chapter it is concluded that the results of the research demonstrate that the principles of relationship marketing and supply chain management provide the foundations for a market entry strategy for the Japanese consumer co-operatives. The broader implications of this are discussed along with the limitations of the research and some suggestions made for future research. An outline of the chapter is shown in Figure 7.1.

Figure 7.1 Outline of Chapter 7



7.2 Conclusions to research problem

This research is the **first** to investigate the establishment of a supply chain into the Japanese consumer co-operatives, with the goal of discovering the how Queensland horticultural producers can access this important food market.

Based on the research, the answer to the research problem, '*Are Japanese Consumer Co-operatives a means of gaining access to the Japanese market for Queensland horticultural products that can create value for all stakeholders?*' is **yes**.

This research has demonstrated that Japanese consumer co-operatives **are** a means of gaining access to the Japanese market for Queensland horticultural products that can create value for producers and the co-operatives.

Their mode of operation known as *sanchoku*, provides a model for relationship marketing and supply chain management. This is applicable beyond the Japanese domestic market and can form the basis of a relationship-rich supply chain between international producers and the co-operatives, which add benefits for both the producer, and the co-operatives. With modern consumers seeking product differentiated on its production system (organic, environmentally sound production, non-GMO) the *sanchoku* system provides a methodology to ensure product integrity and build consumer confidence.

However, the experience learned from observation of the case study is that this opportunity requires companies with a strong commitment to export, cultural sensitivity and the skills and resources to build and maintain the relationships. It was evident that the attitudes of the staff and management of the companies and a strong understanding of the co-operatives and their philosophies is critical to success.

The conclusions to the three research questions developed in Chapter 1 provide more detail on the issues and are now discussed in turn.

7.2.1 Conclusions to research question 1

RQ 1: What are the characteristics of the supply chains for imported fruit and vegetables that are preferred by consumer co-operatives?

Research question one focussed on the characteristics of the supply chains for imported products into the consumer co-operatives and if these characteristics reflected the features of effective supply chain management.

The surveys of the consumer co-operatives showed that the majority of the imported fresh horticultural products purchased by the co-operatives came through the 'conventional' supply chains (importer, trading company, wholesale markets, and distributor) where there is no direct relationship between the co-operative and the producer. However the co-operatives preferred to establish a direct relationship with the supplier such as that used in the system known as *sanchoku* where this was possible.

The unique feature of this supply chain is that it utilises the skills of the trading companies and distribution companies to manage the supplies and logistics, but there is open and frank exchange between consumers and producers.

The key success factor is the relationship between the companies and the consumer. It was observed during the case study and the surveys that this feature is critical to the success of the supply chain. The co-operatives regard this as the most difficult characteristic to establish for imported products due to the physical distances between consumers and the producers, and the language and cultural differences between international producers and Japanese consumers.

This requires significant effort and cost on the part of the exporting firm entailing regular visits to Japan and establishing rapport with both co-operative staff and co-operative members.

It is critical for the Queensland producer to work closely with their Australian exporter and Japanese importer to convince them of the value of the direct relationship with the co-operative to ensure that they are supportive and not threatened by the arrangement. Patience, persistence and an open mind are essential.

The survey, case study and observations of the consumer co-operatives showed that their preferred supply chains mirror characteristics consistent with those of successful supply chains as drawn from the literature (Chapter 3). These are summarised in Table 7.1.

Table 7.1 Comparison of preferred co-operative supply chain with literature

Characteristics of successful supply chains	Observed characteristics of co-operative preferred supply chains
Linkages of companies from producers to consumers with a focussed consumer orientation	<p><i>Sanchoku</i> supply chains for domestic produce provide direct linkages between consumers and producers, with information shared on a regular basis through visits to stores by producers and visits to farms by consumers. Co-operatives prefer this communication also for imported product. Consumers are directly involved in the selection of the products and the on-going relationship with the producer.</p>
Collaboration/co-operation between members of the supply chain, rather than the 'traditional' adversarial approach	<p>Co-operatives prefer companies who can grow with the co-operative members' demands and work in closely with the co-operatives. The pricing formula for <i>sanchoku</i> products is based on the co-operative endeavouring to smooth out price variations to provide growers with some price stability. This relies on the grower accepting lower prices during high price periods and the co-operative paying higher prices during low price periods. The relationship between co-operative and producers is critical to managing the supply situation and logistics of supply.</p>
Networks of companies adding value for consumers	<p>The network of companies from producer to consumer added value because the consumer could identify the producer and methods of production, adding surety to safety of the products on the supermarket shelves.</p>
Sustainable competitive advantage for members of the supply chain with the focus of competition between supply chains, not between the individual companies	<p>The companies from producer to consumer were given a significant competitive advantage through ready access to the market, preferred supplier status and clear brand identification in the co-operatives. A co-operative effort between the co-operatives and the producers to promote the product in-store and to <i>Han</i> group members assists in sales growth.</p>
Greater economic efficiency and long term profitability through reducing costs, reducing stock levels and more responsive (to consumer demand) companies	<p>This aspect was not explored during the case study, but needs to be the basis of further investigation. <i>Sanchoku</i> producers and the co-operative stated that they believe that the stability provided by this arrangement, improves grower returns and reduces wastage.</p>
Stronger relationships between companies and with consumers	<p>Miandetta Farms had a much closer relationship with consumers and with their supply chain partners. They had a stronger tie to the consumer and had developed a better and stronger business relationship with the Japanese importer/wholesaler. The co-operatives expressed a clear and strong preference for supply chains where the producer is well known to the consumer and vice versa.</p>
Product differentiation through participation in the supply chain and supply chain management.	<p>Miandetta Farms were able to maintain their 'Koala Brand' from the farm to the consumer. The co-operative ensured that their product was prominently displayed with detailed information on their farm and the production methods.</p>

7.2.2 Conclusions to research question 2

RQ 2: What are the benefits accruing to the members of the supply chain (including competitive advantage) from a supply chain relationship?

The literature review (Chapter 3) noted that there are considerable potential benefits available to supply chain members. These include cost savings, increased returns and improved production control, stability in returns, better information flows, lower inventory and sustainable competitive advantage. This research was able to demonstrate that some of these benefits could be achieved in practice between Queensland producers and Japanese co-operatives.

The benefits for producers include preferred access to a growing market, promotion of their product in store and directly to members, and direct feedback from consumers on product characteristics. There are also potentially higher returns due to preferential pricing arrangements with the co-operative.

For the consumer co-operatives the primary benefits are access to supply of product grown to meet co-operative specifications, stability in pricing and the ability to alter production to suit changing consumer tastes. The co-operatives stated that the major benefit was to be able to guarantee the safety of the product they were supplying to their members and to further enhance their market position as a supplier of safe products.

The *sanchoku* style relationship offers a ‘win-win’ situation for both the co-operative and the supplying company. Whilst *sanchoku* relationships can be more easily established with domestic suppliers (particularly the regular exchange between producers and consumers), the case study demonstrated that this form of relationship could work effectively for Queensland producers.

Table 7.2 summarises the benefits as extolled by the partners during the case study and survey relative to supply chain theory.

Table 7.2 *Benefits accruing to supply chain partners*

Benefits outlined in literature	Practical example from case study
Access to a new market	Benefits to the producer The co-operatives were not a market specifically targeted by Miandetta, nor available to their Japanese importer/wholesaler.
Access to better market feedback.	The company received only limited feedback on customer requirements from their Japanese wholesaler. Miandetta were pleased to get direct feedback from the customer.
Potential for growth	Miandetta recognised the potential for their asparagus to access other, larger co-operatives as a result of their success with Iwate Co-op.
Realise value for differentiated product– either higher price and/or greater volume	Miandetta product was recognised by co-operative members, providing the opportunity for Miandetta to differentiate it and hence reduce price fluctuations, maintaining a higher overall price for the season. The co-op was able to stabilise price and provide their customers with a ‘unique’ product.
Greater certainty of production	The co-operative provided Miandetta with forward estimates of their requirements, giving Miandetta the chance to manage their production to meet the demand, minimising shortfalls and surpluses. This also provided some certainty for the co-operative for planning sales etc.
Product differentiated by safety criteria	Benefits to the co-operative The co-operative was able to obtain a product grown to meet their safety standards offering their members a better product. The co-operative was able to ensure that chemicals that their members considered dangerous were not used on the product. This enabled the co-op to make guarantees to their members and further enhance their position as suppliers of ‘safe’ products.
Reliability of supply.	Forward estimates of requirements were given to Miandetta, with Miandetta agreeing to supply at least that quantity, at the specified quality.
Potential for growth of supply during difficult periods (New Year period)	The relationship with Miandetta assisted Iwate Co-op to obtain product during a period when product is often in short supply.
Reliability of quality	The co-operative was able to minimise the variation in quality of product purchased from the wholesale markets
Meet demand from members for information on production	Miandetta’s production and quality system was made available for members, satisfying their demands for assurance on the safety and quality of the product.

7.2.3 Conclusions to research question 3

RQ 3: How can a Queensland producer establish and maintain a supply chain relationship with a Japanese consumer co-operative?

The review of literature pointed to supply chains and relationship marketing tools as a means of gaining competitive advantage and market access with the consumer co-operatives (Chapters 2 and 3). It also highlighted the difficulties in establishing and maintaining relationships. This research has provided insight, through investigation of the co-operative attitudes and preferences, and the case study relationship, into the practical issues involved in developing a supply chain into the co-operatives.

The case study revealed that a Queensland producer could establish and maintain a supply chain relationship with a Japanese consumer co-operative by producing a high quality product that meets or exceeds the standards set for *sanchoku* products. It revealed that the principles of supply chain management and relationship marketing can be applied successfully and provide a framework for establishing and maintaining the business.

As shown by the literature, trust and commitment are key constructs in relationships. The willingness of the producer to spend time to learn about their customer and to develop an understanding of their business with regular visits to Japan and face-to-face meetings with the co-op staff and the members of the co-operative was the critical ingredient to establishing trust and demonstrating commitment.

A well-prepared company – one that is export ready, understands the Japanese co-operatives and has the skills and resources - can effectively sell directly to the consumer co-operatives, building a relationship that will overcome the hurdles that may be raised by supply chain intermediaries. The direct relationship between the producer and the consumer results in the co-operative ‘pulling’ the product through their distributors and the producer ‘pushing’ the product through their distribution network. This ‘push/pull’ approach to supply chain development allows the producer and the co-operative to utilise existing supply chain partnerships (between them, the transport, export, import, trading and distribution companies) to build a completely new supply chain. In the case study, Miandetta was able to utilise their existing supply chain into Japan, linking into the distribution system used by Iwate Co-op.

Producers must have the dedication, patience and resources to make this happen. Many Queensland producers will require assistance from industry and Government.

Support from recognised bodies such as the Queensland Government was also important to the success of the case study. The assistance of the Government added to the credibility of the producer. It was a key factor in helping to overcome some of the barriers (such as language, communication, establishment of credentials and trust) faced by the co-operative in developing direct business with an international supplier.

In conclusion, the asparagus case study showed that Queensland companies can build up supply chain relationships with Japanese consumer co-operatives, based on a good quality product, high production and ethical standards, a sound knowledge of the co-operative philosophy and product requirements, and a willingness to learn and invest the time and money.

7.3 Implications for government and producers

This research has revealed that the Government can play a significant role in assisting industry to build the skills and knowledge to effectively target the Japanese consumer co-operatives. The experience of the researcher, as a Government official, was that the provision of detailed information on the co-operative operations, preferences and product opportunities was essential to the case study firm. This information allowed the case study firm to build their understanding and expertise in the co-operatives and realistically assess the likelihood of success in this market. In addition they were able to prepare targeted materials to suit the co-operative. The business was also assisted by the Government's role as the 'honest broker'.

It is the view of the researcher that Government support for the company assisted them to rapidly build the trust required to establish the business relationship. Government has a clear role to facilitate the development of the supply chain relationships through provision of strategic information on markets (including key contacts) and in building the skills and capacity of producers to access these markets.

The research has reinforced the view held in the literature that bringing producers and consumers closer together can create value for both, and for members of the supply chain. For producers interested in the Japanese market the research has demonstrated that a business relationship based on supply chain management with the co-operatives

can achieve this goal, providing both direct feedback from the consumer and profiling the company's products to the consumer.

Critical among the key success factors is an understanding of the requirements of the co-ops and their basic philosophies, particularly their desire to assist Japanese agriculture, whilst ensuring that their members obtain the safest possible product at a reasonable price. It was evident from the study of the co-operatives and the case study, that Queensland firms with empathy to these, at times, conflicting goals, are likely to have a greater chance of success in building a strong and lasting relationship with the co-operatives.

Further, Queensland exporters who are prepared to undertake the regular exchanges between their company and the co-operatives will not only enhance their relationship with the co-operative and build consumer confidence in their product, but will also obtain the benefits of direct promotion at the consumer end. The experience with Miandetta farms showed that the business relationship with Iwate Co-op strongly promoted their brand to consumers and positively benefited sales into other outlets. Such is the regard that their Japanese competitors hold for the co-operatives.

The research questions and the rich data collected through the case study and survey questionnaires have provided detailed information on the key success factors which can assist potential exporters interested in targeting the Japanese consumer co-operatives. The practical implications are summarised in Table 7.3.

Table 7.3 Key success factors for Queensland companies

Key success factor	Implications
Understand the Japanese consumer co-operative market.	Requires research and visits to the co-operative, agricultural areas, wholesale markets, distributors to gain a good understanding of the environment in which the co-operatives operate, competitors, existing supply chain relationships and so on can involve considerable cost.
Have a similar philosophy on life as the co-operative members	The co-operatives are seeking companies who are philosophically aligned with their members. Profit is not the sole driving factor for the co-operatives, although being competitive is important.
Have some previous experience exporting to Japan.	Demonstrates an understanding of the market and ability to supply consistently. May require companies to establish markets through 'conventional' traders prior to approaching the co-operatives.
Desire to change to suit the co-operative requirements (methods, crop type or variety, crop timing, expansion, upgrade or use alternate machinery).	The co-operatives are looking for partners who are prepared to modify their farm operations to produce a product that meets their members' needs, such as reduction in chemical usage, adoption of environmental and food safety programs.
Regular Japan visits and willingness to allow farm visits by co-operative members.	Regular exchange between members and the producers is an important feature of the relationship sought by the co-operatives. Can be a significant cost.
Use well recognised quality systems.	Food quality and safety must be able to be established by meeting well-recognised standards (such as the International Standards Organisation guidelines).
Able to document farm processes and methods.	Consumers are demanding detailed information on chemical usage and environmental stewardship.
Ability to guarantee supply.	The product is identified in the supermarket and the co-operative must meet their obligation to their members to supply this particular product – it is difficult for them to substitute product.
Understand that the co-operatives are concerned about the wellbeing and benefits to the producer and the consumer.	Where possible co-operatives seek to support Japanese agriculture and are concerned about the food security of Japan. This impacts on their willingness to use imported product when domestic product is available – even if the domestic product is more expensive.
Prepare information for the co-operative on the farm, farm processes, handling methods.	Suppliers must recognise the co-operatives emphasis on food safety, the environment and preference for family operations and reflect this in the presentation of company brochures (in Japanese and English).
Show the farm is a family orientated concern	This is a priority for co-operative members. The co-operative members prefer to support family companies and deal with other co-operatives, where possible.
Maintain direct contact with the co-operative via fax, email and telephone.	This may be difficult with language and cultural differences however the direct relationship is the key to success.
Methods to minimise the language differences	Language and cultural differences can cause concerns and blockages during the development of the relationship. Considerable effort, goodwill and understanding is required to overcome these issues.

7.4 Limitations of this research

A limitation was the inclusion of only 10 of the regional consumer co-operatives in the survey. Whilst the 10 co-operatives were the largest and were considered by the JCCU to be leaders in co-operative operations and co-operative policy, the research highlighted the fact that there could be many smaller innovative co-operatives that may be seeking *sanchoku* style suppliers from overseas.

Another limitation of this research is the single case study. Whilst the Miandetta Farms/Iwate Co-op asparagus supply chain successfully achieved market entry and a competitive advantage for the company, the inclusion of only one example case invites the criticism that the circumstances of this supply chain development are unique. It is recognised that the single example may not be widely applicable, however it did clearly demonstrate the feasibility of targeting the co-operatives directly and in a structured way. The research also provided some key lessons that may be applied to other companies looking at the Japanese market and seeking a reliable supply chain partner at the consumer end.

In addition, the research focussed primarily on the producer and the co-operatives and did not investigate the other supply chain partners such as the trading companies, transport operators and distribution companies.

7.5 Further research

As this research was predominantly exploratory in nature, it revealed four main areas that require further research to refine the approach of exporters to the co-operatives and enhance their chances of success in this market.

Firstly, multiple case studies of firms who are developing, or have developed relationships with the co-operatives are required to determine the factors which are common to all and can be applied generally. Other Australian companies such as Stockyard Pty Ltd and Brigalow Beef Company have established direct relationships with Japanese co-operatives. There are also international examples such as the Philippine bananas and New Zealand pumpkin squash that could be included in the research. This data could be used to evaluate how many of Queensland's horticultural companies could potentially gain access to the Japanese consumer co-operative market.

Secondly, funding available and time considerations restricted the selection of the co-operatives included in the survey. The conclusions drawn from the survey are restricted by this selection process and may have missed some key issues and opportunities that would have been revealed from a more extensive survey of the co-operatives. For example, an assumption was made by the researcher that the larger co-operatives would be more likely to develop international *sanchoku* style relationships due to their available resources and potentially more outward looking views. However, the research showed that it was a medium-sized co-operative that showed the greatest interest, and in fact, went ahead and established the asparagus supply chain. The research also suggested that the larger co-operatives might, in fact, be too large for many Queensland suppliers requiring product deliveries far in excess of the producers' capacity. A survey of the mid-sized co-operatives may reveal many opportunities and attitudinal issues not seen in the larger co-operatives.

Thirdly, this research did not investigate the costs of establishing and maintaining the relationship, both in terms of time and money. It was evident from the case study that the relationship development process was both expensive and time consuming and may be beyond the financial and physical resources of many Queensland companies. Additional research is required to evaluate the costs and benefits to assist potential exporters to evaluate the Japanese consumer co-operatives as a target market.

Fourthly, the case study supply chain was monitored for a period of three years, during which time the relationship and product exchange developed and continued to grow. Further monitoring is required to evaluate if the expectations in terms of growth in supply and profitability are met in the medium to long term and to evaluate the impact of changes, such as the stagnation of the Japanese economy on the business and the relationship. This would be extremely valuable information for potential exporters in assessing the potential long-term gains.

7.6 Concluding comments

This research has demonstrated the benefits of seeking to build strong relationships between producers and consumers and the applicability of relationship marketing and supply chain management theory to business between Queensland producers and Japanese consumers.

As consumers increasingly demand food characteristics based on production and handling systems (such as organics and environmental management), the organisation of supply chains to ensure identity preservation and product integrity will become critical to success in international markets.

Sanchoku- like systems will be the future for many Queensland exporters. This research has demonstrated that both in theory and practice, the *sanchoku* model provides new opportunities for companies to build competitive advantage and gain access to new markets.

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APPENDICES

Appendix 1: Expression of interest for industry participants

Co-op survey 1997

Japanese Consumer Co-operatives Project Expression of Interest

Company Name

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Contact Details (Contact Name and Address)

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Main Products

Please list the major products your company is involved in. Tick the boxes to indicate whether the product is for the export and/or domestic market. Tick the final box if you are interested in exploring opportunities for further market development in Japan for each product.

Products	Export	Domestic	Interest in exploring market development in Japan
1.			
2.			
3.			
4.			
5.			

Export Sales

Please indicate the percentage of export sales to total sales in each of the last three seasons.

	1994	1995	1996 (estimated)
Export Sales (per cent)			

Export Markets

Please list the major export markets your company focuses on. Also indicate the percentage of total export revenue for each market.

Market	Percentage of total export sales
1.	
2.	
3.	
4.	
5.	

Export Activities

Please describe any export activities (excluding sales) in which the company has been involved. This may include trade shows, exhibitions, promotional activities, market visits and product samples.

Quality and Environmental Management Systems

These systems will be an important part of the marketing strategy, particularly in terms of food safety and low chemical use. It is desirable that the organisation has control of the product quality as it leaves the country. Please describe the nature and scope of the systems that are used in your organisation to manage these issues.

Product Modification

Please discuss the company's commitment and ability to modify their product to meet specific product requirements of the Co-ops.

Group Involvement

Initial research indicates that a cooperative-to-cooperative approach may be the most appropriate strategy for selling to Japanese Consumer Co-op. Please discuss the company's interest and willingness in entering into a cooperative arrangement with other Queensland horticulture companies to supply the Co-ops.

Statement of Interest

I would like to be involved in the market research project into the needs of Japanese Consumer Cooperatives. I understand that this will require up to two days commitment by my organisation to help the project team develop an understanding of my operation and to help focus the in-market research. In return for this, I will receive a full report of the in-market research and a detailed report about the market requirements for my specific product.

The information I have supplied in this expression of interest is correct. I understand that this application is confidential and will be used only for the purposes of selecting the organisations to be involved in this project.

Name:**Signature:**

Appendix 2: Questionnaire - February 1997

The co-operatives in the sample were sent the following questionnaire – translated into Japanese – with an explanation of the purpose of the project and details of the researchers. Information on the researchers was requested by the co-operatives and assisted in giving the survey credibility.

Questionnaire

Japanese Consumer Co-operative Project

Queensland Department of Primary Industries, 1997

THE RESEARCHERS

Mr Rick Ada is a Principal Agricultural Economist based in Toowoomba. He is a very experienced researcher who has been with the DPI since 1975. He has extensive experience in Queensland industries having been stationed in Bundaberg, Gympie, Atherton, Mareeba, Kingaroy and Toowoomba during his years with the Department. He has recently completed two years in Japan where he studied the Japanese Consumer Co-operative movement with the co-operation of the JCCU, Iwate Co-op and Miyagi Co-op. He has written a book, with Mr Hiroto Kawasaki from Iwate Co-op, titled “Sanchoku in Japanese Consumer Co-operatives” which is the first book about sanchoku written in English.

Mr Stuart Pullar is a Senior Marketing Specialist based in Brisbane. He has had over four years experience with the Department and has been the project leader for a number of marketing and business development projects in primary industries. This will be Mr Pullar’s first trip to Japan.

Goals of Research

- To better understand Japanese Consumer Co-operatives’ requirements for imported fruit and vegetables
- To develop a better understanding of Co-operative philosophies and modes of operation
- To develop a closer relationship between Japanese Consumer Co-operatives and the Queensland Government
- To study the latest trends in Co-operatives, particularly in relation to sanchoku.

Research Plan

- To conduct a personal survey of senior staff and fruit and vegetable buyers in the JCCU and the 9 major regional Co-operatives during February/ March 1997, with the co-operation and endorsement of the JCCU.

Information Required

- Consumer Co-operatives’ specifications and requirements for imported fruit and vegetables (fresh and processed)
- Co-operative attitudes towards imported products, particularly Australian products
- Information on each of the Co-operatives (number of members, turnover, policies)
- Latest trends in the Co-operative. New activities, sanchoku, etc.

Key Issues:

Part One: Co-operative Policy

KEY ISSUES we wish to discuss:-

The history and basic philosophies of this Co-operative.

Basic Coop Statistics (1995-96):

A1. The number of members; turnover; number of *Han* groups; sanchoku sales by type of product; breakdown of sales by type.

A2. Coop Statistics (1995-96):

Number of Members		Sanchoku Sales by Type:	
Number of Stores		Meat	
Number of <i>Han</i> Groups		• Beef	
Number of <i>Han</i> Members		• Pork	
% of Households that are Members		• Chicken	
Full Time Employees		• Other Meats	
Sales Area (m2)		Seafood	
Total Turnover (¥)		Fruit	
Av. Annual Purchases per Member (¥)		Vegetables	
Breakdown of Sales: (¥)		Others	
Fresh Foods		Total Sales by Product Type :	
Dry Foods		Meat	
Non-Foods		• Beef	
Others		• Pork	
Retail Sales by Type of Operation		• Chicken	
Store Sales		• Other Meats	
Joint Purchase		Seafood	
Catalogue sales		Fruit	
Others		Vegetables	
		Others	
		Total Sales by Source :	
		• Imports	
		• Domestic	

Imported produce

- Where it is coming from now
- How the Co-operative and members feel about imported products
- Co-operative policies on imported products

If the Co-operative is planning to import directly

International sanchoku

- The Co-operative's ideas on international sanchoku
- Opportunities for international sanchoku or contracts for fruit and vegetables
- Conditions for international sanchoku

Co-operative plans for imports and international sanchoku.**Joint venture arrangements****Part Two: Co-operative Systems**

Key Issues we would like to discuss with purchasing staff include:-

- Direct import of fruit and vegetables
- Problems with imported produce
- Sources of imported produce
- Requirements for imported fruit and vegetables

Specifications (what do members want); quantity (how much is needed); timing (when are they needed)

Experience with international sanchoku.

The future needs for imported fruit and vegetables.

Part Three: Case Study - Specific Product Information

To collect specific information on the co-operatives requirement for international produce we would like to focus on one or two products in each Co-operative. Products of particular interest include broccoli, strawberries, asparagus, mandarins, green beans, bananas, and sweet corn.

Issues are:

- Where the product is bought
- Imports of this product
- Co-operative specifications for this product
- Quantity required by members and when it is needed.
- How the Co-operative would like it packaged and processed
- How members use this product.
- Product testing by the Co-operative
- Organic products
- Setting prices for producers

Appendix 3: Survey plan – November 1998

This survey plan and a covering letter were sent to the targeted co-operatives (in Japanese) prior to sending out the questionnaire.

Japanese Consumer Co-op Survey Plan

Queensland Department of Primary Industries, November 1998

THE RESEARCHER

Mr Rick Ada is a Principal Agricultural Economist based in Toowoomba. He is a very experienced researcher who has been with the DPI since 1975. He has extensive experience in Queensland industries and spent two years (1993 and 1994) in Japan where he studied the Japanese Consumer Co-operative movement with the co-operation of the JCCU, Iwate Co-op and Miyagi Co-op. He has written a book, with Mr Hiroto Kawasaki from Iwate Co-op, titled “Japanese Consumer Co-operatives and Direct Transactions - Sanchoku” which is the first book about sanchoku written in English. He previously visited co-ops in February 1997. He is doing a Masters degree with the University of Queensland on the subject of Japanese co-operatives.

Goals of Research

- To better understand sanchoku in Japanese Consumer Co-ops.
- To develop a better understanding of Co-op operations (supply chain management).
- To study the latest trends in Co-ops, particularly in relation to sanchoku.
- To develop a closer relationship between Japanese Consumer Co-ops and the Queensland Government

Research Plan

- To conduct a personal survey of senior staff and fresh food (fruits, vegetables and meat buyers) in the JCCU and the 5 major regional Co-ops during November 1998, with the co-operation and endorsement of the JCCU.

Information Requested

- The supply chains from producer to consumer for sanchoku and non-sanchoku products in Consumer Co-ops’ for domestic and imported fruit and vegetables.
- Co-op attitudes towards sanchoku, GMO’s, frozen organic and low chemical vegetables, imported products and
- Latest trends in the Co-op. New activities, sanchoku, etc.

Key Issues

KEY ISSUES I wish to discuss are:

1. Co-op supply chains. What are the differences between supply chains for sanchoku products, non-sanchoku products and imported products. What are the advantages of each system and the relationship that the co-op has with other companies in the supply chain.
2. Sanchoku products. What are the latest trends? What are the important sanchoku products? Are there any sanchoku-like products coming from overseas?
3. Frozen organic and low chemical vegetables. What are the opportunities for these in the co-ops?
4. Asian vegetables. Are there opportunities for Australia to supply some Asian vegetables to co-ops?
5. GMO's. What is the co-op attitude to GMO products?
6. Beef. What is happening with the beef market in the co-ops? How well is Australian beef competing?

Appendix 4: Questionnaire - November 1998

As with the 1997 survey, the co-operatives interviewed were sent a copy of the following questionnaire (translated into Japanese) after a covering letter outlining the purpose of the survey and information on the researcher.

Japanese Consumer Co-operatives Questionnaire November 1998

Your answers to these questions will remain confidential and the data will be presented so that you are not identified.

Produce from the producer to the consumer. (Supply Chain)

1. Where do you prefer to obtain fruit and vegetables for your co-operative?
(Number in order from 1 to 6 – 1 being the most preferred)

	Source	Rank
1	Sanchoku product - local	
2	Sanchoku product – Japan	
3	Local produce	
4	Produce grown in Japan	
5	“Sanchoku” products from overseas	
6	Other products from overseas	
7	“Green Program”	

* Note Miyagi Co-op calls option 5 (*Yunyu-sanchokuhin*), *Yunyu teikeihin*, or contracted imported products.

2. What is the main supply chain used by your co-operative for fresh fruit and vegetables?

For example:

1. Producer → Co-op store or distribution centre
2. Producer → Wholesale market agent → Co-op store or dist. Centre
3. Producer → Ag. Co-op → Co-op store/dist centre
4. Producer → Ag. Co-op → Wholesale market agent → Co-op store
5. Producer → Ag. Co-op → Wholesale market agent → Wholesaler Coop

6. Producer → Exporter → Importer/Trading company → Wholesale market agent → Wholesaler → Co-op store/dist centre

7. Producer → Exporter → Importer → Co-op store

8. Other

The producer, co-operative, wholesale market agent etc are all “members” of the supply chain.

% Use of supply chains.

Chain	% Usage
1	
2	
3	
4	
5	
6	
7	
8	

3. Please compare a Sanchoku supply chain to your main supply chain

Could you please rate a “sanchoku” supply chain to the main supply chain you use for fruit and vegetables, using the following scales?

How important is this characteristic to this supply chain?

Rating Scale 1: 1. Not important, 2. Slightly Important, 3. Important, 4. Very important

How often does this supply chain meet this characteristic?

Rating Scale 2: A. Never, B. Sometimes, C. Often, D. Always

Statements about Relationships/Operation	Sanchoku (Japanese product)	Main supply chain (Japanese product)
“In relation to the supply chains how do they meet the following characteristics?”		
The name of the producer is known	(eg 4D)	
The methods of production are known		
Lower rates of chemical are used		
There are regular exchanges between members and producers		
Performance of the Supply Chain		
Product is delivered to the co-operative within 24 hours of harvest		
Products meet co-operative quality standards (freshness, appearance, size etc.)		
Quantities supplied are able to be varied to suit co-operative needs		
The supply chain is very efficient (low cost and a short time from producer to consumer)		
In general, there is enough profit to the co-operative from selling the produce		
Members are very satisfied with the products		
Prices are very competitive		
Relationship between chain members		
There are strong written contracts		
Chain members believe that it is better to work together than to work separately		
There is good communication between the co-operative and all other members of the chain		
Members of the chain are well known to each other		
Members of the chain share confidential business information		
Members of the chain tell each other about any changes which will affect other businesses in the chain		
The members of the chain have good long term business relationships		

4. What do you do to maintain a strong relationship with your supply chain partners? (eg regular meetings, annual party etc.)

OVERSEAS PRODUCE.

5. What fruit and vegetables are you seeking to buy more of from overseas? (including Asian vegetables)
6. What products would you like to buy from Australia?
7. Do you buy sanchoku products from other co-operatives? If so, what % of your sanchoku sales?
8. Do you sell any international “sanchoku” products?

Certified Organic produce

9. What do you estimate the % of certified organic fresh produce of total produce sales sold by the co-operative is? (eg 20% of fruit and vegetables, 10% of meat sales)
10. Are these sales growing as a % of total sales?
11. What are the major organic products sold by the co-operative? (eg bananas, beef, daikon, tomatoes etc.)

FROZEN PRODUCTS

12. What are the main types of frozen organic produce you sell? (eg edamame, mixed hot vegetables etc.) Where do these frozen products mainly come from?
13. For which products are sales increasing?
14. What premium price is paid for these products? (eg 20% higher or 10% higher etc.)
15. Are there any other frozen products you would like supplied?

LOW CHEMICAL FROZEN PRODUCTS

16. What do you consider to be “low chemical”?
17. What are the main low chemical frozen products you sell? Where do they mainly come from?
18. For what low chemical products is the demand increasing?
19. Is there a price premium paid for these low chemical products?
20. Do you advertise low chemical and organic produce to members in any special way?

GMO's (Idenshi kumikae)

21. How do members feel about GMO's? Have you surveyed members?

22. Is your co-operative taking any action in regard to GMO products? (eg labelling, testing, advertising)
23. Do you think that GMO free products will sell at a premium price?

Information on Australia and Queensland

24. Is there any information your co-operative would like on Australia?
25. What assistance can DPI/Austrade/ Queensland Government give to your co-operative?

Thank You for Your Assistance

Rick Ada, Principal Agricultural Economist, DPI Toowoomba. Australia 4350

The Queensland Department of Primary Industries and the Rural Industries Research and Development Corporation are funding this project.

Appendix 5: Miandetta questionnaire - November 1998

Japanese Consumer Co-ops Questionnaire for Miandetta

1. Please compare a Sanchoku supply chain to your main supply chain

Could you please rate the “sanchoku” supply chain (Iwate Co-op) to the main supply chain you currently use for fruit and vegetables, using the following scales?

How important is this characteristic to this supply chain?

Rating Scale 1: 1. Not important, 2. Slightly Important, 3. Important, 4. Very important

How often does this supply chain meet this characteristic?

Rating Scale 2:. A. Never, B. Sometimes, C. Often, D. Always (eg 4D)

Statements about Relationships/Operation	Previous supply to Japan	Supply to Japan	Supply to Japanese Co-ops
“In relation to the supply chains how do they meet the following characteristics ...?”			
The name(s) of the retailers are known			
The methods of production are known to consumers			
Lower rates of chemical are important			
There are regular exchanges between Miandetta and retailers			
Performance of the Supply Chain			
Product is delivered to the customer within 24 hours of harvest			
Products meet customer quality standards (freshness, appearance, size etc.)			
Quantities supplied are able to be varied to suit customer needs			
The supply chain is very efficient (low cost and a short time from Miandetta to consumer)			
In general, there is enough profit to customer from selling the produce			
Customers are very satisfied with the products			
Payment is made promptly			

Returns to Miandetta are satisfactory			
Relationship between chain members			
There are strong written contracts			
Chain members believe that it is better to work together than to work separately			
There is good communication between the co-op and all other members of the chain			
Members of the chain are well known to each other			
Members of the chain share confidential business information			
Members of the chain tell each other about any changes which will affect other businesses in the chain			
The members of the chain have good long term business relationships			

3. What did you do to maintain a strong relationship with your supply chain partners? (eg regular meetings, annual party etc.) (previous exporter)

4. What do you do to maintain a strong relationship with your supply chain partners? (eg regular meetings, annual party etc.) (current importer).

5. What do you do to maintain a strong relationship with your supply chain partners? (eg regular meetings, annual party etc.) (to Iwate Co-op)

Thank You for Your Assistance

Rick Ada, Principal Agricultural Economist, DPI Toowoomba. Australia 4350

The Queensland Department of Primary Industries and the Rural Industries Research and Development Corporation are funding this project.

Appendix 6: Interview contacts list

The following list of contacts was developed during the surveys in February 1997 and November 1998.

Tokyo

Coop Tokyo

- Yoneo FUKAZAWA, General Manager, Produce Buying
(Mr Kazuo SUGIMORI, Executive Director)

Co-op Tokyo, 1961 Ashihara, Niizo Toda-Shi Saitama 335

Phone: 048-445-8228

Fax: 048 441-1453

Japanese Consumer's Cooperative Union (JCCU)

- Toshio TOGASHI, Manager, Agricultural Products Section
(Mr Ryuichi KANEKO, General Manager, Fresh Food Division)

JCCU Produce Department, 4-1-13 Sendagaya Shibuya-Ka Tokyo 151

Phone: 03-3497-5512

Fax: 03-3497-9062

- Akira Kurimoto, Manager, International Department
- Jiro Ito, Commodity Development Division
- Ryuichi Kaneko, General Manager, Merchandise Division
- Katsunori Suhara, Food Program Section, Business Planning Office
- Takashi Matsumura, Executive Director
- Shuichi Watanabe, Product Safety Planning Office
- Takeyoshi Fujioka, Executive Director

Queensland Government Office

- Tony Hogg, Director - Japan
- Kazue Yamanaka, Administration Officer
- Hiroshi 'Harry' Onji, Deputy Director - Japan, Manager - Investment
- Nigel Traill, Marketing Manager

Consumers' Cooperative Research Institute, Japan

- Takenori Sasano
- Shigeru Ohki, Researcher
- Shigeo Ohshima, Chief Researcher

Japan Research Institute

- Shunichi Nozaki, Associate Researcher

Other

- Toshio Oyama, Researcher of Japanese Agricultural Policy and Economy
- Shiro Tsuruta, President, Maruta Organic Agricultural Product Association

Saitama

Saitama Co-op (Saitama Co-operative Society)

- Mr Mineji Nakamatsu, Manager, Merchandise Department
(Mr Shinji Kobayashi, Assistant to Managing Director)

Saitama Co-op

1-5-5 Negishi Urawa-Shi Saitama 336

Phone: 048-667-4122

Fax: 048-651-5186

- Hiromi Fujinami, Executive Officers Assistant
- Hitoshi Muroya, Assistant to Managing Director
- Hiroshi Iida, Agri-product Manager, Merchandising Division Consumers' Co-operative Association - Saitama

Other

- Yoshiyuki Horiuchi, General Manager, Tokyo Fresh Foods Distribution Center, National Federation of Agricultural Co-operative Associations, Zen-Noh

Kanagawa

Co-op Kanagawa and U Co-op (Consumer Co-operative Federation)

- Yoshihiro Maruyama, Manager, Merchandise Planning Office

(Mr Terumichi Kawase, Managing Director)

U-Co-op Federation, 2-5-11 Shin-Yokohama Kouhoku-Ku Yokohama-Shi, Kanagawa, 222

Phone: 045-474-6940

Fax: 045-472-1182

- Hiroyuki Kitayama, Import Coordinator, Overseas Merchandise Group, Merchandise Division
- Toru Takada, Coordinator, Overseas Mdse Group, Merchandise Division

Other

- Dr Kazue Inoue, Professor, The School of Agr. Economics, Meiji University, Kanagawa

Sendai

Miyagi Coop

Mr Katsumi Ito, Section Manager of Fresh Food Department

Miyagi Co-op, 40202 Yaotome, Izumi-Ku Sendai-Shi Miyagi 981-31

Phone: 022-373-1222

Fax: 022-218-2457

Miyagi Consumers' Co-operative Society

Dr Isaac Yaw Asiedu, Member Relations Department In-charge of: International and Environmental Section

Iwate

Iwate Consumers Co-operative Society

- Yoshimasa Kato, Executive Director

Sapporo

Co-op Sapporo

- Mr Yutaka KITAMURA
(Mr Toshio MAEDA, Director, in charge of fresh food) Co-op Sapporo
Kita 4-Jou, Nishi-11, 13 Chuo-Ku, Sapporo-Shi Hokkaido
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- Hiroto Tanaka, Buyer, Produce Department
- Kazuyuki Kashio, Buyer, Produce Department
- Makoto Mizuno, Senior Manager, Produce Division
- Masayuki Kato, Senior Manager, Perishables Division
- Kazumasa Ishibashi, Buyer, Produce Division

AUSTRALDE Australian Trade Commission

- Kyuichi Kobayashi, Marketing Manager
Australian Consulate, Sapporo
5th Floor, Daiwa Bank, Sapporo Building, North 1, West 3-1, Chuo-ku Sapporo 060
Japan
Phone: 81-11-242-4381
Fax: 81-11-242-4383
- John Kellett, Trade Commissioner and Consul

Fukuoka City

F-Co-op

- Mr Michio WATANABE, Manager Merchandise Department
(Mr Takuro KAWAMURA, General Manager, Merchandise Division)
F-Co-op Dai Hakata Bulding, 4F, 2-20-1 Hakata Ekimae, Hakata-Ku Fukuoka-Shi,
Fukuoka 812
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- Makoto Inoue, Chief Buyer, Department of Agricultural Products

AUSTRALDE Australian Trade Commission

- Christopher Rees, Consul and Trade Commissioner
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Other

- Dr Kohei Kobayashi, Professor, Department of Agricultural Economics, Kyushu University

Kobe

Co-op Kobe

- Mr Masami Akagi, Section Manager, Agri-Food Department
(Mr Hiroaki Yagyu, Director) Co-op Kobe
1-3-19 Sumiyoshi Honmachi, Higashi Nadu-Ku Kobe-Shi, Hyo go 658
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- Masao Harada, Manager, Agri-Product Merchandising Department
- Mitsuo Okada, Assistant Manager, Overseas Merchandise Department
- Fumihiko Saruwatari, Buyer, Agri-Product Merchandising Department

Kyoto

Kyoto Co-op

- Mr Shigeo Takahashi, Deputy Manager, Merchandise Policy Department
(Mr Hidekazu Kitamura Manager, Merchandise Policy Department, Kyoto Co-op
1-2 Ishihara Kamikawaharacho Kissoin, Minami-Ku, Kyoto-Shi, Kyoto 601

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Fax: 075-691-6331

- Chihoko Seukawa, President
- Mr Sawai, Research
- Mr Nishimura, Executive Director

Kyoto Prefectural Union of Consumers' Co-operatives

Norio Nakagawa, Vice Chief

Osaka

Osaka Izumi-Shimin Co-op

- Mr Satoshi Nagao, Section Manager, Product Development Department
(Mr Saburo HAMADA, Manager Joint Purchase Merchandise Department)

Osaka Izumi-Shamin Co-op

2-2-15 Minami Hanataguchicho, Sakai-Shi Osaka 590

Phone: 0722-32-3355

Fax: 0722-25-2516

- Mr Kamai, Hirokazu, Distribution Centre

Australian Consulate General

- Shigeru Ohmori, Research Officer (Commercial)
- David Eckford, Marketing Officer
- Minoru Kitada, Senior Marketing Manager
- Michiko Moriya, Guidance and Instruction Department

Maxim Co., Ltd

- Kazuaki Ninagawa, Managing Director
- Migaku Kudou, Cut Vegetable Charge

Mikuriya Vegetables. Co., Ltd

- Akira Sando, Manager, Sales Department
- Kiyoshi Hosoda, President

Other

- Toshikazu Horihata, Managing Director, Horitomi Corporation
- Jun Sakai, Special Staff for Customs Co-operation, Osaka Customs, Ministry of Finance

Chiba**International Express Co., Ltd**

- Takeshi Ouchi, Manager, Tokyo Airtransport Division, Narita Physical Distribution Center
- Hiroyuki Abe, Office Manager, Narita Physical Distribution Center

Other

- Dr. Shuzo Teruoka, Professor at Postgraduate Research Institute of TOA University, Japan; Director of the Institute of Agriculture and Co-operatives
- Fumiyuki Nagato, International Affairs and Research Division, Customs and Tariff Bureau, Ministry of Finance
- Tadatsugu Matsudaira, Senior Assistant Director, International Affairs and Research Division, Customs and Tariff Bureau, Ministry of Finance, Japan
- Shigeru Usami, Professor of Agricultural Economics, Faculty of Agriculture, Utsunomiya University, Tochigi-Ken, Japan.

Nagoya**Tokai Coop**

- Mr Kikuchi, Executive Director
- Mr Sakata, Executive Director
- Mr Sakade, Direct Transaction System Coordination

Appendix 7: Overview of the co-ops interviewed

Japanese Consumers' Co-operative Union

Established in 1951, the national coordinating body for the co-operative is the Japanese Consumers' Co-operative Union (JCCU). The majority of co-operatives throughout Japan are members. The JCCU is the largest wholesaler in Japan and performs a number of functions, the most important being:

- Coordinating the activities of the members at a national level
- Planning, development and supply of the Co-op Brand products
- Guidance of member co-operative staff on management and staff education

The JCCU also formulates national policy, operates other businesses such as insurance, publishing and a travel agency and represents members at national and international levels.

The JCCU provides research and product testing facilities and has a subsidiary, Co-op Trade Japan Ltd., set up in 1966 to act as the international trading organ. Co-op Trade Japan has trading relationships with co-operatives and businesses in 25 countries and maintains offices in 9 of these. The main items traded are marine products, food, clothing and logs for import. In 1994 some ¥30 billion of product were imported for use in co-operatives by Co-op Trade Japan. The JCCU also manages the Co-op Brand, an in-house brand for products produced specifically for the consumer co-operative and marketed nationally.

The JCCU was thus able to provide the viewpoint from the national perspective as the representative of the co-operative movement, and also a view as a major wholesaler and importer for the co-operatives.

Co-op Tokyo

Co-op Tokyo is the fourth largest regional retail co-operative, based in the metropolitan area of Tokyo, with limited agricultural production within its area of supply. Sales are balanced between the Joint Buying System (JBS) and stores, with approximately 40% of sales through the stores and 60% through the JBS. On average, 7.9% of total fruit and vegetable sales are imported products (vegetable sales 5.1%, fruit sales 12.8%). In 1994, 580 000 tonnes of vegetables and over 1.7 million tonnes of fruit were imported.

The highly urbanised base of the co-operative, impacts on its basic philosophies and operations. Given membership size, one of the ongoing concerns of the co-operative is to determine the needs of members.

Co-op Kanagawa

Co-op Kanagawa is the largest co-operative and takes the lead role in the U Co-op group. U Co-op is a federation of seven co-operatives with their head office based in Yokohama, south of Tokyo. The members are Co-op Kanagawa, Co-op Shizuoka, Yamanashi Central Citizen's Co-op, the All Seamen's Co-op, the Fuji Film Co-op, Suzuki Co-op and Uraga Co-op. Established in 1990, U Co-op had 178 stores including 14 very large supermarkets. U Co-ops' main competitors are Fuji-Super, Sotetsu Rosen, Sanwa, Daiei and Ito Yokado.

U Co-op directly imported (1997-98) some 10% of vegetables, 20% of fruits, 60% of marine products and around 30% of beef products. On average, 14% of fresh produce is imported. The total value of direct imports in 1997 was approximately ¥22 billion.

Saitama Co-op

Saitama Co-op is located in Saitama prefecture, an agricultural area adjacent to and north of Tokyo. It is the 6th largest retail co-operative with a gross turnover for the year ending March 1999 of ¥100.4 billion and membership of 462 133. Turnover is evenly distributed between the JBS and the stores, 43% of members use the stores and 55% use the JBS. Saitama Co-op have more than 60 stores with plans to expand the number of larger stores.

The co-operatives' primary competition is from Ito Yokado, Daiei, Yaoko and Yono foods. The use of imports is lower than many other co-operatives as an emphasis is placed on the local product and imports occur only for out of season produce.

Saitama Co-op is the main member in a federation of co-operatives called Co-op Net which takes in co-operatives from Saitama, Chiba, Tochigi, Ibaraki and Gunma prefectures. Co-op Tokyo joined Co-op Net in 1999. The main purpose of the business federation is to assist in development of new stores, joint merchandising and shared use of computer and Joint Buying System (JBS) facilities.

The aims of Co-op Net are outlined in the following two groups.

1. Actions to be followed:
 - Making efforts for the development of co-operatives in each prefecture.
 - Co-operating with each member within a prefecture to establish a strong regional co-operative that supports the individuality and responsibility of members.
 - Consolidating members to ensure equality and benefits.
 - Promoting co-operative enterprise by focusing on co-operative use and the accumulation of knowledge and systems.
 - Cultivating exchange activities among executives and union members, valuing personal relationships and exchange.
2. Co-operative enterprises to be promoted:
 - Co-operative development and stocking of products.
 - Co-operative purchase, co-operative development of systems concerning shops and service enterprises, and co-operative use of knowledge.
 - Collecting information and knowledge.
 - Co-operative use of facilities and equipment for circulation and production.

Miyagi Co-op

Based in the northern part of the island of Honshu in Miyagi prefecture, Miyagi Co-op is the fifth largest retail co-operative. With 438 773 members and a turnover in excess of ¥101.3 billion (year ending March 1999), the co-operative is based in the city of Sendai and is located in an important agricultural production area. As a result, the co-operative has access to products grown within its area and the nearby prefectures. Many of the co-operative members are farmers or have relatives on the land, and hence, have influence over the policies and directions of the co-operative.

Miyagi Co-op sales are made primarily through stores with less than 30% of sales being made through the JBS. Fruit and vegetables represent 12.6% of a total turnover, which includes a wide range of goods from fresh foods to clothing and hardware. The co-operative is experimenting with new technologies in sales including computer shopping and is also one of the leading co-operatives in Japan with regard to development of *sanchoku* produce.

Miyagi Co-op has a number of strategies to help it meet the competition including membership of COMO Japan and the SUNNET group. Both these groups provide the co-operative with bulk buying power and technical support.

- COMO Japan is a consortium of 11 of the major co-operatives, including Co-op Kobe. COMO develop and sell Co-op Brand products such as canned goods, toilet papers, sanitary goods, sweets etc., large quantity items produced by large companies. Members have confidence in the Co-op Brand because of the strict product specifications and safety

testing. COMO mainly handles dry goods from national manufacturers. This arrangement gives the co-operative bulk buying power. COMO also handles imports.

- SUNNET is a federation of three neighbouring co-operatives (Miyagi Co-op, Iwate Co-op and Kyoritsusha Co-op) aimed at reducing the operational costs. SUNNET provides computer system support for ordering, store management and accounting and intends expanding membership to include other co-operatives in nearby prefectures. SUNNET also does some merchandising and product development for the member co-operatives. At present there is no direct import through SUNNET as it is difficult to check quality and control chemical usage. The headquarters of SUNNET is in Miyagi prefecture.

Iwate Co-op

Iwate Co-op is a mid-sized regional co-operative based in Iwate prefecture, formed in 1990 after the amalgamation of six smaller co-operatives. With a membership of approximately 127,000 and an annual turnover of ¥35.1 billion, Iwate Co-op, like many other regional co-operatives, has faced severe competition from the supermarket companies over recent years. Despite this, the co-operative has continued to grow and develop. To meet the competition, Iwate Co-op are reducing their number of smaller stores and developing new and larger supermarkets. Two were completed in 1996 with a further 3 to be built throughout the prefecture over the next few years.

Sixty per cent of sales are made through the stores with the balance through the JBS. The co-operative plans to have 15% of the Iwate population as members by the year 2001 (1998 at 10%). The co-operative is based in a rural prefecture, and like Saitama Co-op and Miyagi Co-op, has ready access to local produce and producers. It also has a very active *sanchoku* program. Iwate Co-op is representative of a mid-sized co-operatives' view of imports.

Co-op Sapporo

Co-op Sapporo is based in Hokkaido (Hokkaido prefecture), the largest island located to the north of the main island of Honshu. Hokkaido is a very productive agricultural area, however, production is restricted to the warmer months as the area experiences very low temperatures and snow during winter. Co-op Sapporo is the second largest of Japan's retail co-operatives with a turnover in excess of ¥154.6 billion and a membership of 866 674. Since the survey was conducted, the co-operative has experienced serious financial difficulty and is currently being supported by the JCCU. It faces strong competition from Ralse, Nichi, Daiei and Jusco supermarket companies.

F Co-op

F Co-op is based in the prefecture of Fukuoka on the island of Kyushu. The co-operative is the tenth largest in Japan and has a membership of more than 384 188 and an annual turnover of ¥60.9 billion (year ending March 1999). The co-operative has a very high level of *Han* membership - more than 64% of membership belong to the *Han*. The *Han* system was the traditional operational method of the co-operative, promoting social contact between members and was the democratic base for the co-operative. The co-operative has used the profits from the *Han* system to build stores in areas where they are likely to be successful. There is a growing trend towards store usage as the number of working women increase.

F Co-op has 15 stores in total, 13 stores of around 500 - 600 square metres in floor space and two of around 1 300 square metres. The larger stores will be where the growth is. The small stores will be replaced as the co-operative has plans for another ten large stores.

F Co-op has also started direct deliveries to individual members, rather than going through the *Han*. Some 20 000 members find the direct delivery method convenient and receive individual deliveries.

Co-op Kobe

Co-op Kobe is the largest of Japan's retail co-operatives with 1 367 565 million members and an annual turnover of ¥365.1 billion (year ending March 1999). The co-operative was formed in 1962 following the merger of Nada Consumer Co-op and Kobe Consumer Co-op. These earlier co-operatives were formed during the severe depression after the First World War in 1921.

Fruit and vegetables account for 10% of all sales turnover. Total fruit and vegetable sales in 1996 were ¥33 444 million of which ¥2 585 million was sold through the JBS. Co-op Kobe is predominantly based on store sales with 80% of all turnover through the stores. A JBS was not started until well after the co-operative was established.

Co-op Kobe offers a wide range of services to its members including large and modern supermarkets, convenience stores, one large department store (Seer), a general merchandise store, and co-operative home and living centres. The co-operative also provides group purchase facilities to 330 000 members and a number of other business services including funeral, insurance, wedding and resort services. Member activities include volunteer services to the aged, UNICEF, youth activities, support for sound environmental home practices, and member education centres.

Co-op Kobe merchandises more than 3 000 items under the Co-op Kobe brand which meet the members' needs for safe, quality products. Specialised brands such as 'Copopote', 'Green Products', 'Factory Made' and 'Alternative Foods' cater for the very young, the elderly, the environment-conscious, and those seeking organically produced products.

Co-op Kobe is a member of the JCCU and the lead co-operative in the K-NET organisation. K-NET is an organisation of eleven co-operatives located in the Kobe region which have been brought together to achieve economies of size through bulk purchasing. Co-op Kobe is also an active member of COMO Japan.

Kyoto Co-op

Kyoto Co-op is the seventh largest retail co-operative with a total membership of 444 910 members and an annual turnover of ¥67.5 billion (year ending March 1999). The co-operative is based in Kyoto Prefecture.

Services provided by the co-operative in addition to food and daily necessities include a tourist bureau, housing, funeral service, pest control, insurance and services for the aged. Kyoto Co-op offers members a wide range of Kyoto Co-op brand products from rice to milk, fresh vegetables and soy sauce. Products from the Co-op Brand range and products produced specifically for the K-Net group of co-operatives supplement these products. A speciality of Kyoto Co-op is their local produce, known as Kyoto original vegetables, a range of vegetables grown within Kyoto Prefecture. Kyoto Co-op is a leading co-operative in *sanchoku* and was responsible for developing a list of acceptable and banned chemicals for use in *sanchoku* production.

In 1994 Kyoto Co-op started the 'Green Box' system for local fruits and vegetables. Under this system weekly deliveries are made to members of local Kyoto vegetables with boxes selling for ¥980 per box and including five to six items per box. Items are processed the day before delivery and include Kyoto products only. The place of origin and the producer are promoted. In 1997, 3 000 boxes per week are packed at the *Han* packing centre, with the *Han* members ordering weekly from a catalogue.

Osaka-Izumi Co-op

Osaka-Izumi Co-op was the ninth largest retail co-operative in Japan, based at the southern area of the Osaka prefecture.

Sales of fresh produce are predominantly made through the *Han* groups, with only 20% of total sales being made through the 26 small stores owned by the co-operative. With this focus on the JBS, the Osaka-Izumi Co-op has a strong policy of support for local producers. Only 5% of vegetable sales and only 18% of fruit sales are from imported product. Even imported seafood is relatively low when compared with other large co-operatives with only 47% of total sales.

Appendix 8: ‘Green Program’

(Source: U Co-op staff)

The Green Program is a ‘food lifestyle’ plan proposed by U Co-op.

Co-operative cooperates with the producers in supporting the sound development of agriculture and fisheries. At the same time, the Green Program aims to provide members with a food lifestyle about which they can be re-assured.

STANDPOINTS OF GREEN PROGRAM

1. It aims to create safe and reassuring production for both producers and consumers.
2. It places emphasis on consideration for the environment in production processes (cultivation, fertilisation).
3. Cultivation records (production journals) are kept and the information made public.
4. Co-operative personnel and members are able to enter production sites at any time to investigate the state of production, etc.
5. Emphasis is given to keeping members informed and involved.
6. It accurately evaluates the efforts of the growing regions and producers.

Green Program (farm produce) criteria

1. Cultivation (fertilisation) journals are kept.
2. Coop personnel and members are able to enter the production sites at any time and investigate the state of production, quality, etc.
3. There are set testing programs established and testing is conducted in accordance with those programs.
4. Cooperatives and producers evaluate cultivation (fertilisation) and results every year.
5. Highly dangerous agro-chemicals are not used.
 - a. D-grade* ichthyotoxic chemicals (water-contaminating agro-chemicals) are not used.
 - b. ‘Designated poison’ and ‘poison’ agro-chemicals of acute toxicity are not used.
 - c. Constant evaluation of agro-chemicals used for each crop is conducted, while efforts are made to reduce the use of agro-chemicals.
6. Agro-chemicals that have been de-registered or that are no longer manufactured are not used.

* The toxicity of agro-chemicals is divided into four grades of ichthyotoxicity (water-contaminants), from A, the least toxic, to D, the most toxic.

What the Green Program (farm products) is designed to achieve.

1. The long-term sustained maintenance and improvement of soil fertility.
2. The maintenance of a positive relationship with the natural environment in all aspects.
3. The maintenance of agricultural production that does not have an adverse effect on the health of farmers, their families and the surrounding community.
4. A guarantee that producers will achieve appropriate rewards for their labour and feel a sense of satisfaction, and that they can sustain a comfortable lifestyle.

Certification and Accreditation

Japan's certification bodies^{TN:}

Name	Office Location	Establishment date	Established by:	Products covered
Japan Ecological Agriculture Association	Tokyo	February 1988	Farmers, distributors, local public bodies	
Japan Organic and Natural Foods Association	Tokyo	January 1993	Processors, Retailers	Mainly processed foods
Japan Organic Agricultural Produce Association	Tokyo	January 1996	Poultry and livestock producers	Livestock
Union of Axis Committees	Morioka	February 1992	Group of parents of children with allergies, later joined by local governments, agricultural cooperatives and processing industries	Mainly grains
Japan Central Organisation of Organic Agriculture Producers Associations	Tokyo	January 1998	Maruta Organic Agricultural Production Union	Fruits and vegetables, rice
Organic Certification Association (tentative)	Kumamoto	Autumn 1998	Scientists in Kumamoto Prefecture	Produce and livestock
FVO	Yokohama	November 1997		
QAI	Kawasaki	October 1996		

FVO (Form Verified Organic) . . . IFOAM-accredited organic foods certification body.

IFOAM . . . The only international body in private sector certification of organic products. (In Europe, where legal standards are already in place, the relevant government department of the EU nations accredits private-sector certification bodies in each country)

IFOAM was established in 1972, and has its headquarters in Germany. It is a non-profit organisation. At present, it operates the only international program for the accreditation of certification bodies in the organic foods industry.

Certification Individual certification bodies investigate specific farms or factories to ascertain whether or not their operations conform with 'organic standards', and certify them as such.

In this case, the certification body 'grants certification' to the farm or factory, certifying that their produce or products conform with organic standards.

^{TN:} Names of organisations are literal translations, as official English titles could not be confirmed.

Certification bodies - public/private, funding, expenses, technical experts (investigators), documentation, investigation methods, who pays for investigation, responses to trouble or irregularities

Accreditation The operations of individual certification bodies conducting such certification activities are examined and supervised to ascertain whether or not they are conducting certification of organic food products fairly and neutrally, and whether or not their organic standards are appropriate. If so, those certification bodies are 'accredited'. In other words, individual farms and factories do not receive accreditation from 'accreditation' bodies.

LIST OF AGRO-CHEMICALS AND OTHER CHEMICAL SUBSTANCES

1. Agro-chemicals prohibited under the Green Program

(1) D-grade ichthyotoxic (water-contaminating) agro-chemicals
(2) Agro-chemicals listed as 'designated poisons' or 'poisons'
(3) Post-harvest agro-chemicals (excluding those used for fumigation by plant quarantine authorities at point of importation into Japan)
(4) Agro-chemicals that have been de-registered or are no longer manufactured
(5) Problematic agro-chemicals

1. Agro-chemicals that, while not prohibited, are recognised as problematic and are subject to reduction with discussion with farmers

(1) Harvesting aid agro-chemicals used for drying
(2) Agro-chemicals which the American Science Academy had indicated as being highly carcinogenic (10 chemicals)
(3) Carcinogenic agro-chemicals publicised by the EPA (87 chemicals)
(4) Harmful agro-chemicals under the EPA's 30/50 program
(5) C-grade ichthyotoxic agro-chemicals
(6) Immunotoxic agro-chemicals

Appendix 9: Iwate Co-op inspection sheet.

(Source: Iwate Co-op)

Date:

Location:

Name of Owner:

1. Ability of leaders

- Age of leaders
- Ability to manage the group
- Passion to innovate
- How many years in farming

2. Cultivating area

Total area (ha)

Total Tonnage and turnover (A\$)

- 1.
- 2.
- 3.
- 4.

3. No. of full time workers

No of workers in the farming season

No. of workers in the off season.

4. Farming Conditions

- Temperature
- Rain and Irrigation
- Natural fertility
- Manure or fertiliser
- How to make soil

5. Name of chemicals used, how much, when and for what.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

6. Quality Control

- How long from harvesting to packing shed

- Harvesting time
- Working conditions in packing shed
 - Sanitary
 - Rational working
 - Temperature control
- Voluntary inspection
 - Grade
 - Taste
 - Residual chemicals

7. Export to Japan (beginning)

How

Volume

8. How long from the farm to the airport

9. Do you operate as an exporter (to save trading company cost)?

10. Do you have any hopes to export to Iwate Co-op?