

Consumer Co-operative Institute of Japan

Plaza F 15, Rokubancho, Chiyoda-ku, Tokyo
102-0085, Japan

Tel. 81-3-5216-6025 Fax. 81-3-5216-6030

ccij@jccu.coop

<http://www.co-op.or.jp/ccij/>

Main
Features

Regional Co-operative Consortiums Face Stiffer Competition

Hideo Kawahara, Researcher of CCIJ

As retail business has become more competitive in Japan with decreasing population and dwindling consumer spending, consumer co-operatives are now struggling to survive. To their disadvantage, sales figures for co-operatives are comparatively small; even the largest association ranks 25th in the Japanese retail industry. This is partly because the Consumer Co-operative Law prohibits the merger of Co-operatives across prefecture borders. Under these circumstances, co-operatives seeking “economies of scale” have formed co-operative consortiums since 1990, which are a legitimate form of consolidation.

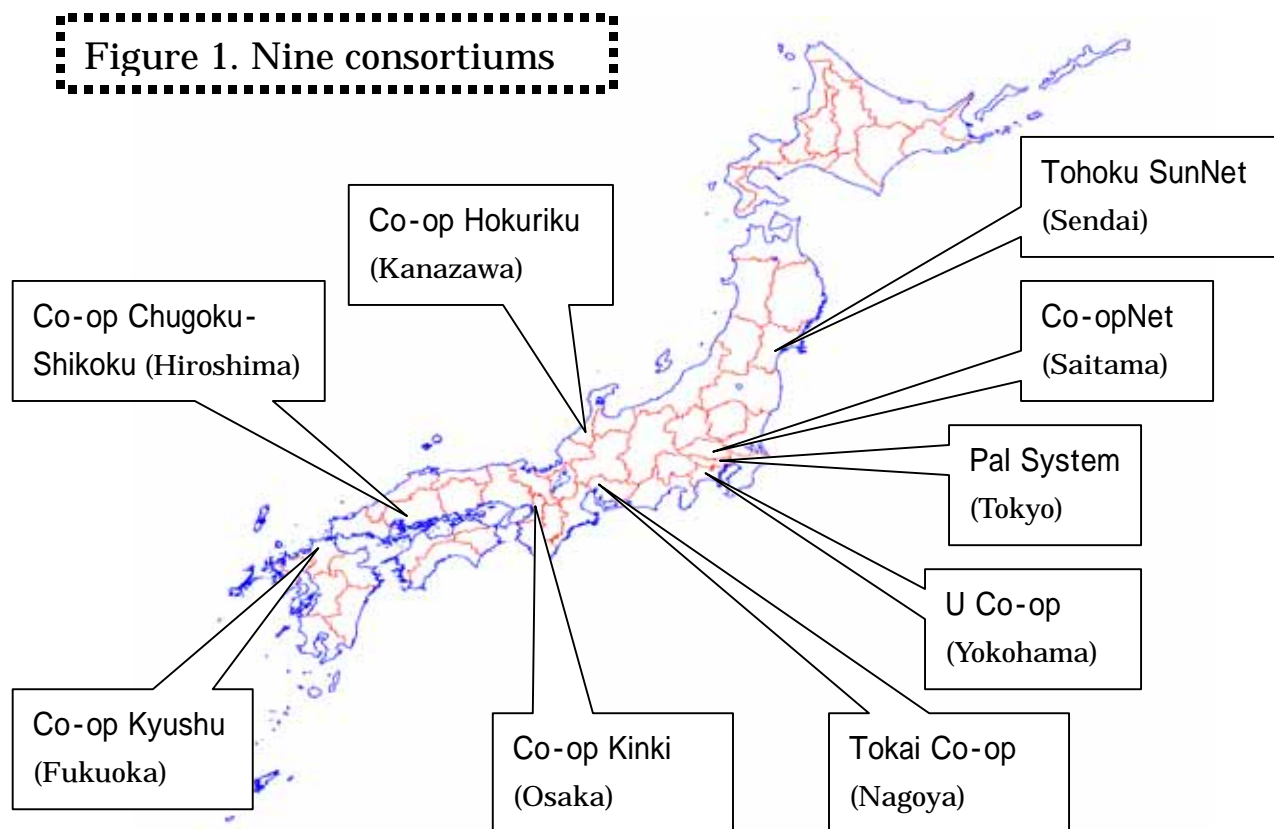
The CCIJ Annual Research Conference held in October 2005 was devoted to this issue. Here is a summary of the reports presented at the Conference.

Profile of Co-operative Consortiums

With the formation of Co-op Chugoku-Shikoku in July 2005, co-operative consortiums now cover most parts of Japan. There are currently thirteen co-operative consortiums. Nine of them are as follows:

Contents;

Main Features: Regional Co-operative Consortiums Face Stiffer Competition by Hideo Kawahara	1
News in Brief	6-7
• JSCS Conference Discussed on Co-operative Sector and Community Care	
• CCIJ Award Given to Deputy Mayor and Researcher of Social Co-op	
• International Forum on Social Economy and Social Enterprises in Tokyo	
• CIRIEC Japan's Conference Discussed Social Security and Network Infrastructure	



*A pointer indicates head office's location whose name is mentioned in brackets.

Table 1. Basic figures of consortiums

	consortium's sales 1)	primary co-operatives		concentration 3)
		sales 1)	membership 2)	
Tohoku SunNet	42,674	176,741	831	36%
Co-opNet	267,789	433,565	2,594	86%
Pal System	106,064	150,861	765	96%
U Co-op	163,230	224,356	1,655	97%
Tokai Co-op	64,257	98,197	586	87%
Co-op Hokuriku	18,735	35,160	256	72%
Co-op Kinki	30,063	241,760	1,489	17%
Co-op Chugoku-Shikoku	NA	209,916	1,366	NA
Co-op Kyushu	64,446	192,056	1,377	46%
Total	757,258	1,762,612	10,919	67%

1) fiscal year 2004, in million yen

2) as of March 2004, in thousand household

3) buying amount through consortium/total buying amount

- Tohoku SunNet established in 1995 has five member Co-ops in the northern region. Miyagi Co-op has played the pivotal role in the buying and logistics.
- Co-opNet was established in 1992 and has seven members in the Kanto region. Originally it was created as a consortium in the northern Kanto region, but later involved Saitama Co-op and Chiba Co-ops. Finally it was joined by Co-op Tokyo in 1999.
- Pal System Consortium was established in 1990 although its origin dates back to 1976 when 15 smaller co-operatives in the Kanto region began joint-purchasing activities.
- U Co-op established in 1990 covers the prefectures of Kanagawa, Shizuoka and Yamanashi. Co-op Kanagawa has the leading role in store development, buying and logistics.
- Tokai Co-op was established in 1994 by four Co-operatives in Aichi, Mie and Gifu. It has specialized in co-op's home delivery business to Han groups.
- Co-op Hokuriku established in 1992 has three members in Fukui, Ishikawa and Toyama.
- Co-op Kinki established in 2003 has seven members in Osaka, Kyoto, Shiga, Nara and Wakayama.
- Co-op Chugoku-Shikoku was founded recently and covers nine prefectures; five in the Chugoku region and four in the Shikoku region. The two regions are divided by the inland sea.
- Co-op Kyushu was established in 1992 by eight co-operatives in the Kyushu region including the southernmost island of Okinawa.

The concentration of buying largely differs from U Co-op or Pal System (96-97%) to Co-op Kinki (17%). There is a tendency that consortiums with a higher concentration make larger investments in logistics while those with a lower concentration make smaller investments, depending on the logistic facilities operated by primary co-ops.

Other than these regional consortiums, the 2nd largest co-op, Co-op Sapporo has achieved full-fledged concentration of all consumer co-ops on Hokkaido island through the merger of Kushiro Co-op and the transfer of engagements from 3 other co-op societies while the largest, Co-op Kobe has developed a strategic alliance with its sister Osaka Kita Co-op by sharing merchandising and human resources.

How Consortiums Function

The most important function of a consortium is joint purchasing from manufacturers and wholesalers at reduced prices. But the extent of integration of business functions of consortiums varies from one region to another. It largely depends on the consensus on the development strategies among top leaders. Here are some examples:

- Nine Co-operatives of the Pal System Consortium concentrate the purchasing and related logistic functions to the Consortium, with the aim to allow member co-operatives to concentrate on serving their members. The U Co-op is also serving affiliated co-ops through consolidated services. Both consortiums have invested in facilities for distribution and processing on behalf of member co-operatives.
- By contrast, the consortiums in the Tohoku and Kyushu regions have only limited functions. More than half of all commodities sold are being independently purchased by their member co-ops. Both consortiums have little assets because distribution facilities are owned by member co-ops.
- Joint purchasing lowers wholesale prices as well as other expenses. Co-op Tokyo, the fourth largest Co-op in Japan, joined Co-opNet in 1999, and successfully reduced their purchasing price by around 2 percent. These advantages are applied to processed foods, which are often mass-produced rather than fresh foods including vegetable, fruits and fish. Co-op home-delivery operations with relatively fewer items offered through a catalogue can benefit from joint purchasing compared to store operation, which handles a much larger number of items.
- Member co-ops of Pal System Consortium purchase merchandise for their store operation individually, partly because the assortment is not yet unified and the volume is not large enough to justify consolidation.

It is sometimes difficult for member co-ops to reach consensus on which merchandise to carry as their merchandising policies differ. Consumer tastes differ from prefecture to prefecture and even within the same prefecture. For example, Co-opNet covers seven prefectures in the Kanto region. The Tokyo area tops other prefectures with regard to average household income and per household spending. In contrast, the prefectures of Ibaraki, Gunma, Tochigi and Nagano, which are more dependent on agricultural industries, have com-

paratively low household incomes. Chiba and Saitama prefectures are both rural and urban and thus show both of these characteristics.

Co-operatives have emphasized the Co-op brands, which are estimated to account for 40% of total sales. It should be noted that Co-op label merchandise are relatively costly to develop as higher safety standards are applied and specific ingredients/production methods are often required while aiming for competitive pricing. Even though many primary co-ops and regional consortiums have developed their own Co-op label products, they have not always succeeded to maintain competitive prices nor differentiate quality. Co-opNet, therefore, in 2000 decided to tie up with the Japanese Consumers' Co-operative Union (JCCU) to develop Co-op brand products at competitive prices.

Governance of Co-operative Consortiums

The Co-operative Consortiums, as secondary organizations, require specific arrangements in their governance structure. The general assembly, made up of directors elected from member co-operatives, is the consortium's supreme decision-making organ. The board of directors is delegated the authority to run the organization. In primary co-operatives, the board consists of executive board members and lay board members elected from the membership, while in consortiums, professional managers constitute the majority. Consortiums have some full-time executive directors on their boards, most of who are seconded on a temporary basis by member co-operatives.

Some argue that this organizational structure does not allow the opinions of individual co-op members to be reflected in the decision-making of the board. Yet, individual co-op members are expected to participate in various committee meetings and activities such as visits to farms and factories. There is a problem of how to ensure member participation in large-scale organizations, no matter if they are single or federal organizations, although dual structures cost more and require more time.

The functions of consortiums and primary co-ops often overlap. To avoid this, Co-opNet, Co-op Tokyo and Saitama Co-op, have consolidated buying and administrative functions to reduce overall costs. They are heading for a de facto merger, while merger of co-ops from different prefectures are not yet permitted under the current law.

JSCS Conference Discussed on Co-operative Sector and Community Care

The Japan Society for Co-operative Studies (JSCS) held its 25th Annual Conference on October 14-16 at Yamanashi Gakuin University, Yamanashi Prefecture. This year's symposium focused on the Co-operative Sector and Community Care. Prof. I. Tsukamoto of Meiji University moderated the discussion. Asst Prof. A. Fujii of Tohoku University discussed the restructuring of the welfare state and the emergence of social enterprises in reference to the case of the UK, while Mr. Y. Hashimoto of Nagoya Center of Community and Co-operation presented the Co-operative sector's roles in the provision of community care. Mr. H. Yamagishi of the NPO Support Center raised the question of possible collaboration between nonprofits and Co-operatives in providing community care. Prof. N. Tanaka of Tsuru University introduced the case of Italian Social Co-ops. At the Conference the new board was elected for a 2 year term. Prof. H. Yokogawa of Kyushu University was elected as the chair, while Prof. H. Aoyagi of Niigata University, T. Akeda of CUAC and Mr. A. Kurimoto of CCIJ were elected as vice chairs.

CCIJ Award Given to Deputy Mayor and Researcher of Social Co-op

The CCIJ Award was created in 1999 to commemorate CCIJ's 10th anniversary and awards grants to research projects in recognition of their excellent works in the fields of citizen's life and Co-operation. Out of 51 nominated projects, t Award were given to 'Child Rearing Friendly Society' proposed by Ms. Masako Maeda, Deputy Mayor of Yokohama City and 'Community Development of Social Economy in Italy' proposed by Prof. Natsuko Tanaka of Tsuru University. The award presenting ceremony was held at the CCIJ on November 16th.

International Forum on Social Economy and Social Enterprises in Tokyo

The notion of Social Economy was introduced by some academics, but has made little impact on the Japanese society. Neither the public, nor the media nor academia has yet to recognize it. The reasons are the lack of cohesion among existing organizations; the lack of interest shown by agricultural and consumer Co-operatives and the lack of interest these co-ops have with collaborating with emerging workers Co-ops (collectives) and nonprofits. But ever increasing socioeconomic problems such as increasing unemployment and social exclusion, the bipolarization of income, degradation of the environment and devastation of local communities has prompted many old and new civic organizations. Inspired by the Mont Blanc Meeting in 2004, in March of this year the institutes of Co-operatives, mutuals, nonprofits and trade unions formed a study group, which organized monthly workshops to learn from each other. These efforts culminated in the International Forum on Social Economy and Social Enterprises held on November 27th at the UN

University, Tokyo. It was organized by the aforementioned institutes and sponsored by the ILO Tokyo Office. It attracted 200 participants. Mr. Therry Jeantet of CJDES gave the keynote speech with simultaneous translation while Prof. Kasuya of Hosei University read the background paper. A panel discussion was held among representatives of workers collectives, nonprofits, labor banks and trade unions to discuss how to vitalize social enterprises and the Social Economy in Japan. Similar forums were held in Osaka and Kumamoto on the following days.

CIRIEC Japan's Conference Discussed Social Security and Network Infrastructure

The CIRIEC Japan's 20th Conference held on December 3-4 at Kwansai Gakuin University discussed 'Social Security and Network Infrastructure'. The Governor of Hyogo Prefecture gave the keynote address entitled 'Toward City Building to Resist Disaster' whereby he recalled the rehabilitation process after the great earthquake in 1995. The risk management of megalopolis and community building was analyzed from the viewpoints of administration, utility companies and network infrastructures. At the Conference, a new board was elected for a 2 years term. Prof. E. Shiomi of Chuo University was elected as the chair while Mr. A. Kurimoto of CCIJ was elected as one of four vice chairs.

We wish you A Prosperous and Happy New Year.

