Abstract:

Recently, farmers’ direct market has become a popular retail place for consumers especially those who live in cities. There are both pull-factors, such as consumers’ preference, and push-factors, such as aging problem of farmers, for farmers to promote their sales at farmers’ direct market. However, many farmers’ direct markets have faced some difficulties in the management of the markets, such as limited range of items, limitation in quantity, difficult access for consumers and so on. In this paper, “Shop-in-Shop” operation is proposed as one of the solutions to overcome the above problems and the factors for the success and failures of “Shop-in-Shop” operation of farmers’ direct market are examined through a case study.

From the case study, “Shop-in-Shop” of farmers’ direct market in GMS operation has brought the following results: 1) increase in sales of farmers’ direct market, 2) improvement of their popularity and that of their town among urban consumers, 3) diversification of clientele (mainly increase of aged customers) of GMS, 4) improvement of corporate images of GMS such as "treating fresh food" and "supporting agriculture in the region." Those win-win results between farmers’ direct market and GMS were brought about by factors, such as encouraging the member farmers to secure the amount of production similar to past results achieved by Farmers’ Market K in a previous case study. Those factors have strengthened the
bargaining power of farmers’ direct market with a large-scale retail company.

1. Background and Objectives of the Study

1-1 Background

Direct marketing of agricultural products is considered to be an important and alternative channel for farmers, especially for small-scale producers, not only in Japan but in many developed and developing countries. Mass marketing of agricultural products has once been realized to be an economically efficient way of distribution. In Japan, for example, the government promoted large scale main producing centers of some products during the 1960’s under the Agricultural Basic Law enforced in 1961, especially for vegetables and fruits, and also promoting joint distribution through agricultural cooperatives and wholesale markets for mass production and mass marketing. However, reasons such as greater distance between consumers and producers, less power of agricultural cooperatives for joint distribution and aging problem of farm households gave rise to direct marketing of agricultural products (Nomiyama, 1996). And more importantly, consumers have started to show some positive feelings toward local products produced in their immediate areas or their suburbs because they may be more environmentally friendly food or consumers may support local industries by buying these produce. The process of post-harvest and traceability has become also a very important concern of consumers from the perspective of food safety.

In addition, the direct marketing of agricultural product has been promoted by the Japanese government as it encourages farmers to operate value-added products through sixth industrialization and local production for local consumption campaign.

Accordingly, more and more farmers have joined direct farmer to consumer marketing, such as pick-your-own, roadside farmers’ stand, weekend market, organized
(permanent) farmers’ market, house to house delivery, peddling, rent-a-tree, gift baskets and so on. Among these, farmers’ markets can be seen most commonly in Japan. There were 16,816 farmers’ markets with total sales per year of 876.7 billion yen in 2009. It surpassed 7-Eleven in store number in Japan which had 12,753 stores in the same year.

These farmers’ direct markets are mostly located in the rural areas in Japan as it is convenient for the aged farmers to sell their products in small amounts every day and also consumers, especially from urban cities, tend to enjoy the pastoral environment of the location of the markets as well as buying fresh local products directly from farmers. The operations in rural areas, however, have several limitations as will be discussed in this paper. One of the countermeasures to those limitations is expanding their operation into urban areas. “Shop-in-Shop” is one of those attempts. Producers or groups of producers take up space in another retailer’s store and sell their products there. “Shop-in-Shop” is one of the general retail formats found in some retail shops with a space for specific brands inside stores. In the case of agricultural products or agricultural producers, “Shop-in-Shop” often appears as a farmers’ market inside the supermarket. It is interesting to see that many supermarkets try to invite farmers’ groups or individual farmers to sell their own vegetables right beside the shelves of vegetables in the store, although farmers’ market has arisen from the reaction to mass marketing by supermarket.

1-2 Objectives

Farmers’ direct market and large retail store such as supermarket and GMS are often said to be a competitive relationship. However, it is because the profit can accrue to both farmers and large retail store according to the way of the management of “Shop-in-Shop” that I have worked on this topic.
Thus, the aim of this paper is to consider the effect of "Shop-in-Shop" operation of farmers' direct market both on farmers and large retail store, and to examine the conditions and the factors for the successful management.

1-3 Methodology

The interviews at a farmers’ market and supermarket were carried out to collect primary data for the case study in addition to the literature reviews about direct marketing of agricultural products and analysis of agricultural statistics in Japan.

This research was mainly conducted in Hiroshima prefecture. Reasons for selecting the study area are: 1) Hiroshima is one of less favoured areas for agriculture in Japan as 72% of area is covered by forests and mountains. Thus, the average cultivated land under management of farm households in Hiroshima is small at 1.02 ha. The characteristics of agricultural production in the area is not mass production but a small amount of many varieties, 2) Due to severe aging problem of the agricultural sector in study area (76.4% of agricultural population is over 65 years old in 2010), the scale of production and productivity of farm household has rapidly decreased so that it is becoming hard for farmers to meet consumer requirements, such as wholesale market and supermarket, both in quantity and quality. They need alternative channel of sales of their products.

2. General Distribution System of Vegetables and Fruits in Japan and its Problems

2-1 Structures and Problems of Wholesale Market

The main distribution channel of fresh food in Japan is an extensive nationwide distribution system through the agricultural cooperatives and the public wholesale markets, so called Central Wholesale Market. The agricultural cooperatives usually collect the products
of cooperative members with commission and make a shipment to the wholesale markets or sometimes to the distribution centers of large retail chains. The wholesale markets are usually located in cities and products from agricultural areas are destined there. There are 56 Central Wholesale Markets for vegetables and fruits in 41 cities in Japan (data in 2013). Still, 44.2% of vegetables (6.1 million tons out of 13.8 million tons) distributed in Japan pass the Central Wholesale Market in 2013. The public wholesale market links the sellers and the purchasers of large amount of fresh food promptly, and it can be a place which provides a fair price with the open auctions. The wholesalers in the wholesale markets received the products from agricultural areas all over the country and set up the auctions for those products. The wholesalers receive commission fee of a certain rate of sales for finding buyers on behalf of producers.

Figure 1. Basic Distribution Channels of Vegetables and Fruits in Japan
In order to execute many and prompt dealings at the wholesale market, the standardization of food is required. Standardization can improve the efficiency of distribution. However, foods which are sub-standard (e.g., too large or too small a size, a small blemish on the surface and so on) cannot be accommodated on this large and efficient delivery channel, and in the worst case, they are abandoned at the farm.

The conditions of wholesale market system make it hard for aged producers to send their products there and they have to find alternative places where they can sell their products instead of wasting them. Also, some consumers and retailers complain about the inefficiency of the too many intermediates in the channels. Although channels of multi-stage distribution system have some contribution to quick adjustment of supply and demand, especially if they deal with many varieties of products at once, the commission for intermediate traders is easily dismissed as unnecessary cost.

These criticisms eventually gave impetus to promote a diversified marketing system where farmers directly control the system by themselves.

2-2 Current State of Food Retailing in Japan

Table1. Key Indicators of Food Retailing in Japan (GMS, Supermarket and Farmers'Direct Market)

<table>
<thead>
<tr>
<th></th>
<th>GMS</th>
<th>Supermarket</th>
<th>Farmers'D Direct Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of stores (stores)</td>
<td>1,585</td>
<td>17,865</td>
<td>16,816</td>
</tr>
<tr>
<td>Engaged population (persons)</td>
<td>378,154</td>
<td>879,075</td>
<td>119,000</td>
</tr>
<tr>
<td>Total value of sales per year (million yen)</td>
<td>7,446,736</td>
<td>17,060,922</td>
<td>876,700</td>
</tr>
<tr>
<td>Sales area per store (㎡)</td>
<td>9,403</td>
<td>1,075</td>
<td>131</td>
</tr>
<tr>
<td>Sales value per store per year (10 thousand yen)</td>
<td>409,826</td>
<td>95,753</td>
<td>5,241</td>
</tr>
<tr>
<td>Sales value per square meter per year (10 thousand yen)</td>
<td>50</td>
<td>89</td>
<td>40</td>
</tr>
<tr>
<td>Sales value per worker per year (10 thousand yen)</td>
<td>2,832</td>
<td>2,839</td>
<td>737</td>
</tr>
</tbody>
</table>


The supermarket is the main point of purchase for vegetables and fruits as 61.7% of
Japanese consumers used it as their main purchase point (data from the monitoring research for food consumption in 2004 conducted by Ministry of Agriculture, Forestry and Fishery). Supermarkets are usually located near where consumers live. In Japan, the number of GMS or huge shopping malls in suburbs has also been increasing. Supermarkets or grocery stores, however, are still common place for consumers to buy fresh food and also they serve as important workplace as shown in Table 1.

The total amount of sales per store of GMS exceeds supermarket and farmers’ direct market because the sales area coverage of GMS is usually huge. But, if we discuss about the economic efficiency based on Table 1, efficiency per sales area of supermarket is the best. As sales value of GMS includes non-food sales due to statistical limitation, we can say that farmers’ direct market has the second most efficient sales per area. Concerning sales efficiency per worker, supermarket is also the most efficient retailer, which many economists have already pointed out theoretically.

The strategies of the supermarket, however, sometimes stir up troubles for suppliers including farmers or farmers’ organization. Their buying power often depresses the purchase price and presents to the suppliers strict conditions on trade contract. For primary products especially, vegetables and fruits, supermarket has more buying power than wholesalers and producers due to their economic scale. For example, the gross margin of supermarkets for fresh food is approximately 30% or more, which is much higher than the commission rate of wholesalers and agricultural cooperatives, as shown in Figure 1. Supermarket also requires suppliers a strict standardization and sophisticated packaging of products because it is said that Japanese consumers care much about the appearance of the products. Thus, the suppliers who are able to meet the requirement of the supermarket can make a contract with or provide goods to the supermarket.
3. Advantages and Problems of Farmers’Direct Market

The conditions of retail stage of food as mentioned above displacemany suppliers such as small scale wholesalers and producers from the main stream of the fresh food distribution channel. For small scale producers, agricultural cooperatives have been working to unite farmers to boost bargaining power against large retailers. Still, as far as their purpose is to meet the requirement of mass marketing by large retailer, farmers and also agricultural cooperatives themselves suffer from their lack of bargaining power in price setting, sorting, transportation and procurement of goods in quantity, quality and variety.

As a result, some producers have started to sell their farm products directly to consumers in several ways. The most popular way is to establish a farmers’ direct market in the area where farmers produce their products. Compared with conventional distribution channel of fresh food, farmers’ direct market has many advantages (including strength and opportunity): no specific requirements for sales volume, no requirements for varieties, no standards for sorting and grading, providing brief traceability and credibility on locally produced and price setting on their own. Also, other personal gains of farmers include opportunity to meet consumers and know their evaluation of purchased products, better experiences as a farm manager as he/she has to set a price of his/her products by thinking about consumers’ preference.

On the other hand, of course, there are some disadvantages including weakness and threat, such as: small transactions, limited demand depending on location, liability of producers, an assortment of items and so on.

For example, in winter, when one visits a farmers’ direct market in Japan, one will probably find so many Chinese cabbage and Japanese radish piled on shelves while you hardly
find other vegetables in the farmers’ direct market. As the farmers are expected to sell locally grown product in the farmers’ direct market, a large amount of vegetables harvested simultaneously in the same area might appear in the market at once, unlike in the tropics where products are influenced and restricted more by season and climate, and also location. In the above case, farmers’ direct market has to find some more users or demand so as not to waste them.

Another problem which faced many farmers’ direct markets is the number of visitors that depend much on the location of the market. If the farmers open their market in agricultural area with a distance of one hour by car from the city, which is quite commonly seen in Japan, it is hard for them to have many visitors on weekdays.

In the next section, we will see how small scale farmers can overcome those disadvantages and maximize their advantages though a case study of Farmers’ Market K and its “Shop-in-Shop” operation.

4. Enlarging Farmers’ Direct Market: a case of Farmers’ Market K in Hiroshima Prefecture, Japan

4-1 Outline of Farmers’ Market K

The Farmers’ Market K (FMK) is situated in a town about two hours by the car from Hiroshima city. The town has an area of 27,829ha: 14.9% is used for cultivation and 51.0% is covered by forest or mountain. The population of the town is approximately 17,549 in 2010, and what is remarkable is that 36.0% of the population is over 65 years old. 24.7% of the working population belongs to agriculture and forestry, which is a relatively higher percentage compared with prefectural average of 3.4% and national average of 4.2%. Thus, agriculture and forestry are still important industries for the people living there. The agricultural output
of the town is 10,550 million yen per year in 2006. Their main products are livestock products, rice, vegetables and fruits as shown in Figure 2.

Figure 2 Agricultural Output of the Town in Case Study in 2006

Source: Annual Report of Agriculture, Forestry and Fishery in Hiroshima Prefecture

FMK was established in 1996 as a permanent farmers’ direct market in the agricultural town. Before its establishment, it had been operating as a weekend market of fresh vegetables and fruits since 1987. The initial reason for starting direct marketing of their products was mainly for the aged farmers to have something to live for. It started with 34 members in 1987 and expanded up to 142 at the time of the establishment of FMK in 1996. Today, 397 member producers are participating in FMK in 2013. Sales have been increased well together with an increase in the number of members, as shown in Figure 3. They sell 403.3 million yen of local agricultural products and processed food in 2013. The introduction of “Shop-in-Shop” operation has contributed 245.0 million yen out of 403.3 million yen.
Figure 3 Sales of Farmers’ Market K: 1996-2013

Source: data from Farmers’ Market K

Table 2. Brief History of FMK.

<table>
<thead>
<tr>
<th>Year</th>
<th>Facts (mainly related with shop in shop sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>Started farmers’ market (temporarily) in a rural town in Hiroshima prefecture</td>
</tr>
<tr>
<td>1996</td>
<td>Open the permanent farmers’ market “Farmers’ Market K” in a rural town in Hiroshima prefecture</td>
</tr>
<tr>
<td>2000</td>
<td>Started temporarily sales at department store in a city in a metropolitan area</td>
</tr>
<tr>
<td>2001</td>
<td>Started shop in shop sales</td>
</tr>
<tr>
<td>2004</td>
<td>Started shop in shop sales in Hiroshima city</td>
</tr>
<tr>
<td>2005</td>
<td>Establishment as a corporation “Farmers’ Market K”</td>
</tr>
<tr>
<td>2006</td>
<td>Acceleration of shop in shop sales at supermarkets in other cities in Hiroshima prefecture</td>
</tr>
<tr>
<td>2011</td>
<td>Started shop in shop sales at supermarket Y in Hiroshima city</td>
</tr>
</tbody>
</table>

Source: interview and data from Farmers’ Market K
4.2 “Shop-in-Shop” Operation of FMK

4.2.1 How they started “Shop-in-Shop” operations in the cities

“Shop-in-Shop” started operation in 2001. At that time, FMK was facing some management difficulties as I already mentioned before taking the example of Chinese cabbage and Japanese radish in winter. Furthermore, problem of unsold vegetables and fruits was more severe on weekdays. As their location is far from urban cities, their customers tend to visit FMK only on weekends as part of the leisure on holiday. On the other hand, the manager of FMK did not want to put restrictions on member farmers’ production because they seemed to derive their pride as farmers through the sales at FMK. Thus, those situations pushed FMK to find new market.

The pull factor is generated from the demand side. One year prior to a start, they had a trial sale of their products at the department store in a city near Kobe and Osaka. Fresh products brought directly from their town by FMK staff themselves were so popular that they always sold out in a few hours. They also found out that the consumers in Kobe area were willing to pay more money for their products as one vegetable which was sold for 120 yen at FMK was sold for 250 yen at their temporary shop at the department store in the city. This higher price was set with the advice of the department manager, who said that if they price their product too cheap, the consumer wouldn’t trust them. They learnt the following points from their trial sales at the department store. First, many consumers in the urban area are willing to buy real fresh vegetables. Secondly, consumers also select the product by close inspection. But, thirdly, they don’t care to pay more money to products once they are thought to be good.

The manager had decided to find a new counterpart for “Shop-in-Shop” in Hiroshima
prefecture and started its operation in Hiroshima in 2001 with GMS of a national retail group chain in City O (No.14 case in Table 3), which is located at a distance of 20km from FMK.

4·2·2 Present“Shop-in-Shop” Operation of FMK

FMK has three partner retail groups for “Shop-in-Shop” operation as shown in Table 3. Retail group A is a regional retail chain who operates over a hundred stores of GMS and supermarkets mainly in western part of Japan. Retail group B is a local supermarket chain and retail group C is a large national retail chain.

FMK owns 5 trucks that deliver the products which member farmers bring to FMK in the morning to GMS and supermarkets almost everyday.

Table 3. Present Situations of “Shop-in-Shop” Sales of Farmers’ Market K

<table>
<thead>
<tr>
<th>No</th>
<th>Types of Retailers</th>
<th>Delivery to SIS</th>
<th>Starting Year</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Retail group A&lt;br&gt; (Regional chain)</td>
<td>GMS&lt;br&gt; *case study(GMS Y)</td>
<td>everyday</td>
<td>2011</td>
</tr>
<tr>
<td>2</td>
<td>GMS</td>
<td>everyday</td>
<td>2012</td>
<td>City HH</td>
</tr>
<tr>
<td>3</td>
<td>GMS</td>
<td>everyday</td>
<td>2012</td>
<td>City K</td>
</tr>
<tr>
<td>4</td>
<td>GMS</td>
<td>everyday</td>
<td>2011</td>
<td>City F</td>
</tr>
<tr>
<td>5</td>
<td>GMS</td>
<td>everyday</td>
<td>2011</td>
<td>City M</td>
</tr>
<tr>
<td>6</td>
<td>Retail group B&lt;br&gt; (local chain)</td>
<td>Supermarket</td>
<td>everyday</td>
<td>2008</td>
</tr>
<tr>
<td>7</td>
<td>Supermarket</td>
<td>everyday</td>
<td>2008</td>
<td>City M</td>
</tr>
<tr>
<td>8</td>
<td>Supermarket</td>
<td>everyday</td>
<td>2008</td>
<td>City M</td>
</tr>
<tr>
<td>9</td>
<td>Supermarket</td>
<td>everyday</td>
<td>2008</td>
<td>City M</td>
</tr>
<tr>
<td>10</td>
<td>Supermarket</td>
<td>everyday</td>
<td>2008</td>
<td>City M</td>
</tr>
<tr>
<td>11</td>
<td>Supermarket</td>
<td>everyday</td>
<td>2008</td>
<td>City M</td>
</tr>
<tr>
<td>12</td>
<td>Supermarket</td>
<td>everyday</td>
<td>2008</td>
<td>City M</td>
</tr>
<tr>
<td>13</td>
<td>Supermarket</td>
<td>everyday</td>
<td>2008</td>
<td>City M</td>
</tr>
<tr>
<td>14</td>
<td>Retail group C&lt;br&gt; (national chain)</td>
<td>GMS</td>
<td>everyday</td>
<td>2001</td>
</tr>
</tbody>
</table>

Source: interview and data from Farmers’ Market K and its website
5. A Case Study of “Shop-in-Shop” Transaction with GMS Y

Among those “Shop-in-Shop” by FMK, the case of No.1(GMS Y) is the most important as the marketing area population of No.1 case is the largest. Therefore, we take it as a good example of expansion of farmers’ direct market in the urban area. Although GMS stores are usually located in the suburbs, the location of GMS Y is the middle of residential streets and the supermarket in GMS Y is operated by retail group A directly. Therefore, I use the term GMSY for indicating the supermarket in GMSY.

5-1 Background of their Transaction

FMK started its dealings with GMS Y in 2011. FMK had been searching for a new partner to find new market as already mentioned. They needed an alternative partner in Hiroshima city because another retail group to which they had been delivering their products since 2004 was absorbed by retail group C and the store strategies were totally changed so that FMK could not continue to trade with them.

There are two main reasons why GMS Y has approached FMK to acquire a sales area in their grocery section. First, Retail group A has just been expanding the stores beyond the region at that time. When they opened the stores outside of Hiroshima prefecture, they realized that the consumers in the new marketing area didn't easily trust the commodity of the new retail store because it did not sell fresh food much compared with the local stores. So, Retail group A asked the agricultural cooperatives in the region to supply local fresh food directly to their stores. This approach of direct marketing of local food brought successful sales to their stores. Secondly, Retail group A had just opened the GMS Y near the place where FMK terminated its “Shop-in-Shop” with group C as mentioned above. Thereupon, Retail group A
invited FMK to set up “Shop-in-Shop” in GMS Y. In addition, the manager of FMK used to work in GMS Y so that there was a kind of personal connection between FMK and GMS Y.

The sales of FMK’s “Shop-in-Shop” in GMS Y started with 100 million yen in the first year and will be expected to increase to 140 million in 2014.

5-2 Transactions of FMK including “Shop-in-Shop” at GMS Y

5-2-1 Commission and Transportation

![Diagram of transactions](image)

Figure 4. Basic transactions of Farmers’ Market K

Source: interviews with Farmers’ Market K and GMS Y

The transactions and distribution channels are shown in Figure 4 and Table 4. FMK mainly collects the products from member farmers and sell them both in their own market and
“Shop-in-Shop” in the cities with a commission of 15% from members in the town. The member farmers have to carry the products to FMK by themselves. For the products for “Shop-in-Shop”, a staff of FMK transports them to the cities. FMK owns five trucks for delivery and the truck driver displays the products at GMS Y.

The sales area of “Shop-in-Shop” is 36.4m². GMS Y rents the area for free but takes 15% commission from FMK. 15% is a more reasonable level of commission for the producer as GMS or supermarket usually takes 20-25% of commission for direct marketing of fresh food.

As “Shop-in-Shop” of FMK in GMS Y is so popular that products delivered at 10 AM are almost sold out at noon. FMK sends another shipment of very fresh vegetables from the farm early in the afternoon again. And they are also sold out in the evening almost every day.

5.2.2 Price Setting and Payment

Table 4. Comparative Features of Sales at Farmers’ Market and “Shop-in-Shop”

<table>
<thead>
<tr>
<th></th>
<th><strong>Sales at Farmers’ Market K (FMK)</strong></th>
<th><strong>Sales at Shop-in-Shop in GMS Y (SISY)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Price Setting</strong></td>
<td>by producers</td>
<td>by producers</td>
</tr>
<tr>
<td><strong>Packaging</strong></td>
<td>by producers</td>
<td>by producers</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>Producers themselves bring their products to FMK</td>
<td>Producers themselves bring their products to FMK and trucks of FMK takes their products to SISY</td>
</tr>
<tr>
<td><strong>Displaying</strong></td>
<td>by producers</td>
<td>by staff of FMK who carries the products from FM to SISY</td>
</tr>
<tr>
<td><strong>Term of Payment</strong></td>
<td>to Producers: Once a month (the 16th every month)</td>
<td>to FMK: On a day (from consumers)</td>
</tr>
<tr>
<td><strong>Way of Payment</strong></td>
<td>to Producers: Directly to producers’ bank account (from FMK)</td>
<td>to FMK: by Cash at the register</td>
</tr>
</tbody>
</table>

Source: interviews with Farmers’ Market K and GMS Y
The member farmers can choose where to sell their products by themselves. Also, they can price their products freely. Usually, they give a higher price on the products for "Shop-in-Shop" as they learnt from their experience in the past. They give a good price for good products by themselves.

The member farmers receive the payment from FMK once a month on the 16th of every month. FMK calculates sales of each farmer in a direct market and in “Shop-in-Shop”, and pays the member farmer the total of all sales. Their sales are managed through POS on a cash register. From the sales in “Shop-in-Shop”, FMK receives the payment from GMS Y twice a month. GMS Y subtracts the commission of 15% from all sales in “Shop-in-Shop”, and the balance is sent to the FMK’s bank account.

6 Discussions and Evaluation of the Case Study

6-1 Advantage of “Shop-in-Shop” for the retailer

The mass retail trade like big supermarket and GMS prefers to deal with national brands and other standardized goods. For food, mass supply from large producing areas through wholesale market is more common. To put it the other way round, every GMS or large supermarkets sell the same products. It might be good for economic efficiency but it doesn’t bring any advantage for the competition among retailers. But, the farmers’ direct market in their retail store can supply something different from national brand, because it is very local and fresh. Sometimes they introduce a new variety of agricultural products never seen before by urban consumers or old variety which aged consumers might remember their old days with.

In fact, after “Shop-in-Shop” of FMK was opened in GMS Y, they have more customers early in the morning. And also, the number of the aged customers has increased. These customers would like to buy fresh vegetables.
GMS Y receives 15% commission from FMK. The rate is rather low. Their strategy, however, is that low commission rate induces many farmers to supply their products. The more farmers join, the more products are gathered. The more products gathered, the more products of good quality will assemble, which will be a good tool to differentiate them from competitors.

6-2 Impacts of the Introduction of “Shop-in-Shop” Operation to FMK

Since FMK started “Shop-in-Shop” in GMS Y, their operations have changed as follows: 1) they now open the market seven days a week year-round excluding the New Year holidays because the shipment to “Shop-in-Shop” is required every day, 2) they have invested in new facilities such as trucks and generated new jobs. Though a more detailed revenue and expenditure calculation is necessary, their gains exceed those new investments.

One factor of their success is low commission rate. Usually a commission rate on contract sales between farmers or farmers’ association and retailers is 25% and more. If the counterpart retailer gives FMK 25% of commission rate, according to their present sales at “Shop-in-Shop” in GMS Y, FMK would have to pay another 14 million yen to GMS Y, which accounts for 3.5% of the present annual sales.

Furthermore, a term of payment between FMK and GMS Y is favorable to FMK. Usually the terms payment by large retailers are quite long such as 20-40 days in Japan. In the case study, however, GMS Y offers only 15 days between the settlement of accounts and payment. This means that FMK can receive quite a big amount of money for operations and also before their payment to member farmers.
After serious negotiation between FMK and GMS Y, FMK gained those good concessions. They could win because of their performances of farmers’ direct market in the past and vitality of agriculture in their town, which are strong enough for retailers to overcome any transaction risks.

5 Conclusions

As a result, in the case study, FMK’s “Shop-in-Shop” operation in GMS Y has brought the following results: 1) increase in sales of FMK with the sales of “Shop-in-Shop” becoming the main proceeds of FMK, 2) improvement of reputation of member farmers and their town among urban consumers, which also make them proud of themselves, 3) diversification of clientele of GMS as more aged customers, who can tell the differences of quality and would like to buy real fresh food, began to come, 4) improvement of corporate images of GMS such as "treating fresh food" and "supporting agriculture in the region".

Figure 5 Terms of Payment of a case study

Source: interviews with Farmers’ Market K and GMS Y
Those win-win results between Farmers’ Market K and GMS Y were brought about by some factors, such as encouraging the member farmers to secure amount of production and the past results achieved by Farmers’ Market K. The locality of FMK has now become a kind of brand. All those have been achieved as a result of strengthening of the bargaining power of farmers’ direct market with a large-scale retail company.

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