

Problems and Solution Measures for Wholesale Market System in Japan

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1. Overview of the wholesale market system in Japan

In Japan, wholesale markets handle fruits and vegetables, marine products, meat, flowers and plants. Ordinarily they do not handle processed foods such as frozen vegetables, canned foods, or juices, except for frozen marine products such as frozen tuna. As a rule, wholesale markets handle fresh produce such as perishable foods, flowers and plants. Currently, wholesale markets are located throughout Japan. As of 2009, there were 76 large wholesale markets, referred to as central wholesale markets, and 1,207 small and medium-size wholesale markets, referred to as local wholesale markets. The total transaction value at wholesale markets in 2009 was ¥7.8 trillion (approximately 114 trillion KRW).

The existence of numerous wholesale markets, located in every region of Japan, enables producers to sell their produce at any time and enables retailers to purchase at any time, the quantities of produce they require. That is, Japanese wholesale markets make it possible for a variety of producers and retailers, from small to large, to exist. As a result, free competition is naturally a dominant force in the retail sector and

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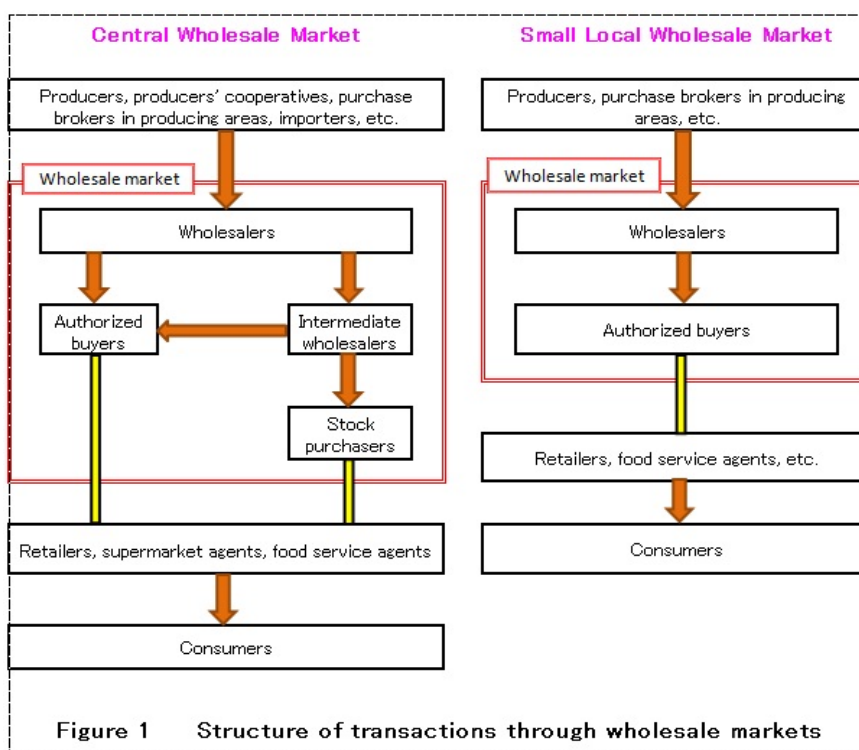
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oligopoly has not advanced. Even the largest supermarket chains in Japan account for only about 5% of total sales in the retail sector. This prevents steep increases in prices and contributes to the enrichment of people's lives.

There are some differences between Japanese wholesale markets and other countries' wholesale markets. The greatest difference is the existence of wholesalers and intermediate-wholesalers in each product category, such as fruits and vegetables and marine products, at central wholesale markets and comparatively large local wholesale markets. Wholesalers are much larger companies than intermediate-wholesalers, and there are one, two, or at the most five wholesalers for each product category per wholesale market.

Intermediate-wholesalers are small companies, and their number varies greatly depending on the wholesale market. At the Tokyo Metropolitan Central Wholesale Market, Tsukiji Market, the number of intermediate-wholesalers of marine products exceeds 700, and at the Tokyo Metropolitan Central Wholesale Market, Ota Market, the number of intermediate-wholesalers of fruits and vegetables is nearly 200. By contrast there are central wholesale markets where the number of intermediate-wholesalers is only three or four for each product category.

The transaction method for products sold through wholesale markets is basically as shown in Figure 1. At large wholesalers at markets such as central wholesale markets, accept goods on consignment from producers, producers' cooperatives, purchase brokers in producing areas, and other entities, and sells those goods to intermediate-wholesalers or authorized buyers by auction or negotiated transaction. Intermediate-wholesalers divide the goods purchased from wholesalers into several pieces and sell them to authorized buyers and stock purchasers. The terms "authorized buyers" and "stock purchasers" refer to retailers, supermarket agents, food service agents, and other entities that do business outside of wholesale markets.



2. Problems facing the wholesale market system

Currently, the major problem facing Japanese wholesale markets is a pronounced downward trend in sales volume and sales value. Figure 2 and 3 shows this downward trend of vegetables and fruits. In the case of vegetables, sales volume reached its peak in 1989, exceeding 14 million tons, and then declined by 2.7 million tons to 11.3 million tons in 2008. Sales value peaked in 1991 exceeding ¥3 trillion (KRW 44 trillion) and then declined to ¥2.1 trillion yen (KRW 30 trillion) in 2007. Sales volume of fruits entered a clear downward trend from the second half of the 1980s onward, declining by more than 3.5 million tons over 20 years from 7.8 million tons in 1987 to 4.3 million tons in 2007. Sales value declined by nearly half in 17 years, from ¥1.99 trillion (KRW 29 trillion) in 1991 to ¥1.12 trillion (KRW 16 trillion) in 2008.

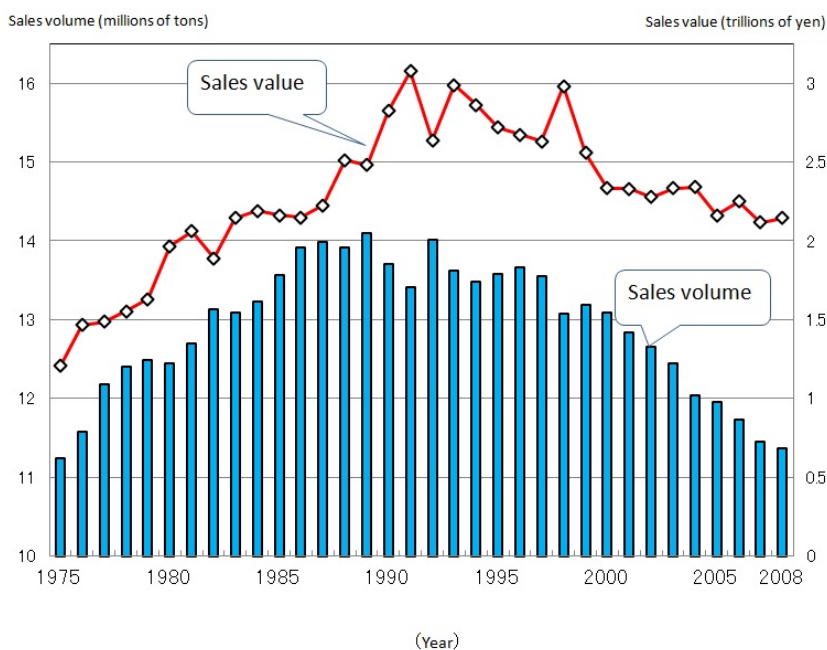


Figure 2 Change in the sales volume and sales value of vegetables at all wholesale markets in Japan

Source: Report of Survey on Vegetable and Fruit Wholesale Markets, Ministry of Agriculture, Forestry and Fisheries

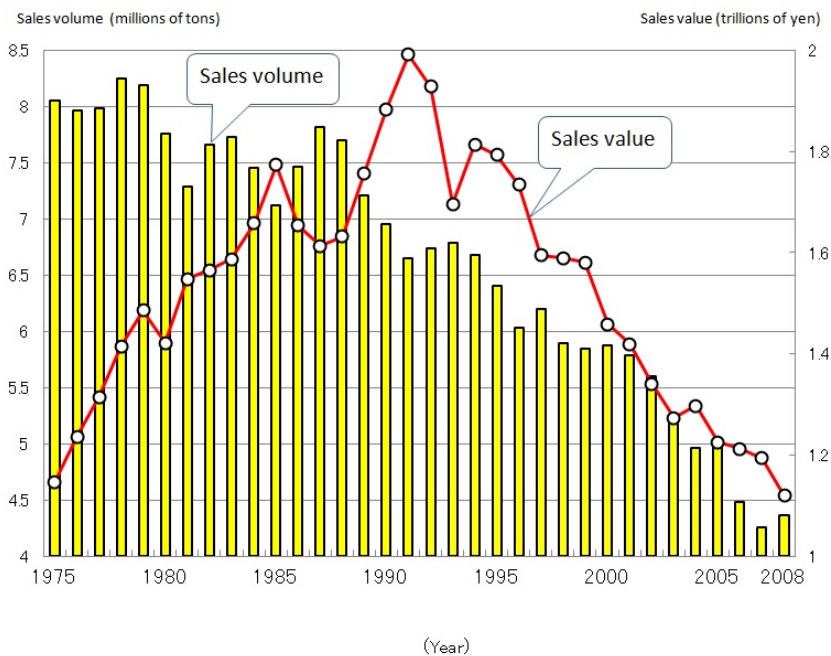


Figure 3 Change in the sales volume and sales value of fruits at all wholesale markets in Japan

Source: Report of Survey on Vegetable and Fruit Wholesale Markets, Ministry of Agriculture, Forestry and Fisheries

Concurrently with this decline in sales volume and sales value, the number of wholesale markets, wholesalers, and intermediate-wholesalers also decreased. As Figure 4 clearly shows, the number of central wholesale markets that handle fruits and vegetables began to decrease since 2005, before this the numbers of wholesalers and intermediate-wholesalers had already shown a clear downward trend since the mid-1980s. The number of wholesalers decreased by 33 from 119 in 1985 to 86 in 2009, and the number of intermediate-wholesalers decreased by 945 from 2,622 to 1,677 during the same period. In addition, as shown in Figure 5, the number of local wholesale markets that handle fruits and vegetables decreased by 301 from 933 in 1983 to 632 in 2008, and the number of wholesalers decreased by 328 from 966 to 638 during the same period.

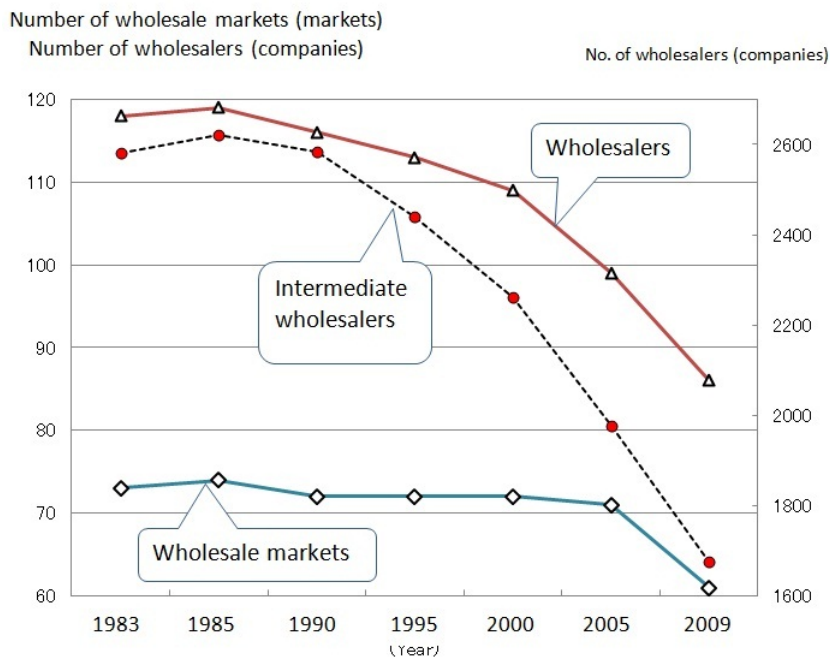


Figure 4 Change in the number of central wholesale markets that handle fruits and vegetables and change in the numbers of wholesalers and intermediate wholesalers

Source: Ministry of Agriculture, Forestry and Fisheries data

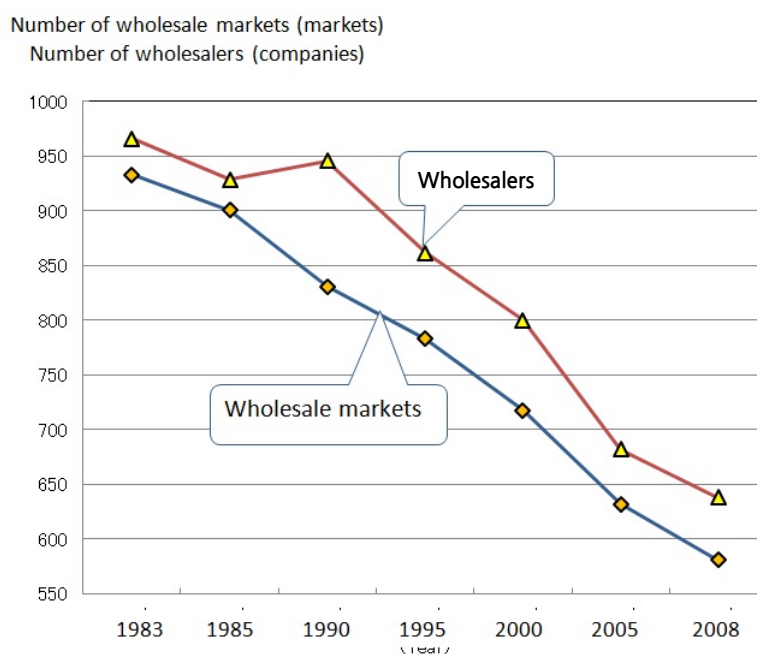


Figure 5 Change in the number of local wholesale markets that handle fruits and vegetables and change in the number of wholesalers

Source: Ministry of Agriculture, Forestry and Fisheries data

Furthermore, the operating profit margins of wholesalers and intermediate-wholesalers also declined sharply. Figures 6 and 7 indicate this, taking as examples wholesalers and intermediate-wholesalers at central wholesale markets that handle fruits and vegetables. In the case of wholesalers, operating profit margins in recent years have not exceeded 0.5%, the 1990 level, being 0.4% at best and less than 0.2% at worst. The gross profit margin also has fallen below 7%. In the case of intermediate-wholesalers, although the gross profit margin is showing an uptrend, the operating profit margin clearly declined due to increases in the cost of transportation to the stores of supermarket agents and other expenses. Far from merely declining, the operating profit margin also turned negative at times. According to a survey by the Tokyo Metropolitan Government, recently more than one third of the intermediate-wholesalers at the Tokyo Metropolitan Central Wholesale Markets operate at a loss.

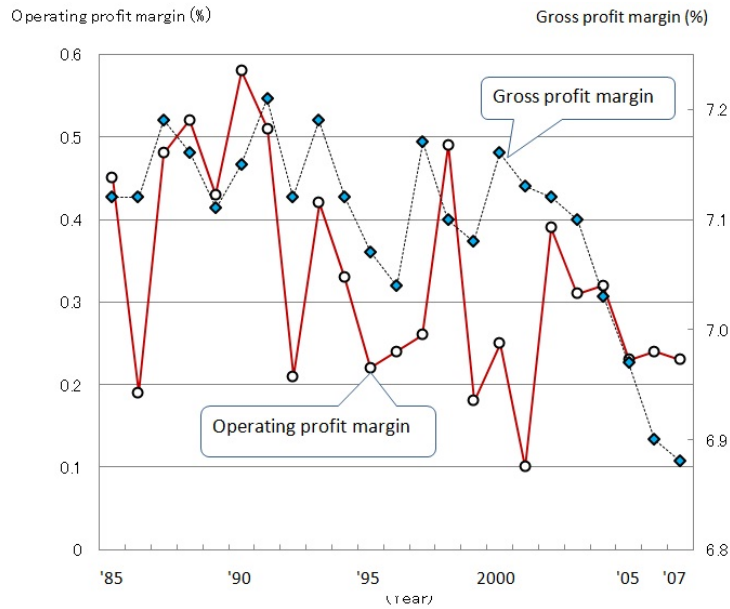


Figure 6 Change in the operating profit margin and gross profit margin of wholesalers at central wholesale markets handling fruits and vegetables

Source: Orosiurijyou data syu(Wholesale Market Data Collection), Ministry of Agriculture, Forestry and Fisheries
 Note: Both profit margins are percentages of wholesaler sales.

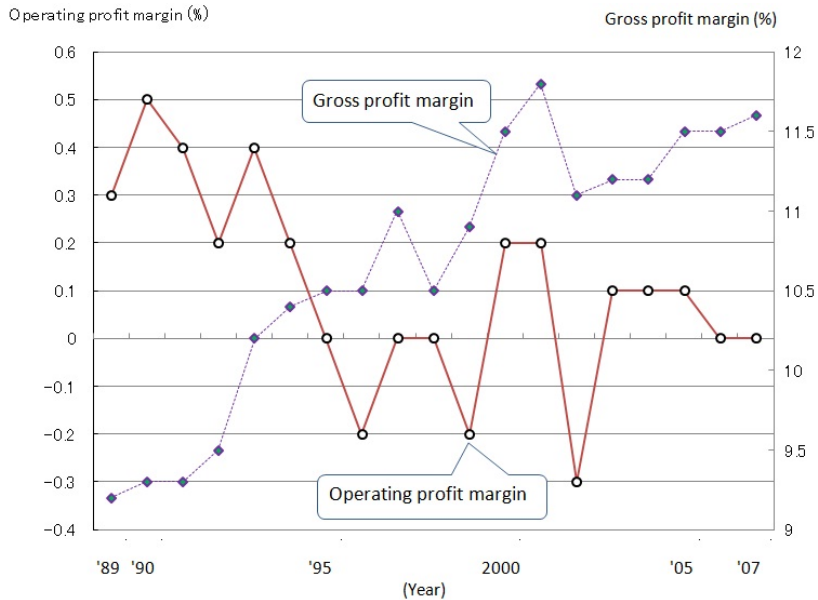


Figure 7 Change in the operating profit margin and gross profit margin of intermediate wholesalers at central wholesale markets handling fruits and vegetables

Source: Orosiurijyou data syu(Wholesale Market Data Collection), Ministry of Agriculture, Forestry and Fisheries
 Note: Both profit margins are percentages of intermediate wholesaler sales.

From the above, sales volume and sales value at Japanese wholesale markets have sharply declined, and this has entailed not only decreases in the number of wholesale markets, wholesalers, and intermediate-wholesalers, but also a worsening of the financial situation of wholesalers and intermediate-wholesalers. Accordingly, measures to increase sales volume and sales value or to increase operating profit margins can be considered extremely important for the revitalization of Japan's wholesale markets.

3. Incorporation of processed foods or raw materials for processing

Although one of reasons why sales volume and sales value have declined in wholesale markets is sluggish growth in food consumption due to the aging of Japanese society, the most important, immediate reason in the case of vegetables and fruits is an increase of processed foods. Salt-preserved vegetables are well-known processed vegetable products in Japan. However, since the mid-1980s, the main processed vegetables have been frozen vegetables, processed tomatoes, and vegetable juice. The main processed fruit product is fruit juice.

Since Japanese wholesale markets have specialized in handling of fruits and vegetables in the form of fresh produce, the volume of fruits and vegetables traded outside of wholesale markets has risen sharply. This together with an increase of processed products resulted in from a sharp rise in imports since the mid-1980s. Figure 8 shows this increase. The trading volume of vegetables more than doubled from about 1.6 million tons in 1985 to 3.8 million tons in 2007, and the trading volume of fruits more than tripled from about 1.5 million tons to 5.1 million tons during the same period. It is estimated that recently roughly 25% of the vegetables and about 50% of the fruits sold in Japan are processed products. Calculation of volumes based on these estimates resulted in quantities of about 3.5 million tons of vegetables and 4.5 million tons of fruits, This corresponds very closely to the volumes traded outside of wholesale markets.

Total consumption of vegetables in Japan has decreased slightly since the latter half

of the 1980s, while total consumption of fruits has been flat. For this reason, the sales volume of vegetables and fruits at wholesale markets nationwide show a clear decline since the mid-1980s due to the increase in the volume traded outside of wholesale markets. Sales value has sharply declined since the early 1990s due to the impact of the overall deflationary trend.

Consumption of processed fruits and vegetables is likely to continue to increase in the future. The reason for this is that the aging of Japanese society is progressing. Many people prefer purchasing processed or prepared foods and dining out, to preparing meals when they are over 75 or 80 years old. In addition, whereas in the past there were fewer women in Japan who worked outside the home after marriage, as society has advanced, the number of women who work outside the home increases and it is certain to further increase in the coming years. This will, of course, lead to a constraint on time available for meal preparation for a greater number of women, and therefore an increase in the use of processed or prepared foods as well as dining out. Although prepared food, producers and restaurants use fresh produce as ingredients, they also use many processed products such as frozen vegetables, canned tomatoes, canned fruit, and fruit juices, therefore an increase in prepared food consumption and dining out will in turn lead to a greater demand for processed products.

Accordingly, if increasing sales volume and sales value is considered important for revitalizing wholesale markets, it is essential for wholesalers and intermediate-wholesalers in wholesale markets to actively undertake the handling of processed foods. Or, it is necessary for them to strive to supply processed food companies with fresh produce for use as processing ingredients. Of course, it is also necessary for them to supply fresh produce to prepared food producers and restaurants for use as ingredients.

However, since nearly no wholesale market has prior experience in handling processed products, at present, many wholesalers and intermediate-wholesalers are at a loss to decide what they should do. But some wholesalers such as Kurashiki Seika Corp. have begun to produce cut vegetables as ingredients for salads and other prepared items. In addition, the number of wholesalers who partner with processed food wholesalers and the number of intermediate-wholesalers who are devoting effort to the supply of

ingredients to restaurants is on the rise. These companies are mainly wholesalers and intermediate-wholesalers in large cities, such as those companies who trade at the Tokyo Metropolitan Central Wholesale Market.

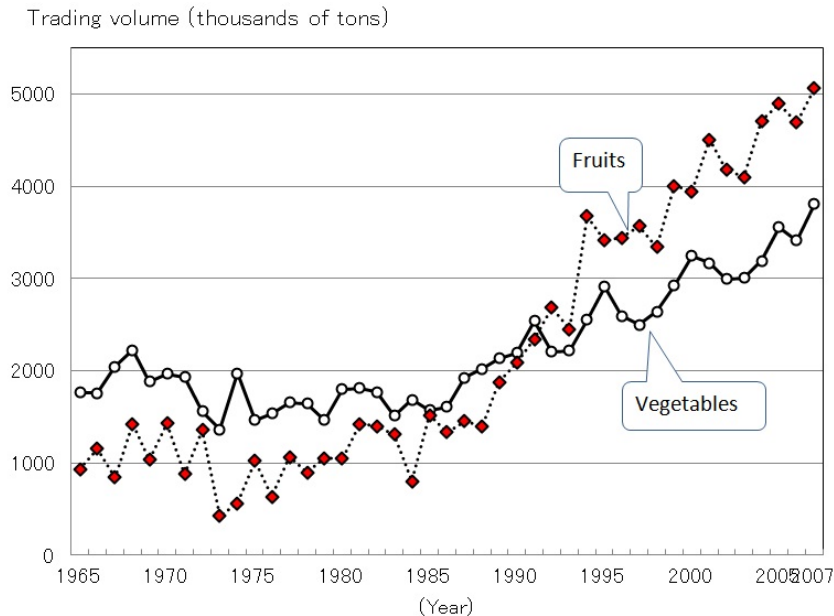


Figure 8 Change in the trading volume of vegetables and fruits that do not pass through wholesale markets

Source: Orosiurisyjou data syu(Wholesale Market Data Collection), Ministry of Agriculture, Forestry and Fisheries

4. Enhancement of business operations other than trading

There are also some wholesalers and intermediate-wholesalers who find it difficult to handle processed products and therefore find it difficult to increase sales volume or sales value. So what should they do? Since revitalization of wholesale markets can be accomplished even without increasing sales volume or sales value if it is possible to increase operating profit, these companies should come up with measures for increasing operating profit. In short, that means increasing profits from business operations

incidental to trading. In fact, the number of wholesalers and intermediate-wholesalers devoting effort to such incidental operations is on a clear upward trend.

A first incidental operation is packaging goods in small quantities, such as 200 or 300 grams, and attaching price tags and other labels at request of retailers and supermarket agents. This operation is performed by comparatively many wholesalers and intermediate-wholesalers. However, since any company can perform this operation, competition among companies is fierce, and profit margins are by no means high. To cut costs and increase profit margins in the future, a plan to increase the scale of work by means of cooperation among multiple wholesalers and intermediate-wholesalers is necessary.

A second course of action is to step up delivery to retailers and other customers. Although in Japan buyers such as retailers and food service agents ordinarily go to wholesale markets to collect the goods they have purchased, requests for delivery to retailers and other locations have been on the rise in recent years. Wholesalers and intermediate-wholesalers could increase their profits by delivering goods they have sold in response to those requests. Recently, in some local wholesale markets and central wholesale markets, wholesalers and intermediate-wholesalers are even aggregating processed foods not sold at the markets for delivery to retailers together with fresh fruits and vegetables. This enables purchasing supermarket agents and other customers to reduce their distribution costs and at the same time enabling wholesalers and intermediate wholesalers to increase profits by engaging in delivery.

A third incidental operation is for wholesalers to go to producers to collect goods, bring them to wholesale markets, and sort them according to size or quality. Although senior producers like growing fruits and vegetables, they don't like sorting or shipping operations these days. So wholesalers make the rounds for these producers by truck, to collect produce and sort the goods at wholesale markets. This makes it possible to increase sales volume and earn collection charges and sorting charges. Recently, there are some local wholesale markets that engage in these operations.

A fourth and final course of action is engaged in retailing in addition to wholesaling. Since this enables wholesalers and intermediate-wholesalers to obtain a retail margin as well as a wholesale margin, it is certain to result in a profit margin increase. However,

this approach to retailing might create some of discord between the retailers and supermarket agents who come to wholesale markets to purchase stock, For this reason, at many wholesale markets at present, retailing activities do not go beyond holding wholesale market fairs several times a year. In the future, it will likely be necessary to engage in retailing in cooperation with retailers and other customers.

As discussed above, although Japanese wholesale markets are suffering from a decline in sales volume and sales value in recent years, various measures have been taken to solve the problem and revitalize wholesale markets. In the near future, we are confident that the revitalization of wholesale markets will progress through the spread of these measures to a greater number of wholesale markets and to the achievement of still greater results.

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