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STUDY ON THE DEVELOPMENT OF REGIONAL PRODUCTS – a Case Study of Kochi Prefecture –

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Abstract: Development of local special products has been believed to be an effective way for regional vitalization up until now. Problem was that a lot of these products which were developed successfully have failed to be commercialized due to the hard barrier of distribution channel system. This paper investigates success cases of regional vitalization in Kochi prefecture which is suffering population decreases and severe aging problem. The cases were analyzed from the aspect of management and marketing. It tries to clarify factors for successful special products development for regional vitalization.

Keyword: regional vitalization, special product development, regional management, marketing places.

1. ISSUES IN KOCHI PREFECTURE

1-1 Situation of Industry in Kochi

The population of Kochi prefecture is decreasing year by year. Issues of low birthrate and aging in Kochi is 15 years ahead of the country average.

Production in Kochi is the bottom level across nationwide in the field of industry except for the primary industry in specific field. Gross regional product per capita in Kochi is the worst with 2.01 million yen compared to the national average of 2.66 million yen.

In terms of industry inside of prefecture, the primary industry production decreased by 48.9 billion yen and output of the second industry also decreased by 27.22 billion yen from 1998 to 2008. Regional economy of this prefecture is weakening unstoppably.

In addition, the majority of people who are engaged in agriculture are over 65 years old.

As for balance of export and import, Kochi is number one in Shikoku islands for primary industry products having surplus of 80 billion yen. On the other hand, it is the only prefecture which shows loss for processed foods. This is due to weak industrial cluster for processing agricultural and marine products.

However, it should be pointed out that agricultural products like “garden vegetables” in Kochi are highly evaluated because of the

good quality and added value. Processing these excellent raw materials into other secondary products might destroy distinctive quality of material itself.

1-2 Characteristics of agriculture in Kochi Prefecture

Agriculture in Kochi prefecture can be categorized into three types. Highly added value products like garden products, minute agriculture in mountain area, and stable rice farming with relatively weak brand value. It is true that there are many kinds of crops which have top market share throughout the nation such as Japanese ginger, eggplant, sweet green peppers, and leeks.

Agricultural production in Kochi prefecture is ranked 25th in the country. However, it is top with respect to production per unit area. Average price of garden vegetables made in Kochi is 550 yen per kg compared to average price of 270 yen in Tokyo market. Kochi has focused on light vegetables to overcome disadvantage of physical distance from the market. Local government, agriculture association and farmers have done tremendous effort for product improvement and development of shipping system.

Vegetables made in Kochi, especially garden vegetables have established brand value as they are, so there is no need to process for value addition. Appropriate direction for agriculture in Kochi is to produce wide

variety of products with small quantity keeping image of home grown rather than going to volume production.

1-3 Product development for regional vitalization

Most of regional issues arise from declining birthrate and growing proportion of elderly people in Kochi prefecture. There are a lot of extremely depopulated villages in Kochi prefecture [1]. Even though the administration supports for product development and promotion for these area, most of businesses have not been successful. These area do not have sufficient natural and human resources. So it is important to have long term vitalization strategy instead of short term product promotion.

2. LITERATURE REVIEWS

A purpose of development of local specialty products is to ensure enough income for local producers. It is important to add customer values in order to have appropriate profit over the manufacturing, distribution and sales costs of the products. So having strategy to create brand value is crucial for local product development. Since they do not have sufficient financial resource for product development, it is also important to develop product with long life. Seki mentioned that regional branding is not a method to sell what is difficult to sell, but a method to sell product through long term [2]. P. Kotler also pointed out necessity of long term strategy to change destiny of the town. In other words, short term activities have to be embedded in the long term goal of the town [3].

Another concept which is under discussion in many regions is to go toward so-called "sixth industry". This was named because 1, 2 and 3 for primary, secondary and third industry, respectively, make six. Regional industry complex defined by Hashimoto and Ohizumi is combination of processing, distribution channel, and tourism business based on agricultural products. These related businesses are located in the same region and cooperate mutually and produce more economic results [4]. This shows a direction of regional vitalization beyond simple local product business.

3. CASE STUDY

Three organizations located in Kochi are chosen for the case study. These are Food Plan Corporation, Shimanto Drama Corporation and Umajimura agricultural cooperative. The three firms are located in the region which faces severe depopulation problem in common and develop local products.

3-1 Food Plan Corporation

3-1-1 Outline of the business

Major product of this firm is cut vegetables for something like packaged salad. The company produces tofu, soy bean paste, konnyaku, and green tea using home grown raw materials. The company organized local farmers to sell their agricultural products at specific space called "Seiryuichi-market" inside of a supermarket. They purchase part of material for their products from home area.

A typical problem of agricultural product business in mountain area is distribution cost due to small lot size. Farmers in the mountain area cannot utilize existing distribution channel. The Food Plan supplies cut vegetables to supermarket on contracted price. Problem for the company is that material vegetable cost rises suddenly depending on season and it results in severe loss.

So, the company made partnership with farmers in mountain area to purchase their vegetables at stable cost with collection service. This resolved farmer's problem with respect to distribution channel at the same time and win-win relation was established.

3-1-2 Analysis of the business continuity

A core competence for Food Plan Corp. is considered to be "water" provided from Niyodo-gawa River which is believed to be one of the most limpid streams in Japan. The clear water which contains variety of minerals is used for washing the vegetable. There is no need to add any chlorine as disinfectant. Recently demand for cut vegetables like packaged salad is increasing, and business of the company remains in good shape.

The company does not plan to increase production quantity. Instead, the company has sort of enthusiasm to develop special food products utilizing vegetables grown in

home region. The company also aiming to do diversified business in the industry classification called “sixth industry” by integrating development, production, and distribution channel.

3-2 Shimanto Drama Corporation

3-2-1 Outline of the business

Shimanto Drama is doing business in variety of area utilizing local material for regional vitalization. It includes trading business, operation of local product store along country road, regional preservation activity and network development to support exchange between urban area and rural area. The annual sale was about 333 million yen in fiscal year 2010. The sale of the road side store occupies one half of the total revenue. The company is managed based on long term perspective which appears in the corporate philosophy statement of “preservation of Shimant-gawa River”. Shimant Drama was a so-called third sector company, but two hundred twenty residents held share corresponding to stock flotation in 2005. Mr. Azechi, the leader of the activity, was appointed to the president and CEO and the company started as a residents owned company with capital of 12 million yen.

3-2-2 Analysis of Business Continuity

Mr. Azechi’s policy is to establish one billion-business by accumulating ten of one-hundred- million-businesses. This is very appropriate strategy for a depopulated region with limited resources. There is no large mass of land in the region where Shimanto dram is located. So it is not good for production in large quantity. Actually, the company has designed and created a number of new products based on the policy of “various kinds of small quantity production”. Recently, they focus on new product development utilizing Japanese chestnuts since tea manufacturing business became successful.

3-3 Umajimura Agricultural Cooperative

3-3-1 Outline of the business

Umajimura is name of a village located also in mountain area in Kochi. It is frequently mentioned as the most successful example in regional economic development over the nations through cultivation of citron called “Yuzu” and manufacturing product of soft

drinks made of Yuzu. Cultivation of Yuzu started for forty years ago, it was, however, not easy to sell citrus fruit as it is because aged people could not take care of citron to produce fruits of good appearance. Mr. Totani, current president of the union, changed business tactics to process Yuzu fruits from selling the fruits itself. One day Totani heard an impressive comment at a product exhibition that name of Umajimura village sounds very attractive because there is no village in big city. Since then, Totani start strong marketing activity utilizing naiveté inherent to countryside. He also preferred direct selling without using existing distribution channels.

This village accepts tourists of 300 groups in a year, and 7.5 million bottles of the soft drink products are sold and annual sale in 2010 was 3.2 billion yen. He built a new Yuzu processing factory in 2006 at the vacant lot where the past forest management office was located. He is developing a variety of products made of Yuzu including cosmetic.

3-3-2 Analysis of Business Continuity

The business model of Umajimura village agricultural cooperative is typical one in category of sixth industry. It operates relatively large manufacturing facility to produce Yuzu related products. Factory equipment was supported financially by government, and this was helpful to increase business scale at the beginning. However, it will be some burden to keep the large scale fabrication for a small village as part of regional vitalization. In fact, revenue of Yuzu based soft drink showed a peak in 2009 and it looks like it has reached the ceiling. It is not clear the future of the new business of cosmetic product made of Yuzu seeds oil. Another concern is that there are many new entrants on Yuzu business, which results in severe competition in future.

3-4 Factors learned from the three cases

a) Importance of government support at startups

It looks very effective to have financial support from local or central government when new business was launched. The Shimanto drama and the Food Plan started as a third-sector company which is a joint public-private enterprise and Umajimura village started business as an agricultural

cooperative. It is considered to be difficult to develop such a business scale as a private company in remote regions. In general, it is hard to have sufficient finance for private company to develop distribution channel in order to sell in urban area.

It is also difficult for rural small private companies to handle early stage costs of manufacturing equipment, transportation and sales promotion.

b) Branding strategy

The three cases showed different approach in branding strategy. Shimant Drama used existing and very strong brand value of Shimanto-gawa River to their products. While Umajimura village learned attractiveness of rural area from urban people and created rural village brand.

Food Plan connected “consumer needs on safety of foods” and “seeds existing in remote area”. The core concept of the brand is “vegetable business by a vegetable company in vegetable place” and the brand is penetrating rapidly.

c) Importance of going concern

Business continuity is very important for the region. Shimanto drama provides wide variety of products in small quantity and it has strong brand of Shimanto-gawa River as a core concept. So, even if rapid business expansion cannot be expected to the company but it looks stable to remain as a going concern.

On the other hand, the business of Umajimura village agricultural cooperative features a large scale business on a few products line. It faces new entrants and many competitors. It has advantage as a first runner to build up the brand. However, it will be required to develop and market successor to the current products.

Food plan has balanced business structure of product development, process, and distribution according to the long term plan. It looks secure to be a going concern.

d) Human resource

It is clear that human resource is a most important key factor for regional vitalization. Not only quality of the leader but also qualities of the residents play an important role. Residents with high consciousness on politics, economics and regional activation

are considered to be a part of social capital.

4. SCHEME OF LOCAL SPECIAL PRODUCT DEVELOPMENT

Most of regions which require revitalization are depopulated area and they hesitate to act partly because they do not have sufficient knowhow of vitalization activity nor distinctive local products. It is important to identify what the residents truly want and also to change the regional weakness of “having sparse resource and being a remote place” to strength with value that cannot be found in the urban area. The point is to accumulate small successes with small knowhow which fit to scale of the region.

4-1 Hierarchy of needs for residents

Hierarchy of needs should be considered for regional vitalization activity. So far, program on transferring regional vitalization knowhow conducted by administration was not so successful partly because it ignored the hierarchy of resident needs. In case of regional vitalization program for suburbs of big town, one success may lead to a big result giving good ROI. On the other hand, rural area like Kochi, which faces issue of depopulation, has sparse resource for business development. Good ROI cannot be expected there. For the residents in that region, the first priority is survival of area rather than business vitalization. The vitalization activity in the region has to start from to understand and share the area characteristics and residents needs. Fig.1

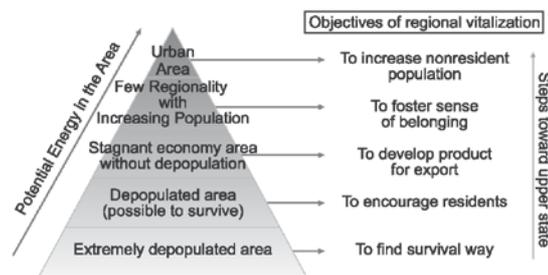


Fig.1 Hierarchy of residents needs

shows hierarchy of residents needs for vitalization using framework of Maslow's hierarchy of needs.

4-2 Cost issue of distribution channel

Objective of business in the remote local area

is to vitalize the region by giving profit to local enterprises. The local enterprises have to discover or create value inherent to the region and bring up to commercial products in the framework of long term strategy. This process has to be achieved step by step starting from promotion activity in the vicinity of the company and gradually to wider area. It is effective to get supporters to the product in the neighborhood, followed by expansion of distribution area utilizing channel. It often happens that local manufacture set price which exceeds the value that customer recognizes after adding channel cost. A lot of expensive products targeting rich people in big town have gone from the market. It is important to understand cost issue to promote generic product in the urban area. There is a deep and wide gap between local special product and general commercial products.

4-3 Perspective of manufacturing

The first thing to be done for product creation is rediscover value inherent to the region. Looking at “history”, “culture”, “environment”, “life” and “people” in the region will lead to discover regional value. Digging up hidden value may be more important than developing new value in regional vitalization. Having communication with people from outside of the area can also provide opportunity to discover the regional value.

4-4 Concept of sixth industry

In the local special product business, it is preferable to eliminate distribution cost rather than reduction of cost for distribution. Specifically, there are many successful cases to bring tourists into the region by attractiveness of the local products. This is completely different approach from the traditional exporting-local-product approach. So called “Farmer’s Mom’s restaurant” or “Fisherman’s restaurant” are getting popular because there is small gap between price and cost. The strength of these restaurants is superior quality of food material. This is considered to be an example of business categorized as sixth industry.

4-5 Issue of business continuity

Short-sighted strategy where manufacturing

and sales are set as a goal may go to different direction from what people expect from the point of regional vitalization. Figure 3 shows the case of strategy to do business of single product in large quantity according to market demands. If the successor product introduction delays, discrepancy caused by

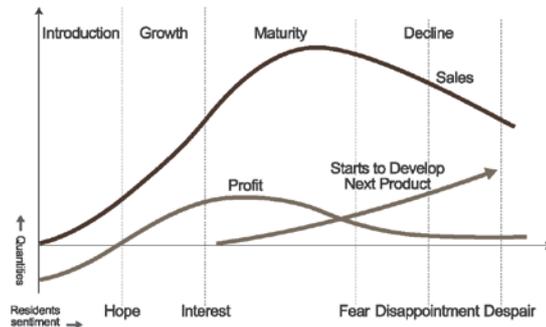
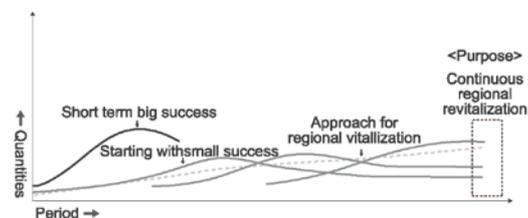


Fig.3 Products lifecycle and feeling of Residents

decay of current product and late ramp up of new product discourages people who are engaged in the business. In the business for regional vitalization, it is crucial to have long term strategy to ensure continuous success even if it is small, rather than big success in short period. Fig. 4 shows the desirable



product life cycle scheme constructed by

Fig.4 A regional product life cycle model focused on business continuity

accumulating number of small businesses. Priority should be put on to business continuity considering regional resources than amount of revenue

4-6 Partnership

Judicious decision making on building partnership is important for regional vitalization. The condition for the decision can be summarized as follows:

a) Synergy effect when two parties have

different market each other:

--> market expansion by adding market A and market B

b) Synergy effect when two parties have different products:

--> new local product creation from product A and product B

c) Synergy effect when two parties have product and process:

--> development potential by combining product A and process B

d) Synergy effect when two parties have different knowhow:

--> creation of new service by combining knowhow A and knowhow B

e) Synergy effect when two parties have different tourism resources:

--> increase of attractiveness by adding tourism resource A and B

Forming an alliance will be difficult in the event that closely located partners have similar products or services which compete with each other.

5. CONCLUSION

In order to clarify the requirement for regional vitalization, success cases of regional vitalization in Kochi prefecture which is suffering population decreases and severe aging problem has been investigated. The cases were analyzed from the aspect of management and marketing. Partnership between food processing company and farmers in mountain area create win-win relationship and this resolved farmer's problem with respect to distribution channel at the same time. Digging up hidden value may be more important than developing new value in regional vitalization. Having communication with people from outside of the area can also provide opportunity to discover regional value. Importance of putting priority on business continuity rather than short term business volume was clarified and desirable product life cycle scheme was shown as accumulation of number of small businesses.

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