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# An Examination of Japanese Agribusiness Managers' Marketing Practices

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## Introduction

Agribusiness managers (farmers) in Japan have, until recently, relied upon agricultural cooperatives to market their products (Matsuda & Kurokawa, 1991; Eisenstodt, 1995; Reischauer & Jensen, 1995; Mulgan, 2000; Higaki, Kisan & Coffin, 2001). However, currently there appears to be a trend towards marketing of own produce (Fujitani, 1992; Fukui, 1994; Eisenstodt, 1995; Takahashi, 1995; JETRO, 1998; Mulgan, 2000). The proposed study is designed to discover whether managers do independently market their own crops utilizing marketing management principles. This will be accomplished by sending out surveys to farmers and calculating the results. The importance of the issue is that due to deregulation and reduction of government support, managers will be compelled to take more action in relation to marketing their vegetable products. A further reason for marketing independently is that the Nokyo (agricultural cooperatives), which have been the primary marketing organization for farmers, have become inefficient, charging exorbitant amounts for production inputs and marketing services reducing returns from produce sales. Thus, one alternative is for managers to directly control their marketing strategies. The research will focus on vegetable crops and a specific area in northern Japan, Aomori Ken (prefecture). This research contains the following subjects, background of agribusiness managers' problem, importance of controlling and utilizing marketing practices, statement of the problem concerning marketing ability of agribusiness managers, evaluation of agribusiness managers' marketing ability, definition of terms, operational definition of marketing ability, limitation of the study, and a postscript. The postscript will state that this is the initial step concerning the project, and a brief explanation of future steps related to this study will be mentioned.

### *Background of Agribusiness Managers' Problems*

Japanese farms have been characteristically small with average farm size being 1 hectare (2 1/2 acres)(Reischauer & Jansen, 1995) and a large number of small farmers, full- and part-time (Reischauer & Jansen, 1995; Mulgan, 2000). To make this situation viable, Japanese agriculture has been characterized by entrusted management, subsidies, protected markets, diverse government measures in support of agriculture and a combination of free-market and fixed prices (Ogura, 1980; Hayami, 1998; Mulgan, 2000). The agricultural

sector has been one of the most protected areas in the Japanese economy and this protection has been one of the highest in the world (Hayami, 1988; Hayami & Yamada, 1991).

Historically, Japanese agribusiness managers relied upon the agricultural cooperatives to accomplish majority of planning, procurement, marketing of necessary agricultural products (Matsuda & Kuokawa, 1991; Reischauer & Jansen, 1995; Okimoto & Rohlen, 1998; Mulgan, 2000; Higaki, Kisan & Coffin, 2001). The major role of the agribusiness manager was in the production area of agriculture and the agricultural cooperatives dealt with the other matters. However, the agricultural cooperatives have become immense business entities, which have become inefficient, and survival of the organization itself has become its primary interest, not the welfare of the farmers. They have charged the farmers exorbitant prices for agricultural supplies and high interest rates for financing. Concerning marketing of agricultural products, the return to farmers was reduced due to charges by the cooperatives for this service (Doman, 1996; Mulgan, 2000). Because of the above situation, there has been a trend for agribusiness managers who operate fairly large acreage to move away from the cooperatives and attempt to treat their activities as a viable business entity. However, this study will investigate this trend concerning the marketing ability of small agribusiness managers.

#### *Importance of Controlling and Utilizing Marketing Practices*

The Japanese farms after World War II have been characteristically small with average farm size being 1 - 1.5 hectares (2 1/2 - 3.75 acres) (Reischauer & Jensen, 1995). In 1998, average farm size was 1.5 hectares (3.75 acres), excluding Hokkaido, compared to 175 hectares (437.5 acres) in the United States (Norinsuisansho Tokai Johobu, 1999; Higaki, Gunjal & Coffin, 2001). Full- and part-time managers operated the farms. There were several different definitions for full- and part-time farmers, but the one used in this study was derived from the Ministry of Agriculture, Forestry and Fisheries (hereinafter stated as MAFF). A full-time household was defined as one that has one or more members fully engaged in farming and whose income was 90% or more derived from farming. A part-time farm household was one that has one or more members involved in jobs other than farming. Part-time households were divided into two categories, Type I and Type II. A Type I part-time household was one whose farm household income was derived more from farming than non-agricultural occupations. A Type II part-time farm household was one whose income was derived more from non-agricultural occupations than from farming (Tokyo Norin Tokei Kyokai, 1998). In 1997, 83.1% of the farmers in Japan were part-time operators (Tokyo Norin Tokei Kyokai, 1998). Another characteristic of Japanese farm managers was that the majority were over the age of 50 (Yorimitsu, 1985; Hayami & Kawagoe, 1991; Hayami & Yamada, 1991; Nakayasu, 1991; Tweeten, Dishon, Chen, Imamura & Morishima, 1993; Mulgan, 2000). This reveals that the farm population was aging and less than 1800 new

graduates were taking up farming each year which resulted in lack of successors for existing farms (Imamura, Tsuboi & Odagiri, 1993). A survey taken by the MAFF in October 1995 indicated that one of the main reasons why sons and daughters of farmers did not carry on was that they could not make a living from farm income (Japan Agrino Newsletter, 1996).

Due to the conditions mentioned above surrounding Japanese agribusiness managers, they entrusted the agricultural cooperatives with the bulk of operating and managing their operations. Here an explanation of how extensive and important the Japanese Agricultural Cooperatives (Nokyo) have been to Japanese agriculture is necessary. They have become enormously large business entities with their self-interest and survival as their main concern. The gargantuan organization is comprised of a complex three-stage system consisting of Zenno (National Federation of Agricultural Cooperatives), Keizairan (Prefectural Economic Federation) and Tankyo (local cooperatives). Due to this three-tier structure, the costs to the farmers are burdensome due to the high costs to support the organization. Because of the above factors, prices of production inputs and other commodities to farmers increased, which reduced profits from produce sales. By early 1990s, 90% of all Tankyos (local cooperatives) were suffering deficits in their marketing businesses, while Zenno and the Keizairen remained in the black (Mulgan, 2000). Another example of the problem with Nokyos was that huge amounts of money were collected from members through Tankyos (local cooperatives) in the form of handling fees, commissions on purchasing and sales business, allotted charges (buntankin), burden fees (futankin), levies (fukakin) and expenses (keihi). This roundabout method of collecting money from farmers was thought to be the best way of suppressing opposition from members to the charges they had to pay. These fees were hidden because they were deducted from proceeds of farm products sold (Hokkaido Koiki Nogyo Kyodo Kumai & Kajiura, 1995). Those farmers unable to manage their debts continued farming under Nokyo's supervision, while those who refused were suspended from services provided by the cooperatives and ended up bankrupt (Nozoe, 1988).

In 1999, the new Food, Agriculture and Rural Area Basic Law phased out government-guaranteed sales prices for dairy products, wheat, barley, soybeans and sugar substituting a system subjecting growers to a market-oriented system in which supply - demand conditions and product quality determined prices. Farmers received direct compensation from the government for lost income based on production costs. Previously, government payments of any kind were accomplished through the Nokyo; therefore it was questionable how much was actually received by the farmers (Mulgan, 2000). Thus, subsidies were decreasing and payments were going directly to the farmers. New sales routes were gradually being established which bypassed the giant bureaucratic middleman, the Nokyo federations, and generated a more direct connection between producers and consumers

(Hokkaido Koiki Nogyo Kyodo Kumai & Kajiura, 1995; JETRO, 1998). A survey conducted by Nihon Keizai Shimbun in 1998, revealed that 40% of the farmers consigned sales to agricultural cooperatives and the remainder was sold directly through other channels. The survey consisted of 1,056 farming businesses belonging to the Japan Agricultural Corporations Association and responses were received from 565 farming businesses (JETRO, 1998). In another survey of how full-time farmers rated Nokyo's (agricultural cooperatives) marketing enterprise, they rated them very low (Takeuchi & Otawara, 1994). Also, there were other sources that have stated that farmers were moving away from agricultural cooperatives (Fujitani, 1992; Fukui, 1994; Takahashi, 1995; Doman, 1996; JETRO, 1998; Mulgan, 2000). Thus, there were indications that agribusiness managers were marketing their products independently and not relying on the agricultural cooperatives.

However, the primary reason for a non-competitive environment in Japanese agriculture was the overwhelming importance of self-sufficiency in food (MAFF, 2001; 2002; 2003). This concern was understandable because of the lack of food experienced during and immediately after World War II. Connected to this was another important concept dictating agricultural policies in Japan, which was the preservation of rural areas. In order to accomplish this, the federal government protected small farmers (MAFF, 2001; 2002; 2003). This extreme protection has been a definite detriment to a competitive agricultural market.

Due to criticism from the public, farmers and government agencies, the agricultural cooperatives are attempting to correct practices to coincide with the original purposes for which the organization was created that are to benefit farmers. However, these changes have become bogged down in the bureaucratic structure of the cooperatives. There have been suggestions to reduce the basic configuration from three to two levels, but this creates a conflict as to what level should be eliminated. Of course, the third level cannot be eradicated because it is the foundation of the organization; therefore there is controversy between the Zenno and Keizairan. This conflict does not appear to be easily solved. Also, because of the inefficiencies of the co-ops, large farmers are exiting. For small farmers that remain with the co-op, it appears as though they are enduring financial penalties in the form of lower profits. Therefore, farmers appear to have three options. One is to completely withdraw from the organization. Another is to remain with the co-op, but in a much smaller capacity than in the past. The third is to maintain the status quo and suffer the consequences hoping that the changes within the co-op will be accomplished quickly. Whatever options farmers choose, from a business and management standpoint, it will be imperative that they become aware of and utilize management and marketing practices.

Since the agribusiness managers have availed themselves to the agricultural cooperatives

to market their products in the past, there is a question as to how well these managers can independently market their produce in a business-oriented environment. There have been authors who have stated that most Japanese farmers absolutely lack entrepreneurial ability. In fact, they consider farmers as complete amateurs when it comes to business (Fujitani, 1992; Hayami, 1998; Mulgan, 2000).

#### *Statement of the Problem Concerning Marketing Ability of Agribusiness Managers*

As mentioned in the previous section, Japanese farm managers have not been accustomed to operating in a competitive agricultural economy. Because of changes in agricultural policies and inefficiencies of traditional Nokyo (agricultural cooperatives), they should use competitive management and marketing principles to survive (Hayami, 1998; Mulgan, 2000). Thus, the question whether Japanese farm managers do independently market their produce profitably will be of paramount importance to farm managers in the future.

The variable that will be measured is the marketing ability of farm managers. To measure this, nineteen specific items will be evaluated which comprise effective marketing of produce (Kohls & Uhl, 1990; 1998; 2002). The use of these practices has been proven to be effective as stated in agricultural marketing and agricultural economics materials (Barker, 1989; How, 1991; Cassavant, Infranger & Bridges, 1999; Kohl & Uhl, 1990; 1998; 2002). If farm managers utilize majority of these practices, they should be attuned to competitive market analysis and therefore be able to obtain maximum income given the quantity and quality of produce they possess.

However, even though the majority of the practices are followed, several uncontrollable factors may lead to minimal profit or even loss. These determinants affecting the quality and quantity of produce to be marketed are weather related such as severe temperatures - high or low - , drought conditions, over abundant precipitation, hail storms, and wind damage. They can be anticipated to a certain degree by planting hardier varieties to weather conditions, and having land in different geographical locations, but the damage cannot be eliminated entirely. Thus, the problem that this study will attempt to answer can be stated succinctly as: Do agribusiness managers market independently and profitably based upon the quantity and quality of produce they possess?

#### *Evaluation of Agribusiness Managers' Marketing Ability*

There have been several articles and research papers dealing with agricultural economics and marketing focused upon large agricultural entities conducting business in Japan (Eisenstodt, 1995; Matsuda & Kurokawa, 1996; JETRO, 1998; Higaki, Kisan & Coffin, 2001). In Japan and the United States, there is an astonishing lack of materials dealing directly with agricultural management. Very few, if any, courses are taught related to this subject. Moreover, there are very few studies or materials treating individual farm managers' marketing abilities. Even in the United States, although individual farming

practices are mentioned, the materials focus mainly on firms that comprise the sale and distribution process after products leave the farm (Barker, 1989; How, 1991; Casavant, Infranger & Bridges, 1999; Kohl & Uhl, 1998; 2002). In Japan, research has been accomplished concerning the marketing operations of the Nokyo (agricultural cooperatives). Studies conducted toward business and marketing abilities of individual farm managers are, to say the very least, lacking. Most of the managers that have drawn away from the Nokyo are those who operate fairly large farms (10 hectares or more - 25 acres or more) according to Japanese agricultural standards (Fujitani, 1992; Fukui, 1994; Eisenstodt, 1995; JETRO, 1998; Mulgan, 2000). There have been a few studies related to this group (Domon, 1996; Okamoto, 1996; Nihon Keizai Shimbun, 1998; JETRO, 1998). The majority of the farmers however average between 1.5 - 4 hectares (3.75 - 10 acres)(Norinsuisansho Tokei Johobu, 1999). Because of the past structure of Japanese agriculture, small farm managers did not have to make marketing decisions, which were accomplished for them by the Nokyo. Currently, the trend appears to be moving in the direction of marketing outside of the Nokyo system even for small farm managers (Nihon Keizai Shimbun, 1998; JETRO, 1998). Recent studies dealing with small farm managers marketing independently are almost non-existent.

Deregulation and decreases in subsidies have created a more competitive environment for Japanese agriculture. Although certain agricultural products such as rice, dairy products, wheat, barley, soybeans and sugar have been subsidized by the government in the past, vegetable crops have generally been largely unsubsidized (Tweeten, Dishon, Chen, Imamura & Morishima, 1993; Hokkaido Koiki Nogyo Kyodo Kumai & Kajiura, 1995; Mulgan, 2000). In this area, prices and the marketing environment have been fairly competitive except for the fact that control of supply by co-ops have influenced prices. Under these conditions, farmers have entrusted the cooperatives to market their products in the past with the belief that they would obtain the best prices and maximum profits for their produce. However, it appears as though concerning profits, the reverse was true. It remains to be seen to what extent farmers are marketing independently and whether their operations are profitable. Also, even though they do not market independently, the study should indicate whether farmers are aware of and analyzing marketing conditions and practices. The results should point out areas where further research will be necessary and also, it will initially indicate what areas farm managers will need assistance and advice.

If in fact, the trend is towards marketing individually, the basic mind set of farm managers will have to change because they, not the Nokyo, will be responsible for marketing decisions in a fairly competitive marketing environment. For the managers to survive in the future, they will have to become competent in basic marketing practices, which up till now, has been an area where they have been almost virtually isolated from.

Therefore, if the study indicates that farmers are practicing independent marketing, this will be a significant finding compared to historical activities accomplished by farmers.

### *Definition of Terms*

The following are Japanese terms used in this study, which are related to Japanese agriculture and therefore should be defined.

Agribusiness managers - Farm managers

Hectare - This measurement of area is equal to 2.5 acres.

Nokyo - Japanese Agricultural Cooperatives

Ken - Prefecture

Type I part-time farm manager - One whose farm income is derived more from farming than from non-agricultural occupation.

Type II part-time farm manager - One whose income is derived more from non-agricultural occupations than from farming.

Zenno - National Federation of Agricultural Cooperatives

Keizairan - Prefectural Economic Federation

Tankyo - Local Cooperatives

Buntankin - Hidden allotted charges against profit

Futankin - Burden fees

Fukakin - Levies

Keihi - Expenses incurred by cooperatives

Japan Agricultural Corporation Association - A group comprised of farm managers independent of agricultural cooperatives

Production inputs - Materials necessary for the production of crops, i.e. fertilizer, chemicals, seed, equipment, etc.

The previous material defines terminology related to this study. Next, an explanation is necessary concerning the operational definition used for marketing ability. The following practices will be the criteria used to appraise marketing ability.

#### *Operational Definition*

In order to measure the variable marketing ability, nineteen specific practices will be measured to evaluate this. The practices are as follows.

- \*1. Financial analysis of debt, expenses, and revenues
2. Evaluate the quality of one's own produce
3. Preparation of produce for sale
4. Factors considered when products sold
5. Factors considered where products sold
6. Amount of control in decision-making in the marketing of produce (total, partial, none)
7. Attempts at expanding or developing markets
8. Identify undesirable marketing practices
9. Sales strategy of obtaining top-dollar for each sale
10. Sale strategy of obtaining a reasonable average price over time
11. Market high risk - high profit crops
12. Market low risk - low profit crops
13. Increase profit through cost reduction in the marketing process
14. Maximize returns from product sales
15. Maximize asset value of farm
16. Acquire accurate and timely marketing information about prices, supply movements, demand trends, supply on hand, and future supplies
17. Use pre-planting hedging as a marketing tool (contract before crops planted)
18. Use pre-harvest hedging as a marketing tool (contract after planting, before harvest)
19. Use storage hedging as a marketing tool (sell stored produce)

There are numerous definitions and concepts related to the term profit, however in this study net profit will be defined as the amount of income remaining after expenses of raising crops are deducted from gross profits. The dependent variable, profitability will be measured by the net profit received by the farm managers. The amount will probably be small compared to profits obtained by a farm manager in the United States, but the important distinction is the difference in size of farms in each country.

The above comprises the operational definition of the measurable variables marketing ability and profitability. Next, limitations of the current study will be addressed.

\*Source: Kohls, Richard L. and Uhl, Joseph N. (2000). *Marketing of Agricultural Products*, pp. 491-509.



### *Limitation of the Study*

As with all research projects, this one does have certain limiting factors, which must be stated and will restrict generalizations from the sample to the general population. However, care has been taken to minimize confounding factors that will affect the validity of the study. The results are specific to the sample taken and to the environmental conditions that exist at the time the survey will be administered.

One of the most important limiting factors will be how quickly the agricultural environment in Japan will change after the survey results are completed. As mentioned in previous sections, the conditions surrounding Japanese agriculture are changing. If marketing conditions become more competitive in the near future, than the responses received from the survey will probably change. Currently, there is a trend toward competitive market environment, but the extent of this competition is nowhere near the intensity and magnitude that exists in the United States. Characteristically, change of any kind has been very slow in Japan, therefore the probability of a drastic change in the immediate future concerning agricultural policies and marketing conditions appear to be minimal.

Another limitation of this study deals with the sample. Realistically, about 150 -200 farm managers will comprise the sample. This number may be small, but due to the practical considerations of cost and time, it should be feasible. Also, the members selected for the sample will not be randomly chosen because they will be farmers whose names and addresses are available to the agricultural department of Aomori Ken (prefecture). If however, the numbers reach into the thousands, than a random sample can be obtained but this is very unlikely. Moreover, the farmers within the sample may belong to certain social or business groups and may converse with each other about the survey. This may result in a coordinated answer rather than an individual answer. Another related factor is that the survey will be authorized by the prefectural (Ken) agricultural department and Aomori Public College, therefore the responses may indicate the respondents perception of how the questions will be favorably received and not their true reactions.

Lastly, a limiting factor would be the effect of "luck" when marketing. Although all of the practices that comprise marketing ability are adhered to, uncontrollable influences may affect the final outcome of profit positively or negatively. Since these occurrences are unforeseeable and unpredictable, there will not be any way to control or remove these. However, their existence cannot be completely ignored when dealing with marketing of vegetable products.

### *Postscript*

This study will investigate agribusiness managers' ability to market independently. Since this research note is the initial step in the process of discovering answers to the previous

mentioned issue, survey questions will be created and sent out to farmers in Aomori Ken. The criteria used for appraising marketing ability are derived from marketing principles presented by Professor Richard Kohls and Professor Joe Uhl of Purdue University (2002). After the questionnaires are returned, the results will be assessed using linear regression analysis. From the results, certain generalizations will be made concerning the marketing ability of farmers in Aomori Ken. Also, the findings should indicate areas where agribusiness managers in Aomori Ken will need assistance when marketing their produce. Lastly, the results should indicate areas for further research.

Received : December 14, 2003, Accepted : December 17, 2003

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## **Abstract**

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This paper will investigate marketing practices utilized by Japanese Agribusiness managers (farmers) and their relationship to profits. Since the agricultural marketing environment is changing due to diminishing government controls and protection, and problems associated with the Nokyo (agricultural cooperatives), agribusiness managers will conceivably have to take a more active roll concerning marketing of their produce. Using nineteen specific marketing practices as the operational definition of marketing ability, questionnaires will be sent out in the future to managers in Aomori Ken to assess their practices and monetary returns. After the survey is returned, statistical analysis will be applied to obtain results, which will be used to generalize observations concerning the targeted population. The results should indicate the marketing ability of agribusiness managers in Aomori Ken and point out areas for future assistance and research.