

A 21st-Century Approach to Marketing

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Now that traditional approaches to marketing are beginning to show their limitations as companies have less and less direct contact with their customers, new strategies are needed in order to develop markets. And because information is becoming more readily available as the Internet is increasingly used to send and receive it, consumers are becoming more homogeneous and passive. Companies must therefore devise ways of both surprising and impressing consumers, as well as ways of retaining their customer base. In order to do this, they need to adopt a different approach to management—one that is more focused on customer needs.

Successful companies have already adopted such a course. In order to sustain these new lines of attack, however, management will have to be organized (and management policies implemented) in a novel way. As companies will need to be able to respond better (something that touches on corporate culture and cannot easily be copied), this will also present them with an opportunity to develop distinctive competitive strengths in an innovative way—hence the title “A 21st-Century Approach to Marketing.”

I A Need to Redefine the Term Marketing

Ever since the asset boom of the late 1980s came to an end, Japanese companies have done their best to cope with a prolonged recession. During the past few years (on the eve of the 21st century) some companies have succeeded in adopting new approaches that have enabled them to achieve astonishing rates of growth, while others have succeeded in generating high rates of return constantly and appear to be continuing to grow. Because of deregulation, economic globalization and the gradual disappearance of traditional business practices (e.g., the tendency to do business with other companies in the same group rather than with outsiders and the practice of holding shares in business partners to cement corporate relations rather than obtain a high return), companies will have to give much more thought than before to the question of what customers really want.

The term marketing was originally used to describe everything a company does in relation to its market. Over the years of high and stable growth, however, the word has come to be used mainly to describe such activities as sales promotion and pricing, to which relatively little value has been assigned in terms of the overall commercial flow. It was perhaps inevitable that the expression should come to be used in this way in a period when customer behavior was relatively easy to observe and companies tended to be grouped in industries around particular products and knew exactly who they were competing against. Now that the conditions in which companies operate (see above) are changing along with consumer behavior and psychology, however, it is perhaps time to start using the term in its original sense once again.

II Identifying Customer Needs

In order to identify customer needs, companies will have to ask themselves what goods and services their customers want and how they are going to acquire them (i.e., how much customers are prepared to pay and where and when they would like to buy them).

Clearly, consumers want to buy top-quality goods and services at rock-bottom prices, but companies will also have to ensure that purchasers have no regrets about having bought particular items. Customers want to feel that they have chosen what they buy from a wide selection, that they have made an independent choice, and that their choice will not disappoint them. It is the ability to offer customers as many of these features as possible that will enable companies to compete.

Such inducements are basically related to the cost of providing them by trade-off which could result in anti-nomy. The more companies succeed in satisfying cus-

tomers needs, the more they will face this dilemma. In the past, discussions about marketing revolved around this trade-off. In the future, however, deregulation and the disappearance of traditional business practices mean that this issue will have to be dealt with at a higher level. Or, to put it another way: Is there any trade-off at all?

Companies such as Fast Retailing (the company behind the UNIQLO clothing brand that has been so successful during the past few years) and Shimamura (an apparel retailer based in the northern part of the Kanto region) have found their own answers to this question by completely reorganizing their distribution systems. By being among the first to abandon the traditional, multi-layer distribution system, doing away with business practices that sometimes amounted almost to collusion and by consciously taking risks, they have taken stock of the needs of their customers and created a new market.

Big changes can also be expected in distribution channels. The Internet has given consumers access to vast quantities of information on outlets and products. As a result, they expect to have full and equal access to information to enable them to make their own judgments.

III The Increasing Homogeneity and Passivity of Consumers

Fifty-five years have passed since the Second World War, and Japan's baby-boomers are now in their early fifties while their children are now in their late twenties. More and more baby-boomers will find themselves relieved of their responsibilities as parents as their children leave home. In addition, factors such as Japan's falling birth rate and rising average age will mean that the general structure of the population as well as the behavior and psychology of Japanese consumers will differ increasingly from such parameters in the past.

In addition, the increasing use of the Internet to send and receive information has the potential to revolutionize the relationship between companies, their products and their customers. The changes that can be expected in the way that people lead their lives and behave as consumers can be summarized as follows:

(1) Structural changes

- More potential to consume (as baby-boomers are relieved of their financial responsibilities to their children, such as the need to pay school and university fees)
- Demobilization from the company (as baby-boomer husbands retire and rejoin the local community)
- More family consumption and investment in the home (as the children of baby-boomers start their own families)
- A rapid increase in the number of elderly people and the formation of sub-segments among this age range

(2) Characteristics

- The rapid growth of shared information about products and outlets (as the Internet turns word-of-mouth communication into a mass medium)
- The increasing exchange of information about lifestyles (as consumers create their own benchmarks)
- The continued pursuit of convenience (as consumers become increasingly reluctant to be patient and forbearing)
- The growth of neighborhood consumption and virtual shopping (as consumers choose to shop either locally or online)
- Products and outlets are becoming increasingly dependent on information
- Growing need for impartial and neutral advisors and agencies (as consumers are overwhelmed by a glut of information)

Figure 1 shows the findings of NRI surveys on Internet usage in Japan. Personal use of the Internet has surged, more than doubling to 16.7 percent in the past 18 months. In other words, it is estimated that roughly 15 million Japanese aged between 15 and 59 use the Internet.

Of these, 41.5 percent are estimated to be female users—roughly twice as many as 18 months ago and an indication that use of the Internet has become an integral part of daily life in Japan.

In addition, people are accessing the Internet in an increasing number of different ways. About 10 percent of consumers use either a mobile phone or an information appliance connected to one for this purpose.

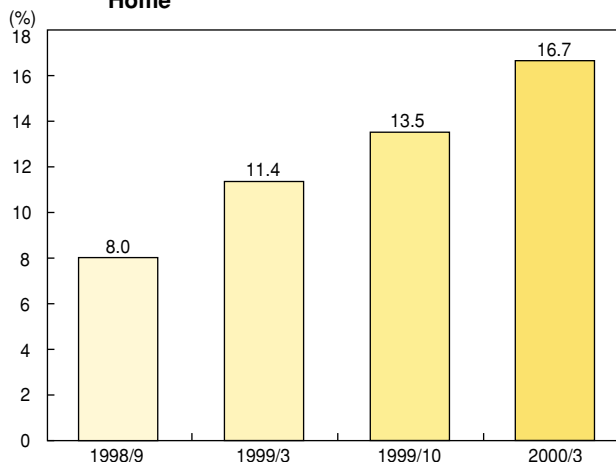
Given the likelihood that charges for Internet access and telephone fees will fall further and that services will become more user-friendly, there clearly is considerable scope for Internet usage to increase even further.

We are likely to see an increase in the use of the Internet not only to provide retailing and services to consumers (B2C business) (and therefore an increase in markets free of geographical restrictions), but also to enable consumers to exchange information (C2C business) and to provide them with a whole range of information services.

Figure 2 shows the close correlation between consumer spending power (using the number of households as a proxy) in satellite towns near Tokyo and retail sales. This correlation has risen over the years, and reflects the prolonged slump suffered by department stores and general supermarkets and the boom enjoyed by convenience stores as well as the tendency for consumers to restrict their shopping to a smaller area even when buying non-convenience goods. This tendency is likely to increase as baby-boomer husbands retire and rejoin the local community, and the average age of the population rises.

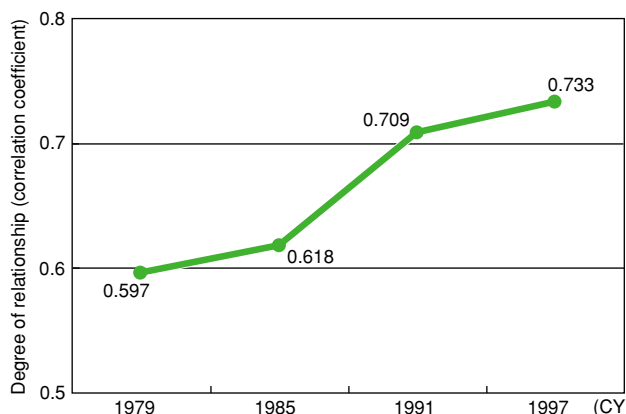
In this process, consumers have accumulated a wealth of experience. As shopping has become more convenient, however, a kind of regression phenomenon has begun to manifest itself. Consumers can find whatever they want without having to go very far, and can find out whatever they want without having to make much of an effort.

Figure 1. Percentage of Population Using the Internet at Home



Note: Population = all males and females aged 15-59. Source: *Cyber Life Observations* (Surveys 4-7), NRI, September 1998-March 2000.

Figure 2. Relationship Between Market Size and Retail Sales



Note: Coefficient of correlation between the population of 20 satellite towns near Tokyo and retail sales (viewed as a time series). Source: NRI, from *Census Report*, Management and Coordination Agency, and *Tables of Business Statistics*, Ministry of International Trade and Industry.

One characteristic of the late 20th century is the fact that consumers have lost sight of what they want. Although they have accumulated considerable knowledge about goods and services from the information provided both by companies themselves and by other consumers, the sheer volume of this information and the speed at which it circulates have led to consumers becoming passive about using it to enrich their lives. As a result, consumers are less able to think for themselves about how they can set about doing this.

The various methods that companies have used to suggest things to consumers and to attract their attention have dulled their senses. With most of the fun in their lives pre-packaged, consumers are not in a position to create innovative styles by themselves. In macro terms, the ready availability of information on the Internet at no cost tends to make consumers passive about improving their lives. In the same way, the growing use of product and service benchmarks has made consumers more homogeneous.

In other words, the passivity observed in a large number of consumers is contributing to this tendency. Although there is plenty of information available, the majority of consumers in the 21st century will probably tend to be a passive and homogeneous group. These consumers will have the following characteristics:

- (1) Although they will be knowledgeable and well informed, they will not have their own definite views and philosophy about life. Also, while they may have requirements in particular areas, they will not have any policy of their own for changing their overall lifestyle.
- (2) They will be adept at acquiring and using information, and very knowledgeable—just like critics.
- (3) They will be very interested in prices and new products, but their wide product experience will mean that they will not be interested in anything just because it is “cheap.” Instead, they will be highly aware of the relationship between price and performance.
- (4) They will be very interested in the views of other consumers who already own any products they are thinking of purchasing. They will want to feel confident in the process that precedes an actual purchase.

IV How Companies Need to Respond to Changing Market Conditions

Companies will have to respond to these changes in consumer behavior. A strategy of merely identifying and focusing on consumer needs will no longer suffice, as con-

sumers themselves do not know how to express their needs. Instead, companies will have to identify and create this hidden demand, and articulate consumer needs on behalf of their customers.

1 Focusing on the Customer

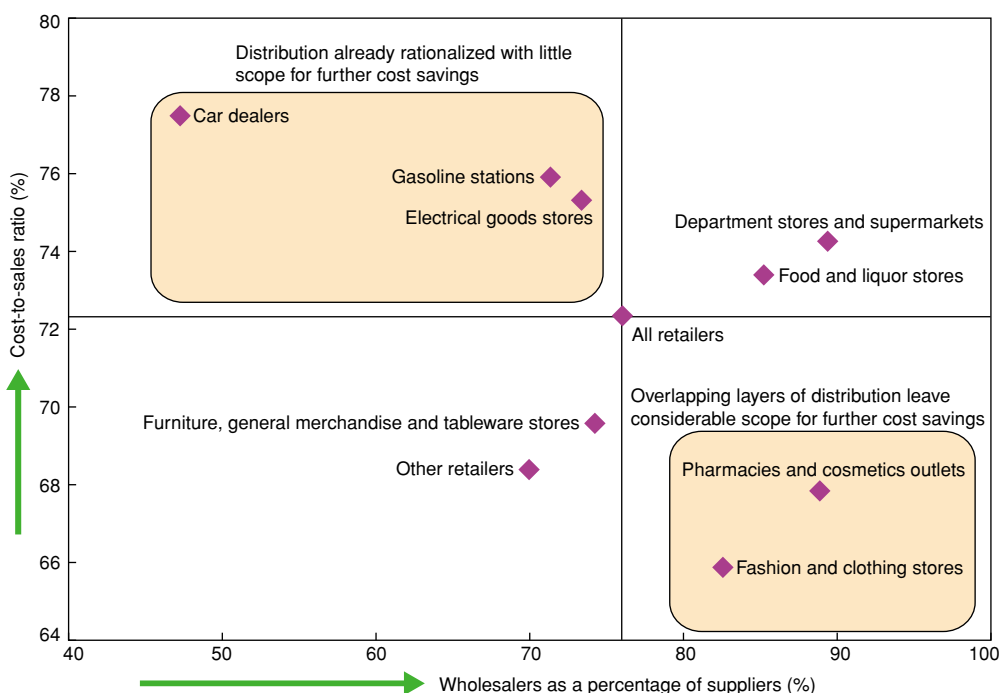
In order to do this, companies will have to create conditions that do not exist at the moment. One example of this is an approach to product development that goes beyond the kind of trade-off between cost and quality that was mentioned above. Another is the decision by the stationery manufacturer Plus to offer customers rival products as well as its own. This marketing strategy, which has proved a great success, would at one time have been inconceivable.

(1) Initial stage: attracting customer interest

The basic aim at this stage is to create novel ways in which customers can be motivated by new goods and services. This provides an opportunity to create new value for consumers, which could take the form of moving customers through an appeal that exerts an emotional impact. It could include creating the perception of having a benign interest in one’s customers, or instilling an impression of focusing on customer well-being by making helpful suggestions and responding promptly to their needs.

Figure 3 shows the extent to which distribution channels overlap in different sectors of the economy. In sectors (such as clothing, cosmetics and pharmaceuticals) where there is still channel congestion, there is considerable opportunity for companies to create value for con-

Figure 3. Relationship Between Suppliers and Cost Ratios for Different Sectors



Source: NRI, from *Basic Business Survey*, Small and Medium Enterprises Agency, 1998.

sumers by devising novel ways of distributing their products. Examples of this include Shimamura and Matsumotokiyoshi—as well as Fast Retailing (see above).

Companies operating in the top-left group of sectors, however, will find it more difficult to distribute their products in novel ways. They will have to come up with new ideas for creating value for consumers. One example (from the automobile industry) would be to offer consumers a car with the body of one of Toyota's models, the interior of one of Nissan's models, and doors with the ultimate in safety as in the Mercedes 6000cc series. For consumers with an outdoor bent, recreational aspects will probably come to play an increasingly important role.

At the moment, such needs remain untapped. In the case of the automobile industry, this is simply because it is taken for granted that cars are sold by dealers affiliated with their manufacturers. The kind of novel means of distribution mentioned above would see the emergence of new agents (i.e., dealers) and the formation of alliances between rival companies. Companies might even be set up to perform this agent function.

Also, outlets set up to sell the products of a particular manufacturer will be forced to adopt a radically different approach. In other words, this first stage of attracting customers will require companies to create a different kind of value for their customers from that which they are accustomed to.

Because consumers have become passive, companies will need more than ever to persevere in suggestions aimed at generating customer's interest. At the same time, where these suggestions are novel and innovative, the increasing homogeneity of markets means that they will enable companies to capture a large market share. This will open up attractive mass-marketing possibilities in the 21st century.

(2) Final stage: securing customer loyalty

At the final stage, companies will require a strategy for securing customer loyalty over the long term. In other words, they will have to maintain and improve the quality of their products and their corporate brand. They will constantly have to monitor how customers are using their goods and services, and endeavor to improve their ability to deal with any problems that occur.

In the case of durable goods, after-sales service will still be essential. Even here, however, making customers feel that their individual needs are being addressed will be more important than simply dealing with complaints in the traditional way. For example, Seiko Epson offers a one-day service for its printers that has proved popular with customers—both because of the quick turnaround (24 hours) and because customers can be kept informed of the progress (e.g., whether their printer is in the repair process or whether it is awaiting delivery).

At this stage, improving this type of monitoring system and providing a tailor-made service is the most important thing. If problems should actually occur, how-

ever, any delay in dealing with them could have serious consequences, as consumers are increasingly able to exchange information very rapidly.

In past cases where companies have produced successful products, the success has tended to be brief when the companies have not paid sufficient attention to retaining their customers. Therefore, companies need to devise an effective means of ensuring customer loyalty. In other words, they need to maintain the constant interest of their customers (ideally, for life) and to continue to create value for them.

2 Emergence of New Layers

Given such conditions, new layers are likely to emerge to fill the gap between existing companies and their markets.

The first of these will be companies that can edit, process and present information selected according to the needs of consumers from the mass of information available. As the Internet becomes the universal medium of communication and assumes an increasingly important role as the information gateway between companies and consumers, these new companies will facilitate access to it. They will make it as easy as possible for consumers to take part in online auctions and reverse auctions.

There is also a role for companies to act as independent purchasing agents on behalf of consumers. One example of this is the kind of automobile purchasing agent mentioned above. Another possible role would be that of collecting consumer information and helping other companies to develop products and outlets. This would involve collecting information all the time, adding it to a database, and using it to suggest to companies how they might develop new businesses.

Yet another opening would be for rating agencies whose job it was to ensure the kind of fairness and transparency that consumers want. There could also be agencies specializing in rating service facilitators (such as those companies that help consumers to use the Internet) and purchasing agents—sometimes with the help of consumers themselves. Membership in these layers need not be confined to new companies. There is ample opportunity for existing companies to play a role.

There are opportunities for new layers off line as well—especially in areas such as services for the elderly. Such opportunities also exist in fields related to home care, home delivery and home security. Companies competing in this market will find it increasingly difficult to identify where exactly their rivals are positioned.

3 Need for Customer-Oriented Management

(1) Management implementation model

Whether companies are new entrants (“layers”) or established players, they will have to spend considerable time

and effort reengineering their often complicated business processes if they are to attract new customers and secure their loyalty in the medium to long term. In other words, they need to develop and put into practice a new model of management to ensure that they achieve this. Figure 4 represents this schematically.

Companies cannot leave all the work involved in trying to make an impact on sophisticated and fickle consumers (e.g., product planning, channel development and maintaining the systems needed to provide high-quality services) to a single department. They need to reorganize their operations in order to implement the above policy. Consumers, meanwhile, will have a wealth of information on products and outlets as well as constant access to the latest information on other companies and to impartial ratings.

In order to secure and keep market share in the 21st century, companies will have to understand and implement such policies for acquiring and retaining customers. This will be the biggest departure from the traditional approach to marketing.

In the past, it was sufficient for companies to set their targets, identify customer needs and then to strike a balance between the four key elements of marketing known as the “four Ps” (i.e., product, price, place and promotion).

In the future, companies will have to decide, first of all, how they are going to attract customers. Based on this decision, they will also have to decide how to allocate resources (both internal and external) and how to make good use of them. They will also have to decide, for example, whether to do this by modifying their existing strategy or by starting a new business (or layer). This will require a company-wide commitment and the allocation of resources to particular areas—sometimes at the expense of other areas.

(2) Successful case models

Figure 5 is an example of such a new marketing model based on the successful case of Seven-Eleven Japan. Seven-Eleven originally provided customer value in the form of convenience (i.e., by always being open), but has remained successful by developing information support systems and advanced business processes (such as ordering and physical distribution) as well as by managing its franchises skillfully.

In order to provide even greater customer value, Seven-Eleven has not only constantly updated its product line to match customer needs, but has also offered a growing range of services, improved its store fixtures and become involved in e-commerce. All the time, Seven-Eleven’s aim has followed a cyclical pattern designed to build customer trust by focusing on their needs, taking action to satisfy them, assessing its success, and then repeating the process on a periodic basis.

The model in Figure 6 is based on the case of Fast Retailing. In this model, the company specializes in a limited range of products, which it produces in large numbers to reasonable quality specifications and at low costs. At the same time, it makes an impact on consumers. Although Fast Retailing designs, develops and produces the products at its own risk, most of the production is carried out overseas. These processes demand considerable management attention, and it is here that most of the company’s innovation occurs. Many other companies are watching Fast Retailing very carefully, and its continued success is likely to depend on its ability to create new customer value and to devise a strategy for keeping ahead of its rivals (e.g., by improving its supply chain management).

Other successful cases include those of Nissin Food Products and the sensor manufacturer Keyence, both of which

Figure 4. Customer Acquisition and Retention Model

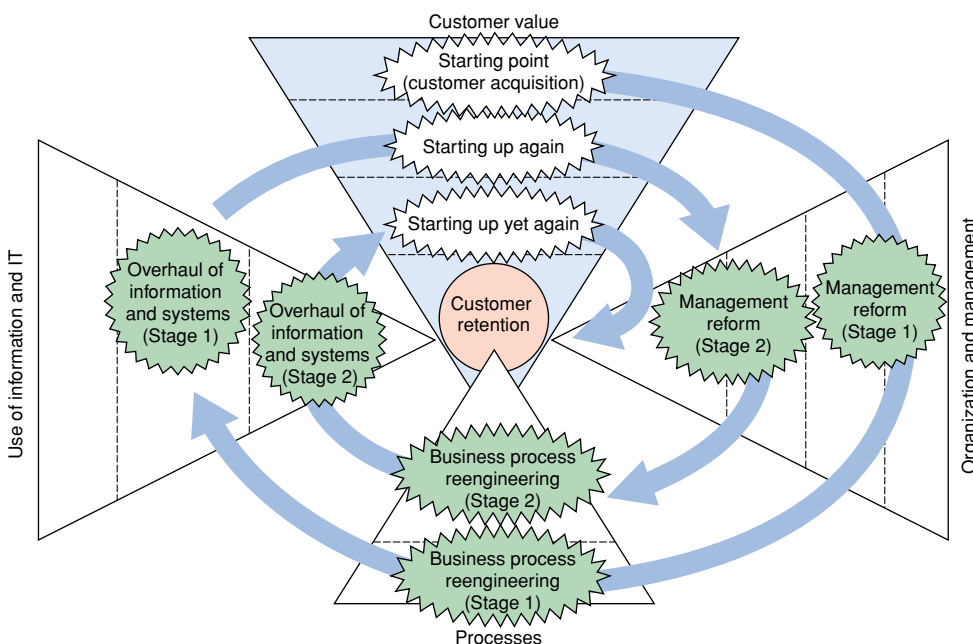


Figure 5. Customer Acquisition and Retention Marketing Model (Seven-Eleven Japan)

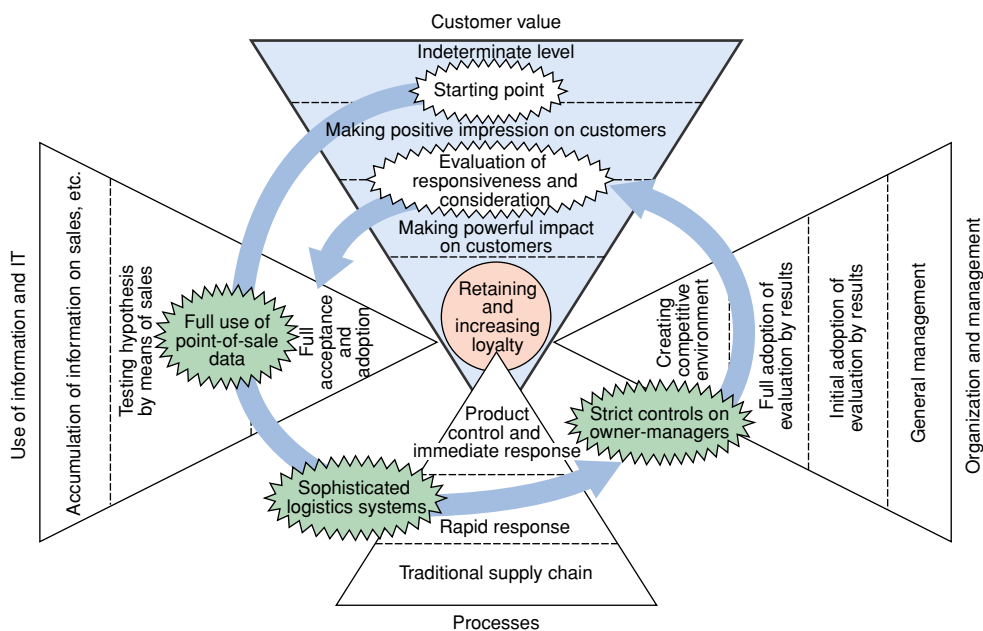
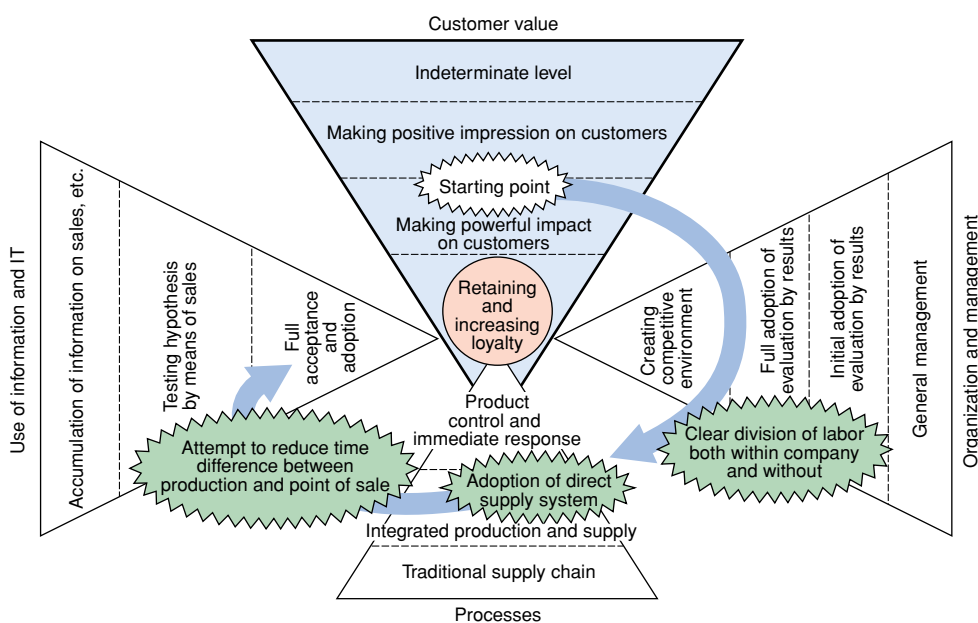


Figure 6. Customer Acquisition and Retention Marketing Model (Fast Retailing)



have consistently maintained high profit margins. The key to their success has been in ensuring that they are managed in a way that is likely to have an emotional impact on customers. They have achieved this by deliberately creating an atmosphere of what could be described as excessive competition within the company. This, in turn, has generated customer trust and helped to create a brand image.

The important thing for a company is to create customer value. Doing so requires that a company reorganize its structures, reengineer its business processes, make full use of information technology, and redesign its information systems so that it will be able to provide this value consistently—and to ensure that all these functions in a spiral-shaped cycle.

(3) Keys to success

In organizing their operations to acquire and retain customers, however, companies may occasionally face obstacles and experience friction—both internally and externally.

Table 1 lists some of these problems and suggests some of the policies companies should adopt to deal with them. It also gives some successful examples. What these problems have in common is the fact that they do not lend themselves to a traditional type of solution. They all require company-wide action rather than just short-term approaches or fine-tuning by particular departments.

When it comes to customer involvement, companies should as far as possible try to confine this to obtaining

Table 1. Key Issues and Likely Future Developments in Customer-Oriented Approaches

Four "don'ts"	Approach recommended	Successful examples from the late 20th century	Likely developments in the 21st century
"Don't worry if rivals also benefit"	Even if rivals stand to gain in the short term, management should go ahead in the knowledge that the company will win the support of its customers in the long term.	Askul: The decision by the stationery manufacturer Plus to set up a sales subsidiary (Askul) that would also sell rival products proved highly popular with customers (smaller businesses). Matsui Securities: In addition to offering its customers a wider range of products, Matsui has provided links on its Website to the sites of other securities companies to facilitate deals by customers who would benefit more from their commission structure.	Companies will need to have deep pockets and stick to a policy of putting customer interests before everything else. In the medium to long term, the notion of "rival companies" may well have to be redefined.
"Don't worry about internal competition"	In order to ensure that the customer comes first, decisions should be made at a level that transcends interdepartmental rivalries. Encouraging competition can even improve a company's responsiveness to customer needs.	Nissin Food Products: Nissin's adoption of a "brand major" system to foster competition among brands has had the effect of making it a stronger company. Ryohin Keikaku: Although Seiyu's decision to split off one of its departments has meant that its product design, wholesale and retail businesses sometimes find themselves competing with the parent company, the standing of the group as a whole has risen as a result.	Where possible, companies should actively seek to optimize their operations at the corporate and group level (e.g., by achieving trade-offs involving reduced synergies).
"Don't worry about being unconventional"	Management should pursue a customer-oriented approach uninhibited by conventional business practices and in which—within reasonable limits—only the fittest should survive.	World: World has set up its own direct franchise stores against the wishes of the specialist stores that have been its main outlets. This has enabled it to minimize losses at the distribution level and to cut prices. Book-Off: This chain of stores specializing in second-hand books has adopted a new approach to purchasing and sales in order to acquire more customers.	Playing fields will become more level. At the same time, competition will intensify. Companies that manage to retain their corporate identity while they create customer value will have a powerful weapon at their disposal.
"Don't worry about customer interference"	A special effort should be made to respond to customer needs in those areas that in the past have been less than transparent. Companies should involve their customers in their own business processes even if this proves time-consuming.	Daikyo: By switching the focus of its sales operation from its showrooms to the actual sites where its condominium buildings are being built, Daikyo has dramatically reduced the number of complaints customers make after they move into their new homes. The customers themselves also appreciate the new system.	Companies should seize such opportunities as a means of improving customer communications. They should have a strategy for encouraging customer involvement in a wide range of their activities.

reactions to their own suggestions. As was mentioned above, consumers have become very passive. Rather than involve them as partners in the product development process, companies should regard them as a source of feedback about their own initiatives.

All of these success stories from the end of the 20th century involve companies that belong to what would be described as mature or declining industries in traditional terms. This demonstrates that the concept of "industry" or "sector" is now irrelevant to the business of acquiring customers and that the only valid definition of whether a company is competitive or not is whether it produces anything of value to the consumer concerned.

V Next-Generation Marketing

1 Incorporating New Management Ideas

As Figure 4 showed, creating customer value must be the starting point. Next, companies need to put in place

and operate management systems to achieve this, and these should then create more value. This vector should form a spiral around the customer.

Once customers have benefited from such value, however, they want more and expect their needs to be satisfied. If they are not, any loyalty to the company concerned will evaporate. Value creation is always a stressful process, and the formation of value on the customer axis is nothing less than entrepreneurship itself.

This vector therefore tends slowly to move outwards. As soon as a company rests on its laurels, it will inevitably become just another company. How to ensure that the work force continues to outperform is a matter of corporate culture and an entirely different one from that of ensuring that they use the latest management tools (e.g., restructuring, information technology and business process reengineering), which is a matter of civil management.

The term corporate culture refers to the norms of thinking and behavior that pervade a company. Many other companies have copied the structures, business processes and information systems of companies such as Seven-Eleven,

Table 2. New Management Approach to Customer Acquisition

		Civil management (a prerequisite)	Culture management (essential to boosting competitiveness)
Strategic level	Operational level	<ul style="list-style-type: none"> • Quality control • Delivery control • Cost control • Ability to obtain and analyze information • Ability to make accurate predictions ⋮ 	<ul style="list-style-type: none"> • Controlling original thinking • Reducing lead-times for new products • Controlling the ability to hypothesize • Ability to edit and use information • Ability to make mid-course corrections ⋮
		<ul style="list-style-type: none"> • Toleration of different approaches • Focus on knowledge • Changing the way people think as the first step towards change • Focus on the sense of "vision" ("further and wider") • Need to spell out corporate visions ⋮ 	<ul style="list-style-type: none"> • Ability to learn from different approaches • Focus on wisdom • Changing the way people behave as the first step towards change • Focus on the sense of "smell" (detecting things that are hidden) • Emphasis on difficulty of resolving differences between corporate vision and reality ⋮

Nissin Food Products and Keyence (see above). However, virtually none of these attempts has proved successful. This shows what civil management can and cannot achieve.

The steps to success come naturally to such companies. These include: (1) internally recreating external conditions as soon as they develop; (2) giving more consideration to customer needs than do customers themselves; (3) trying to assess goods and services from the point of view of the market; and (4) developing a flair for business, fostering its growth within the company and creating a market for its products. The only reason these companies have been able to maintain a lead over their rivals is that the latter have found that trying to copy this unique capability (part of the corporate culture of these companies) and close the gap is no easy matter.

For a company's policies and basic values to permeate the work force from top to bottom and be reflected in actual behavior, employees must trust the company and the company itself must devise a means of rewarding their efforts.

A culture where information is communicated immediately to the right person (even when it is negative for the company), where decisions are made quickly, and where younger staff are encouraged (rather than discouraged) to express novel ideas can be justifiably said to have a high capability. Maintaining this capability at a high level is what culture management is all about.

Culture management will be an essential part of anticipating and capitalizing on consumer behavior and creating an organization that is both quick to act, in touch with social values, and capable of responding flexibly to social changes. This aspect of management will prove an extremely effective weapon in the 21st century in that it can enable a company to meet a variety of challenges while being difficult to copy.

2 Management Evolution and Increasing Corporate Value

Table 2 is a list of specifications of how management should evolve.

Culture management will have a vital role to play in enabling companies to monitor market developments (so that they can make an impact on consumers) while keeping up with the rapid increase in the volume of information available to consumers. It is essential that senior management take the initiative in maintaining and enhancing this capability. A company must be serious about putting its customers at the center of its business strategy.

The example of Tokyo Disneyland not long after it began business shows just how important it was for the company to maintain a make-believe atmosphere even when construction work was going on: it spent more money on concealing the work from visitors than on the work itself.

More important than just changing attitudes in theory is demonstrating customer-oriented thinking by changing one's behavior in practice. Adopting a 21st-century approach that combines marketing with this new kind of management will not only increase customer value, but also achieve greater productivity, thereby ensuring that companies retain their scarcity value. This, in turn, will ensure that they are well regarded by shareholders and investors, and will enable them to increase their corporate value.

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