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# THE EXPLOITATION OF THE NICHE MARKET THROUGH INNOVATION AND MARKETING

— The Case of Japanese Small Businesses —

by

*Yoshio Sato*

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### *Abstract*

Japan's economic growth brought many business opportunities and niche markets for small business, where new entrepreneurs entered. Competition and self-revolutionalizing efforts made the level of their technology and management highly specialized. Various examples of niche marketing strategies in Japan by several types of smaller businesses are followed. Recent new ventures' strategies, typical "venture businesses" activities, niche marketing by diversification strategies and self revolutionalizing activities of small manufacturers, young and old, are surveyed with many case-studies.

### *Key Words*

Japanese small business; niche market; niche marketing; entrepreneurship; "venture business"; diversification; innovation and marketing; subcontracting production system;

### *Summary and Conclusions*

#### **1. Definition, Approach, and Focus**

The "Niche Market" can tentatively be defined as a new market which may be created and developed by various firms, large and small; young and old. Usually we pick up special and exceptional examples of "niche marketing" success cases. However, there is a much wider perspective to "niche" issues. That is, how the new as well as old firms are active in searching for new niche markets.

The niche market seeking activities of various firms, which seeks competitive advantages, are the source of economic and industrial vitality of a country. That may be the most suitable approach for the theme, "Entrepreneurship and Economic Development".

In this paper attention is focused on the manufacturing small business sector.

#### **2. Stages of our Survey and Analysis**

First, the development process of small manufacturing firms in Japan through economic development is sketched and the recent situations are analysed. Economic growth brought many business opportunities and new niche markets, where active new entrepreneurs entered. Competition and self-revolutionalizing efforts made the level of their technology and management highly specialized. They are now the Business Partners of Big Business.

Second, various examples of niche marketing in Japan by several types of small businesses are followed. (1) Recent new ventures, (2) Most typical "Venture Business", (3) Niche marketing by diversification strategies of small manufacturers, (4) Self-revolutionalizing activities by many established small and medium manufacturers. Many case studies are illustrated in each of the surveys.

#### **3. The factors which make niche marketing activity successful**

- (1) Strong Entrepreneurship spirit, and a certain background/foundation in technology and managerial resources. These elements going together mutually spiral upwards.
- (2) Ability to adapt flexibly to new technology and management knowledge to new circumstances.
- (3) Initiatives of the entrepreneurs to improve and realize innovation and marketing techniques to exploit niche markets.
- (4) These factors may differ from country to country by its stage and speed of economic growth, but it may be common that competition and certain managerial resources are necessary to be active in niche marketing.

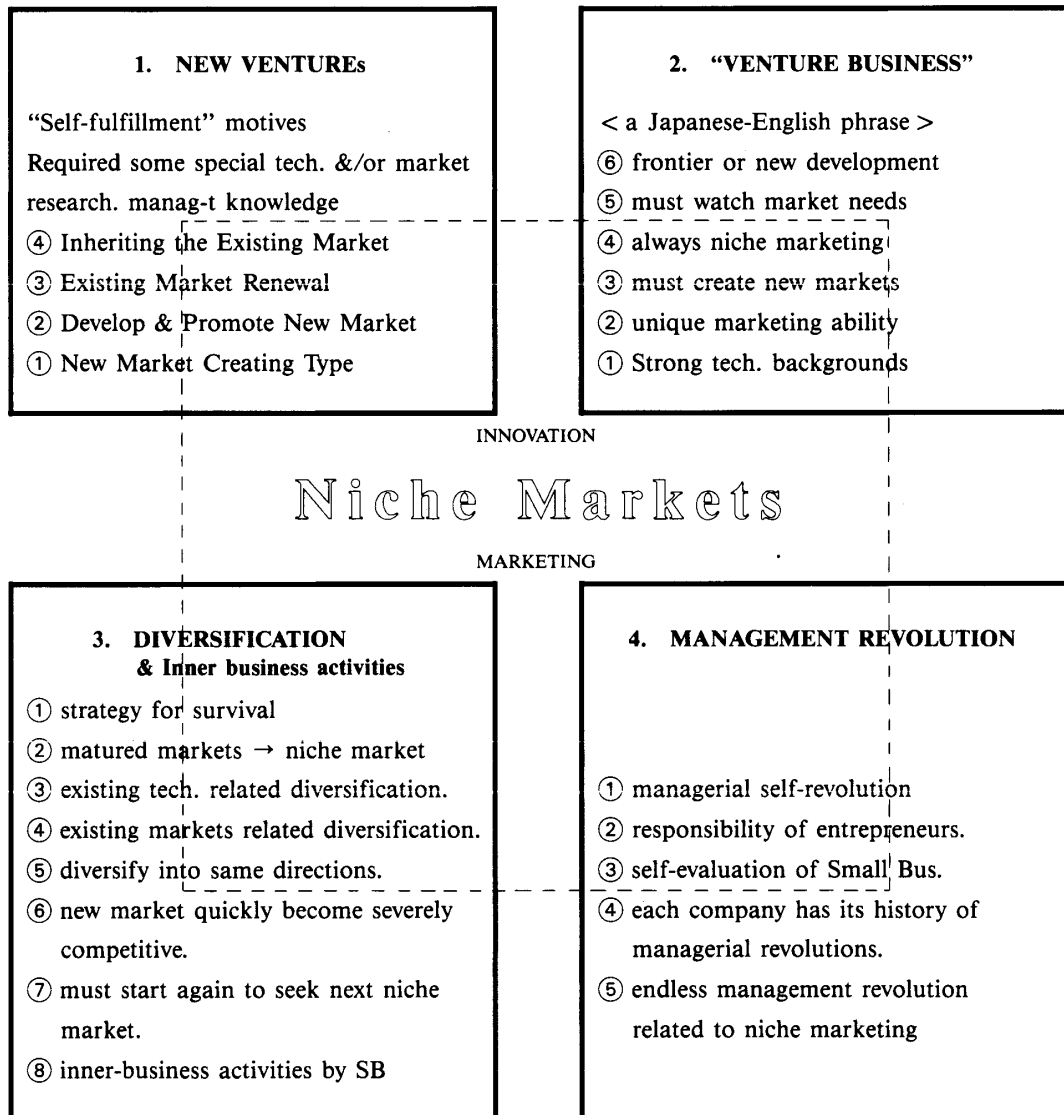
#### **4. What should be "Niche market" issues?**

Niche markets issues are apt to be treated just as the success stories of new ventures. However, from the stand point of "Entrepreneurship and Economic Development", the issues might be integrated into a wide range of corporate and management strategies, and competitive advantage issues.

Newly developing countries have many of their own new business opportunities and market expansions, and so there can be another type of discussions about "niche marketing" itself.

## CONCEPTUAL FRAMEWORK

“The Exploitation of the Niche Market through Innovation and Marketing”



This is not so much a paper about “How to succeed in new business” as about “The way in which both new and established small businesses exploit niche markets through innovation and marketing.”

### *Preview of Major Propositions*

1. This is not so much a paper about “How to succeed in new business” as about “The ways in which both new and established small businesses exploit niche markets through innovation and marketing”.
2. After briefly sketching the development process of small manufacturing firms in Japan, four types of niche marketing situations are identified: 1. Recent new ventures, 2. “Venture Business”, 3. Diversification strategies, and 4. Self-revolutionizing activities by established small manufacturers.
3. Against a background of rapid industrial expansion, small businesses in Japan have, during the last two decades, dramatically developed their use of better management skills and new technologies.
4. Among the various motives for starting new businesses, “self fulfillment” has become increasingly important.
5. Unique ideas, detailed market research, speciality-technologies, and market creating efforts are the keys for new business starter’s niche marketing.
6. The characteristics of successful Venture Business are; 1. A strong technological background and marketing ability, 2. An ability to exploit niche marketing or to create a new market, 3. A continuous search for new business through watching market needs and consumer needs, and 4. A willingness always to run towards the frontier of new development, however risky it may be.
7. Diversification is a management strategy for survival. Following such a strategy, many firms in Japan find themselves moving simultaneously in the same direction and thus every new market, domestic as well as overseas, quickly becomes severely competitive. Consequently they start again to seek out the next niche market. This makes Japanese business competitive internationally.
8. Endless self-revolutionizing activity is the responsibility of entrepreneurs. It is observed that each company has its history of managerial revolutions.

## *1. Introduction — the Blue Bird is in your Hands?*

### **(1) “Niche market”**

Almost all aspiring small business persons are dreaming and searching for a blue bird. That is, a niche market, or the most charming business chance. It is neither a established market nor a well known market. A “Niche market” may tentatively be defined as a new market which can be created and developed by various firms, large and small; young and old. Any established definition of “niche market” is not available.

As is shown in CONCEPTUAL FRAMEWORK, in this paper it is dealt with in a wide perspective. Most important thing is the realistic business strategy of small business in seeking the niche markets.

In the management/marketing strategy area; *target marketing*, *market segmentation*, *micro-marketing*, *regional marketing* or *niche marketing* are quite commonly used. This means for a firm to serve smaller portions or segments of a market, and to secure a competitive advantage and differentiation. Niche marketing specialists always advise that there is now a sweeping trend of business strategy where firms are focusing on smaller and smaller target markets. That is niche marketing. There are no more mass markets. — In the case of small firms, they must be much more sensitive about this. Now the larger companies are also niche players. Small businesses have to look for even smaller market niches. They must become even more adept in their niche strategies<sup>†</sup>.

**(2) Three approaches**

When we approach the “Exploitation of Niche Market through Innovation and Marketing”, especially from the small business side, there are three points of view.

- (1) How to find a potential small but new prospective market for a small business?
- (2) How much small businesses are engaged in new niche market developing activities?
- (3) How the existing small businesses are eager to seek new niche market-seeds and innovate its management system to serve new or created markets?

The first approach seems to be too much of a marketing strategy view. It may result in “How to succeed in new business” story. Individual marketing strategy is quite an important element to learn about the vitality of small business. However, citing examples of niche marketing success stories are not the main task here.

Rather, the second and the third approaches may be much more important points of view to evaluate the economic development of a country. The second approach is mainly: how many aggressive new market-oriented and/or high-technology-oriented small businesses are maintaining vitality of the economy.

The third point of view can be most crucial for an industrializing country to maintain its small business attitudes and strategies active and aggressive in innovation and restructuring of management, in order to maintain the industrial vitality of the country.

In this paper, the theme will approach mainly the second and the third points of view, utilizing the experiences of Japan in its rapid economic development process, and will mainly concerned with the manufacturing sector. It will start from an explanation of Japanese small business development process. Then how new ventures are active in seeking niche markets, cases of small businesses diversification strategies, and actual self-revitalization cases of small manufacturers in the Tokyo Metropolis.

The author tried to make comparison of niche marketing in various Asian countries. However, it was impossible to get materials and papers on that theme. So it is desired that the discusstant as well as the participants may provides valuable experiences and cases of niche marketing in each country.

*PROPOSITION 1. This is not so much a paper “How to succeed in new business”, as about “The ways in which both new and established small businesses exploit niche markets through innovation and marketing”.*

*PROPOSITION 2. After briefly sketching the development process of small manufacturing firms in Japan, four types of niche marketing situations are identified. (1) Recent new ventures, (2) “Venture Business”, (3) Diversification strategies, (4) Self-revolutionaizing activities by established small manufacturers.*

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† Ex. Robert E. Linneman & John L. Stanton, Jr., *Making Niche Marketing Work; How to grow Bigger by Acting Smaller*, (McGraw-Hill, 1991.)

## 2. From "the Bottom" to "Business Partners"

### (1) The position of small business

There currently exists an unprecedented enthusiasm for small business in virtually every country throughout the world. In the midst this rising enthusiasm for small business, considerable attention has also been focused on small business in Japan. In the last few decades, Japan has achieved a remarkable rate of industrial development along with an extraordinary strong degree of international competitiveness. The basic factors contributing to this remarkable achievement are "Japanese-style management" being applied to a large and robust group of small businesses.

In addition, the subcontracting production system has greatly promoted the international competitiveness of Japanese industry.

Small businesses have been considered to be an important element of industrial structure in Japan since the turn of the twentieth century. Small businesses in Japan has played a multi-dimensional role.

By the term "Small Business", it refers to those firms which are not large, which is a fairly broad definition. Needless to say, they are heterogeneous and pluralistic. For the purpose of public policy towards Small Business, we have a simple measurable definition of Small Business. They are firms with 300 employees or less, or Capital amount of 100 million yen, except for wholesale, where it is 100 employees or less; 50 million yen, and for retailing/services with 50 employees or less; 10 million yen. In 1989, there are nearly 6.6 million small business establishments in Japan (in 1960, the number being 3.5 million), which accounted for 99 percent of all establishments. However, the number of establishments has been increasing at a decreasing rate in manufacturing. The wholesale and retail sector has accounted for around half of small business establishments. Total private employment in Japan increased 38.79 million in 1960 to 49 million in 1986. The share of employment accounted for by small firms in the Japanese economy has remained fairly constant over time, at around 80 percent. Because manufacturing is the key sector for every industrialized country, an examination of the number of establishments in manufacturing should be carried out according to establishment size, between 1960 and 1983. In 1960, 30.4% of employees were in establishments with more than 300 employees, and in 1986 the figure was 25.6%. This suggests that there has been a shift in the size distribution of the sector towards smaller establishments in Japanese manufacturing.

Within the manufacturing sector, food, textiles, lumber, and the chemical industries showed a substantial decrease in the share of establishments accounted for by small business. By contrast, in petroleum and coal products, rubber, electrical machinery, metal-working, and industrial machinery industries, small enterprises have over time shown an increase in their total establishment share. It is important to note that the Japanese international competitiveness has proven to be quite strong in these latter three industries. The above data are cited from *Census of Establishments* by the Management and Coordination Agency, and *Industrial Census* by the Ministry of International Trade and Industry (MITI) of the Japanese Government.

## **(2) The development process of small business**

Japan has had a quite unique historical experience with the development of small firms. Industrialization took place later in Japan than in most other advanced nations. Along with the industrialization, came a huge influx of people who were driven out of the farm areas into the cities. From this large reserve army of "surplus labor", emerged a so called "compelled independence", or the establishment of self-employment, generally in the form of small shops. However, the earnings from these business were frequently extremely low, resulting in numerous business failures.

We cannot proceed far without discussing the whole background of Japanese small business history. Starting from the 1957 Government *White Paper on the Economy*: there the role of small business and its "theory of dual structure" was examined. "The dual structure, namely the modern sector and the pre-modern sector exist side by side within one country. There is no way to reduce the dual structure through pursuing a bold policy promoting economic growth, that will eliminate the seemingly permanent unemployment in the Japanese economy". During the period of high economic growth between 1958 and 1973, and in subsequent years when this high rate of growth somewhat subsided, there was a noticeable development of subcontracting small factories in terms of management quality along with a significant improvement in technologies.

A survey undertaken by the Central Bank for Industrial Cooperatives (SHOKO-CHUKIN) in 1988 indicated that 60.2 percent of the subcontracting firms claimed that their technological level was at a parity or exceeded that of their parent companies. (In 1982, that figure was 51.5. Both surveys had about 3,000 respondents.) During this period parent companies changed the control of their subcontractors from the status of supplementary suppliers and as a buffer mechanism, to a more modern system of subcontracting management.

## **(3) Metamorphosis of small business in the 1980s.**

The year 1980 was heralded as the dawn of the age of industrial robots. Following the two oil crises, Japanese firms were able to maintain their international competitiveness by increasing organizational efficiency far beyond what has generally been termed as the "rationalization" of industry, through innovations affecting the operation and management of factory automation and office automation. Most significantly was the emergence of information networks. Based on the rapid development of micro-electronics and other high technologies such as numerically-controlled machines, bio-technology, new materials, and advanced software system, the information industry was revolutionized. A new system of production enabling multiple products in relatively small batches became feasible. This flexible method of production has become virtually the norm in the latter half of 1980s and 90s.

These technological innovations promoted radical changes in products-policy and marketing strategies of Japanese small business as well as those of large business. One of the most striking features of small business in Japan is that they are now developing their own business strategies. Even to the extent that while the smaller manufacturers are often called "subcontractors" of larger firms, *they no longer tend to be captive to*

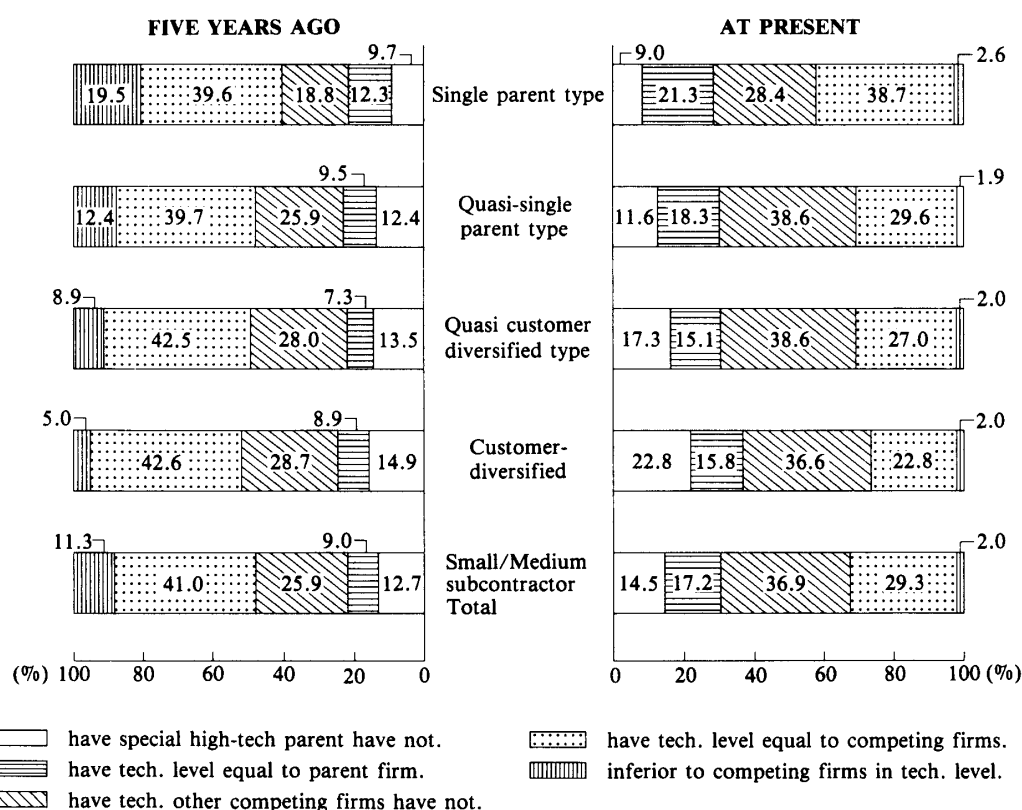


any specific large firms, but they are instead becoming increasingly independent business entities. More than ever, entrepreneurs in small firms must be sensitive to the needs of customers and to develop new products to exploit potential new niche markets. In particular, small business needs to develop into small but strong “global business”, which is based on the most developed high technologies. Competition is quite severe among big/small businesses, but still the inter-firm relations are mutually interdependent in Japanese-style management.

As will be introduced later, small business now wants to be called, not the subcontractors, but “Business Partners”, of the large and medium sized enterprises. Such a brief of sketch of the metamorphosis of Japanese small business in history (from “the bottom of dual structure of Japanese economy” to “Business Partners”) is appropriate background information for the topic “Exploitation of Niche Market through Innovation and Marketing”, in Japan’s case.

**PROPOSITION 3.** *Against a background of rapid industrial expansion, small businesses in Japan have, during the last two decades, dramatically developed their use of management skills and new technologies.*

**Fig. 2-1. Self-evaluation of own technology level (Subcontractors)**



Source: Field Survey on Social Division of Labour in Manufacturing; Small and Medium Enterprise Agency, MITI. 1990.12. (WHITE PAPER on SMALL BUSINESS: 1991.4. p.92.)

Table and Fig. 2-2. Recent Situations of Smaller Subcontracting Manufacturers

1) *Self-evaluation of their own technology level; (Subcontractors) <Fig. 2-1.>*

	Five years ago	Now at present
* have special high-tech. that parents have not.	12.7%	14.5%
* have tech. level equal to parent-firms.	9.0	17.2
* have tech. other competing firms* have not.	25.9	36.9
* have tech. level to competing firms*.	41.0	29.3
* inferior to competing firms* in tech. level.	11.3	2.0

# — competing in the same industrial-category.

2) *Contrast of FA (factory automation) machine introduction; parent vs. subcontractors.*

	Parents firms	Subcontractors
* NC (numerically controlled machines)	71.2%	68.9%
* MC (machining center)	48.0	40.7
* CAD (computer assisted designing)	63.6	22.9
* CAM (computer assisted manufacturing)	22.8	8.1

3) *Types of Subcontractors by the weight of subcontracting work and number of parents*

No. of parent(s) Weight of subcon. work	1	2—5	6—
90% over	A. 15.8%	B.	
70—90%		C. 38.0%	
70% less	B. 36.8%		D. 9.4%

A. Single parent Type: Subcontractor with only one parent, over 90% subcon. work.

B. Quasi single parent: 2–5 parents; over 90% subcon. work, or 1 parent; less 90% SW.

C. Quasi customer-diversified: 2–5 parents; less 90% SW, or 6– parents; over 70% SW.

D. Customer-diversified Type: 6– parents, less 70% subcontracting work (= SW.).

We should note that 20.3% of the single-parent-type subcontractors have confidence they have special high-technologies that the parent does not have, or technologies equal to those of their parents'.

Source: Small and Medium Enterprise Agency, MITI, "SMALL BUSINESS in JAPAN, 1991; White Paper on Small and Medium Enterprise in Japan".

(Field Survey on the Structure of the Division of Labor in the Manufacturing Industries; December 1990, Samples; Subcontracting firms = 4,576, Responding ratio = 29.4%, and parents firms = 946, Responding ratio = 38.5%)

3. *How the new ventures are active in seeking niche markets in Japan*(1) *Where have the hot growth companies gone?*

*BUSINESS WEEK* publicizes the 100 best American small companies every year. The list is compiled from a samples of 3,579 publicly traded companies (in the case of 1990) with sales of less than \$150 million, tracked by Standard & Poor's Compustat Service Inc.. They chose the top 100 based on average growth in sales, earnings, and return on invested capital over the past three years.

The following facts are known. "Out of the 100 companies that appeared on the list last year, only about a third have returned. Five companies outgrew the list. The rest just did not make the grade. Staying on the list gets even harder as the years go by: just

one-tenth of the 1988 Class appear on the 1990 list”.

Subsequently the following comments are very instructive when considering about “niche market” issues.

“By their very nature, BUSINESS WEEK’s Hot Growth elite can be an ephemeral lot. They burst on the scene like supernovas, burning brightly”.

“The biggest problem managers face is often how to handle hot growth itself. Companies like this begin to believe the print they read and become legends in their own mind.”

“At a small, fast growing company, you’re doomed to big ups and downs, a life of roller coasters” (David L. Birch) < BUSINESS WEEK, May 27, 1991. p.84. >

When considering the “exploitation of niche markets by innovation and marketing”, everyone must be aware of these kinds of ephemera, or the short life of fast growing small firms. Almost all of those companies start growing by serving in niche markets. Firms must also be quite sensitive about the most transient and unrest character of those “niche markets” themselves.

## (2) Some characteristics of new entrepreneurship in Japan

*The Research Division of People’s Finance Corporation* (Kokumin-kinyu-koko), a semi-governmental finance institution exclusively serving small and micro firms, conducted surveys five times on new firm opening conditions, collecting the data from their customers, in 1969, 70, 72, 82, 89. Hence, the changing process can be tracked in the entrepreneurship of Japanese small business.

(a) 1969–70 was an era when Japanese economy was expanding most vigorously and new business chances induced many new entrepreneurs into business. Many of the newly established firms had the ability to adapt themselves to environmental change, with the special technology or expertise they had developed, fulfilling high productivity, and paying rather high wages. New entrepreneurs were rather young, and so there was a structural change in business society, a kind of social convection among new and old small businesses.

(b) This so called “post-industrial society” produced many business opportunities for small businesses, and new type small businesses were formed in large numbers, especially in the center of Metropolis Tokyo. Founders of these new type firms were in many cases “spin-outs” of big businesses with a high degree of special knowledge and expertise. Such a “special” small business was named a “Venture Business”, which is a sort of Japanese-English phrase.

(c) The 1972 survey revealed that not only in large cities like Tokyo but also in other large and medium-size cities, those new pattern firms could be found. Not all of these new firms are small businesses with strong entrepreneur-spirit. Making a livelihood family businesses emerged at the same time. However, the income level was high. So the new type of family business was found to be suitable to the modern economy.

(d) In 1982, when the Japanese economy was in a low or not so high growth period, (after experiencing oil crises twice), new small business areas were still expanding, especially in the center of Tokyo, and the new pattern of small business formation was still continuing. So called “new business” development was becoming quite popular, and

increasing.

(e) Between 1982 and 1989, Japanese economic/industrial growth strategy changed into a domestic-market-oriented one, which was promoted by the resolution of Five Nations Financial ministers' meeting in September 1985. The general pattern of new small business opening was fundamentally almost the same as it had been in the last two decades.

However we can find several important new elements in the small business opening situation. (*1989 Survey*: samples 2,890 firms, effective response ratio 35.4%, effective answers 1,023; 133 firms were interviewed. The survey results and analysis of them are in a book, "New Firm Start-ups; Real Situation" < Shinki kaigyō no jittai >, Small Business Research Center, December 1990.)

① New type of new business, such as student-enterprise, or house-wife businesses, are becoming prevalent.

② Business opening motives such as, "Want to pursue my own way of life", "Want to work at my own pace", or "To do business while having mental personal satisfaction", which may be typically found in an affluent society. Values and standards are changing from economic values to life-culture values.

③ The so called "soft-economy" is prevailing which is bringing sophisticated market-segmentations, and new niche markets, especially in the service-related industries.

④ On the other side of the coin, opening business conditions are becoming more and more severe, because of the increased necessities of funds, expertises, and talented staff. Especially, the extraordinary high land prices in large cities is prohibiting new business openings.

⑤ Further, not the hot-growth in size, but the quality of business life is pursued by some new entrepreneurs. It may mean that a new era of "small business" is evolving. "Self fulfillment in affluence" is the sub-title of that book.

### (3) Four types of newly opened small business

From the 133 interview/case-studies, they classified new enterprises into four categories by the way they entered into the markets.

#### ① *New Markets Creating Type*; 11 cases.

(1) While developing their own unique new technologies and/or new products, they are functioning as a creator of new markets: niche markets, anticipating potential needs/demands. They are quite risky, but they may enjoy potential growth. They are the so called Venture Business type.

(2) Required: Powerful ability to develop high technology; originality and creativity, and aggressive entrepreneur-spirit.

#### ② *Developing and Promoting New Markets Type*; 41 cases

(1) Watching carefully the newly developing markets, they adapted their technologies, or new services to the derivative needs/demands coming out of the new markets, which afforded themselves additional niche markets. They are functioning as a crucial part of a new production system or providing-system in new markets. As far as they follow the explicitly increasing demands, they are not in a so risky market position.

(2) Required: Sensitivity to new market-information; technological adaptability;

ability to promote and contribute to the new production system or provide a system framework.

③ *Existing Market Renewal type*; 38 cases.

(1) Even though they are in a maturing markets, they expand demand by unique techniques such as additional services, or improved service-mix. They function as a renewal agent of existing markets. They stick to their specialized technologies, and their familiar markets.

(2) Required: Marketing ability; Ability to develop a unique new business crack, that is, another type of niche market.

④ *Inheriting the Existing Market type*; 43 cases.

(1) New firms have some competitive advantages over existing/established small businesses, but they are not so strong in developing markets for themselves. They usually come into the industries in growth-to-maturing stage, so the competition is not mild.

(2) Required: General managerial ability; cost-competitiveness.

*PROPOSITION 4. Among the various motives for starting new business, "Self-fulfillment" has become increasingly important.*

*PROPOSITION 5. Unique ideas, detailed market research, speciality-technologies, and market-creating efforts are the keys for new business starters' niche marketing.*

### **Appendix to Section 3. Cases studies of niche market development by new ventures**

*The Research Division of People's Finance Corporation* publicized 22 short case stories of new ventures' start-ups in the same book (pp.117–201). Here we may pick up some points of case studies for illustrating new niche marketing.

① *Import of Italian Fashion Apparel for Middle Aged Ladies.*

A husband and his wife started import business of Italian fashion apparel targeting the middle aged ladies. Italian fashion is quite popular for the lady apparel market in Japan. Usually such apparels are imported and sold in high quality/priced boutiques or high grade department stores. Mostly young ladies are the customers. In such a situation, they started this specialized import (wholesale) business at the age of 59. A typical target-marketing.

② *CAD System Developer for Real Estate Estimation*

After finishing a construction training college and working in a construction company for 10 years, he changed his job into a software house. At the age of 36, he started his own software company specializing in a niche market of CAD system for real estate specialists' estimation. The market is small. Some other larger general office automation companies are doing the similar business, but they are too large to meet unique needs of the customers. User's need is the best source of improvements. And such is a niche market.

③ *Precision-Die Manufacturing*

After working 14 years in a plastic-mold die manufacturing company, the man established his own precision-die designing and manufacturing factory in 1985 at the age of 36, with four staff members. They introduced a NC cutter, NC lathe, and electrical

discharge-processing machine (so called "wire-cut"), and they can process very small items, with quite a severe tolerance of 2~5 micron. Half of the production volume is for semiconductor related precision parts. They are willing to accept any orders, and serve the customer by all means. For example, receiving orders on Friday, they deliver it on following Monday. Their motto is "In any volume in any short time allowance". In 1989, there are 36 staff members working. Advanced-technology investment is the key for niche marketing.

④ *Flower Wrapping Plastic-paper Manufacturing*

After working 11 years in tax related offices, the man began a job in a plastic-case manufacturing company, with a business strategy of "large volume, in low profit margin". He completed careful market research of special plastic paper for flower-wrapping, and started his business at 31 age. The materials of cellophane-like paper is OPP (oriented Polypropylene), and colorful printing on it is both feasible. The paper can be over-wrapped with traditional Japanese paper. Using special ink, an iridescent pattern-print can also be made now. Getting the idea led to his business success. He began with 3 staffs, now 5 staff members are serving the niche market.

⑤ *Car-body Mending Machinery Manufacturing and Dealing*

While working in a machine-dealing company, the man and his group developed a unique car-body mending machinery and acquired a patent for it. In 1985 at his age of 45, he became independent to deal with the patented machinery, although depending on parent company's sales network. The manufacturing process as a whole is an outer order, so only two staffs, he and one assistant, are engaged in this business, fully utilizing FAX and other communication devices to deal with orders. The machinery is mostly for car-body plate mending and repainting purposes, and the price is around @700,000 yen. The patented machinery, and the unique dealing approaches are the keys for success in this niche market.

⑥ *Software Designing and Electronics Device Manufacturing*

The man started his own software-designing business at the age of 22 in 1986, specializing in so called "protect-software", with his three friends. He did not advance to college or university, and learned how to develop software while working in a computer selling company. Protect-soft (a software to protect another software to be recopied) market is shrinking because many softwares now have protection in themselves. So they went into production of new hardware; an electronics device that send data in floppy-disk via telephone-wire. This device became famous, and won a special prize in a small business excellency new technology and new product development commendation, sponsored by an economic-industry newspaper company & a venture capital company. Now 20 staffs are working in this company, out of these 15 specialists are engaged in R & D activities.

⑦ *PC (personal computer) Software Designing*

A young man and his friend were majoring in Information Technology Department of a University, and jointly developed a famous word-processor software. Graduating from the university, they jointly started a software designing company. They mostly work for a large company sponsoring them. Their favorite item to develop is PC software for business use. In 1989, 11 staff members are employed.

Just like ⑥ case, this shows that the software business field is creating various niche markets, which are quite transient and fragile. They are flexible and have a potential market, although competition is quite severe at the same time.

⑧ *Fresh Bakery with Delivery Service*

Graduating from the Yamagata University, the man settled in Yamagata-shi, a city in the northern part of Japan, although he was born and bred in Chiba-ken which is located near Tokyo. He chose to live in such a countryside city, where most people take rice for daily foodstuff and fresh bakery is rare. After completing detailed market research, he started a delivery-bakery business, just by receiving orders the day before. Starting from 20 orders a day, with an assistant, the shop gradually got a fame by depending on word of mouth. Today he receives 200 orders per day, working with 6 staff members. Best taste and quality, completely additive-free are the crucial factors for getting good fame.

These are the niche marketing samples by fresh business starters.

#### 4. *How the "Venture Businesses" are active to seek niche markets*

##### (1) **New Face Venture Businesses came to the top**

As mentioned in Section 3, (2), small but quite unique businesses, called Venture Business, came to the forefront during 1970s and 1980s in Japan. They are excellent in their technologies and marketing, quite active in developing new business, new products, new technologies which are too unique to be easily followed or imitated by other companies. Venture Business is exactly "*Exploiting niche markets through innovation and marketing*". Here we simply look at some of the recent top class Venture Business profiles. A commercial monthly magazine "NIKKEI VENTURE" is published by Nippon Keizai Shimbun Co. group, and publicizes the "Venture Business of the year" toward the end of every year. An elite list of companies appeared in the December 1990 issue of it. The process of ranking and some new trends were as follows.

1) 150 experts were asked to nominate the best Venture Businesses, and 72 answered. Those experts were from banks, venture capitalists, large security and insurance companies, famous CPA companies, business consultants and THINK-TANKs, and economic newspaper's editorial staff.

2) The best 5 Venture Businesses are selected by an individual voter and a point scale 5 to 1 was allotted respectively for each of the following three categories. ① Best 5 Venture Businesses of high technology type (manufacturing, plus software and clinical testing), ② Best 5 Venture Businesses of new business type (distribution and services), ③ Best 3 Venture Business Entrepreneur-Managers of the year.

3) "Independent and not-listed small companies" were eligible, except those listed within the last 10 months.

4) 15 companies out of best the 20 (high-tech and new-business type) Ventures were new faces, and 11 companies were just recently listed on the stock market.

5) New trends in high-tech Venture category found that the strong image of high-technology itself is somewhat fading away, and consumer-oriented technology is becoming

favorable (e.g. good feelings, amusing, and keen interests).

6) In the new business category, many unique business patterns won high ranking. For example, a TV commercial message production company, and an automatic music playing system with CD-ROM etc. These new businesses received high points because they are at the same time quite aggressive in developing new technologies.

## (2) Top 10 high-tech. Venture Businesses

### ① *Body-Sonic Co.* (57 points, New face) < Shinjuku-ku, Tokyo >

Capital 1,459 million yen. Sales 6,000 million yen. Listed in April 1990.

- \* Developed and manufactures “Body-Sonic” (Device to make sounds felt by human body).
- \* Sound feeling system in sofa, bed, floor, and so on. Monopoly in domestic market. Wide range of its utilization is being developed, for education and medical care.

### ② *NF Circuit Designing Block Co.* (49 points, 28th of the previous year)

< Yokohama-shi, Kanagawa-ken >

Capital 910 million yen. Sales 6,950 million yen. Listed in April 1990.

- \* Developed new electronics device with NEGATIVE FEED-BACK technology.
- \* Special device which controls and monitors electric current distortion by utilizing NF technology, that precisely amplifies and controls electric current.

### ③ *Hanix Industry* (25 points, New face) < Miyoshi-cho, Saitama-ken >

Capital 10,702 million yen. Sales 27,461 million yen.

Listed on over-the-counter stock market in July 1990.

- \* Developed and manufactures small-scale-turning boring machine. Recently diversified into provisional house manufacturing.
- \* Devotes 5% of sales into R&D activities, and aggressively invests in equipment. A top maker of “Under 8 tons” boring machine among large and small construction equipment manufacturers.

### ④ *Enix Co.* (23 points, New face) < Shinjuku-ku, Tokyo >

Capital 55 million yen. Sales 16,266 million yen.

- \* Software designing and manufacturing for family computer and hobbies.
- \* Splendid planning of TV game software “Dragon Quest 4”. Also successful in sales of character-goods, “Dragon Quest Goods”.

### ⑤ *NISSEI ASB Machine Co.* (21 points, New face) < Komoro-shi, Nagano-ken >

Capital 2,010 million yen. Sales 12,122 million yen.

Listed on over-the-counter stock market in May 1990.

- \* PET (polyethylene terephthalate) plastics bottle stretch blow moulding machine manufacturer, with 30% world market share.
- \* During latter half of 1970s when glass bottles were most popular, the company took notice of the plastic bottle market and devoted itself to designing and sales of the stretch blow moulding machine, and so realized the rapid growth of the company.

### ⑥ *Taiyo Ink Manufacturing Co.* (19 points, New face) < Itabashi-ku, Tokyo >

Capital 2,420 million yen. Sales 6,391 million yen.

Listed on over-the-counter stock market in September 1990.



- \* Manufacturer of a special resistant-ink for printed circuit board.
- \* Rapid sales growth of resistant-ink for home electronics PC board and audio appliances. High density resistant-ink for computers makes high profits.
- ⑦ *KANKYO (Environment) Co.* (16 points, 7th of 1989)  
< Yokohama-shi, Kanagawa-ken >  
Capital 400 million yen. Sales 1,972 million yen.
- \* Developing and selling room environment devices, such as air-purifiers/air-dryers.
- \* Foot-lighted amidst environmental problems becoming serious. Rapid development of new products spending considerable R&D funds, overriding large companies. A nation wide sales network has been accomplished in 1990 and is still continuing to grow.
- ⑧ *Kanto Medical Laboratory* (15 points, New face) < Konosu-shi, Saitama-ken >  
Capital 1,228 million yen. Sales 4,036 million yen. Listed on over-the-counter stock market in February 1990. First case in this type of business.
- \* Major private clinical testing laboratory. Markets are Prefectures surrounding Tokyo, such as Saitama, Chiba, Kanagawa.
- \* Demands are expanding in the aging society. Established an urgent laboratory in Omiya-shi, and revenue and profit have grown up rapidly, receiving orders of testing business from other companies and hospitals.
- ⑧ *Takahashi Curtain-Wall Manufacturing Co.* (15 points, New face)  
< Chuo-ku, Tokyo >  
Capital 3,987 million yen. Sales 6,148 million yen.  
Listed on over-the-counter stock market in July 1990.
- \* Design, manufacture, and setting of curtain-wall for building construction site.
- \* Demands for curtain-wall expanded so rapidly because it rationalize the construction work site, where labour shortages are a serious problem.
- ⑧ *Yonex Co.* (15 points, New face) < Bunkyo-ku, Tokyo >  
Capital 1,431 million yen. Sales 21,410 million yen.
- \* Manufactures tennis rackets, badminton rackets, and golf related items.
- \* Moving the main office from Tokyo to Niigata-ken, realized production rationalization by introducing CIM. In regulation-ball tennis racket market, its market share accounted for 25%, and in badminton racket 70%. Top maker in these goods.

### (3) Top 10 New-Business Type Venture Businesses; and some comments

As we are fundamentally concentrating our attention on the manufacturing sector, we may skip the so called new-business type Ventures. Here we simply cite the names of the top ten new-business type Ventures.

- ① *Aoi Promotion Co.* Planning and production of TV commercial messages.
- ② *PIA Co.* Publishing and selling of magazines on music and theatre information, and deal in tickets of various kinds for entertainment.
- ③ *Daiichi-kosho Co.* Manufacture and sell KARAOKE devices and software. Operate the KARAOKE booth (Box) chain.
- ④ *Temporary Center Co.* Sending manpower domestically as well as overseas. At the

- same time, doing education and training services, and information-related business.
- ⑤ *Inotic Corp.* Sales-agent specialized in semi-conductor manufacturing machineries. Go between for American/European Venture Business and Japanese companies.
  - ⑥ *Nishio Rentour Co.* Rental of construction machineries to major companies. Expanding into rental business for general consumers.
  - ⑦ *TECHNOLOGY RESOURCES INCORPORATED* Technology consulting company, developed environment-cleaning devices tying in with a factory-waste disposal company.
  - ⑧ *CHARREL Co.* Door-to-door sales of ladies' underclothes (lingeries).
  - ⑧ *RITTO Music Co.* Publisher of music books, computer-software publishing, AV soft.
  - ⑨ *YANO Economic Research Laboratory* Market-research, and management consulting.

It is clear that Venture Businesses are quite active in seeking niche markets, and so they are entitled to be "Venture Businesses". The entrepreneurs of these Ventures are from various vocational backgrounds. For example, one was formerly a university professor (now the president of NF Circuit), the others being from large company's specialist background and so on.

*Proposition 6. The characteristics of successful Venture Business are: ① Strong technological background and marketing ability, ② An ability to exploit or to create a new market, ③ A continuous search for new business through watching market needs and consumer needs, and ④ A willingness always to run towards the frontier of new development, however risky it may be.*

In these ways, we can say Venture Businesses are specifically "Exploiting the niche market through innovation and marketing".

## **5. Developing Corporate Competitiveness by "Diversification"**

### **(1) Increased sophistication in consumer-needs**

Small business depends particularly on private consumption expenditures, and so expansion in consumption has a considerable influence on small business. In addition, the current growth in consumption expenditures has been a qualitative character, which means consumers demand higher levels of sophistication, both in terms of diversification of goods they purchase and quality of goods they need which are more luxurious. The recent trend in consumption expenditures shows that the optional consumption has been growing rapidly, which reflects diversified tastes and income growth of individuals. "Small Business in Japan 1990: White Paper on Small Business" analyses such sophistication of consumer needs and the relation of small business corporate strategies in detail. This could be a way to evaluate how Japanese small businesses are trying to seek niche markets by various methods. Especially it should be realized how existing small businesses are eager to find new business opportunities.

The reasons for the increasing sophistication of consumer needs are the; ① increased

purchasing power (higher salary levels), ② changing life-style (changes in consumer-behaviour and life-style, increased active role of women in the society, increased leisure time, etc.) and ③ increased range of product choice (improved information access, increased imported goods, increased variety in purchasing and marketing ways) are usually cited.

As a result, higher quality of products, products with better performance and multi-functionality are required, which are causing various effects. Further, segmentations of markets, shortened life-cycle of products, and the upgrading of product quality are now quite natural demands on markets.

*The White Paper 1990* introduced a case of market segmentation;

< Company A (10 people engaged), manufacturing denim products, developed and marketed high-quality denim products by target marketing at middle-aged to elderly market. Customers were mainly in over the 50 years of age group, and the company manufactured order-made ladies' suits and men's blazers. Soft denim was used to produce a softer, high-quality appearance, with flower patterns, which created a product both fashionable and sophisticated, products being sold in the company's own brand-name. > (p. 46.)

## (2) Diversification: a strategy for survival

The same *The White Paper 1990* writes in its English version p.50 as follows. "Small and medium enterprises have to adopt more sophisticated management strategies in order to continue to develop independently in the face of changing market structure and the greater qualitative and quantitative competition that it has brought." Its comments refer to the survey results on small businesses' management strategies (see: Fig. 5-1). As for manufacturing, "entering into new business", "R&D for new products", "Strengthening business operation" are the most important strategies for the future. According to the same survey on Manufacturing (not cited here), 60.1% of smaller manufacturers have taken measures to create customer-needs, whereas 87.1% of large enterprises have taken these measures. Some 40% of the small manufacturers which have employed these measures said these activities for creating potential consumer-needs had a positive effect on their sales and profits. Table 5-1 shows samples of "Life-style Proposal Method" marketing strategies.

DIVERSIFICATION strategy issues follow. As shown in Fig. 5-2, almost 50% of small business in every sector are planning to develop into new business fields while keeping or reducing traditional main business dependence. Most small businesses believe that their present main business fields are matured, and competition is becoming much more severe. Subsequently diversification is a way for survival.

In Japan there is a special expression < *Gyosai-ka* > which means literally "to initiate inter-industrialization activity", or "going into another business fields while maintaining the conventional main business". *The White Paper* (English version) simply expresses it as "inter-business activities". As can be recognized in Fig. 5-3, diversification and inter-business activities are related to marketing channels or technology the company has. However, even if the new market is not particularly connected with the

company's main business field, they try to employ such strategies. Table 5-2 shows brief samples of small businesses' diversification strategies. Fig. 5-4 reveals why so many small businesses are taking diversification and "Gyosai-ka" strategies. All of these corporate strategies are aiming at niche markets. "Exploitation of niche market by innovation and marketing" is *a strategy of existing small business for survival*.

### (3) Niche marketing, competition, and revitalization of an industry: A case

The same *White Paper 1990* illustrates a case of niche marketing by a large company, and the process of competitive entrance into the market of many small and large sized companies of the same and other industries. (p.64-65. English version)

① The towel manufacturing industry is a typical small business industry with many small scale manufacturers. In the autumn of 1988, a big company C, a pharmaceutical manufacturer (with 1,400 employees) entered the market. Company C noticed that people, especially young women, had changed their life-styles, and were taking shower and washing their hair in the morning, instead of taking the traditional Japanese bath in the evening. The company then developed a towel for drying the hair that absorbed more water than the typical towel did.

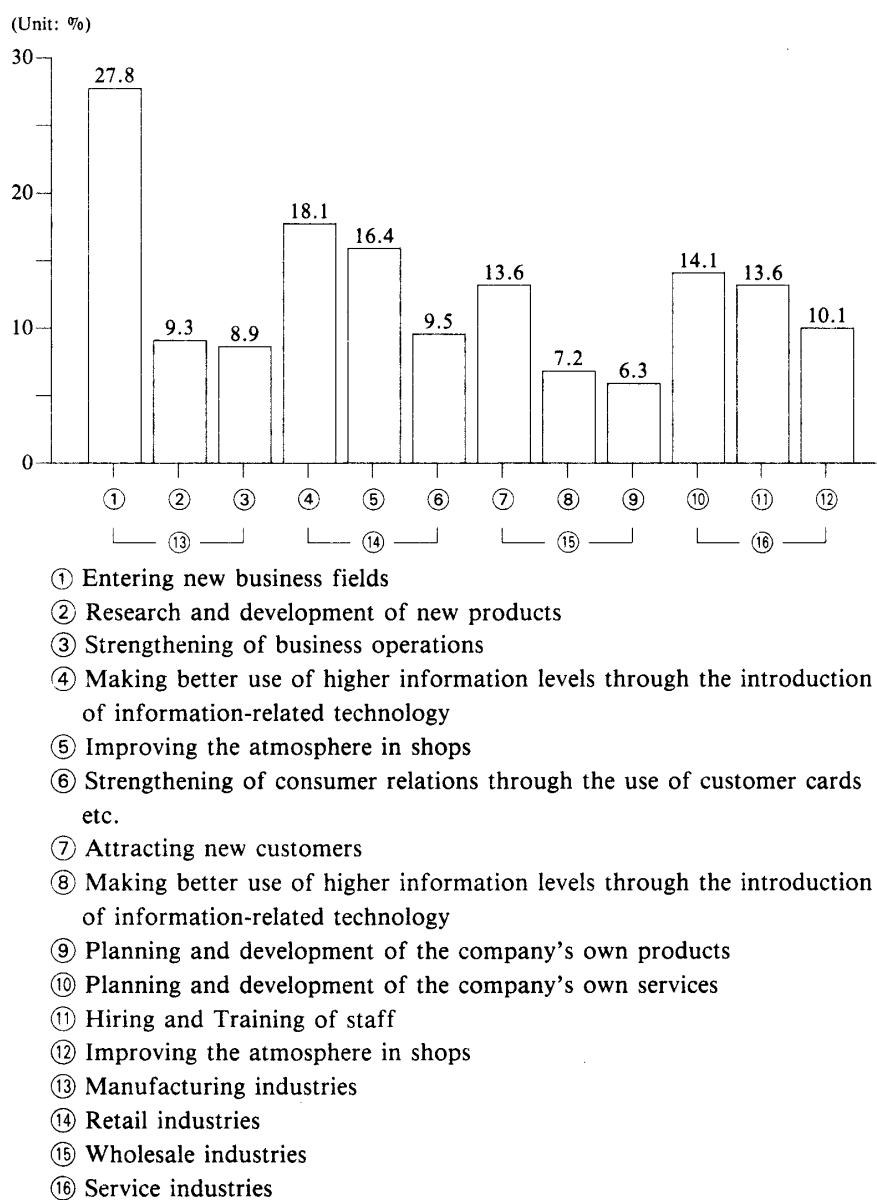
② This new product had a huge impact on the other large companies in the textile industry, which introduced their own, but similar, new products to the market in quick succession. For the small and medium enterprises which had already acquired technology in manufacturing high quality towels, this new type of market expansion represented a considerable increase in new business opportunities.

③ Company D, an Osaka based towel production company (160 employees), and Company E, a Tokyo-based company (500 employees) jointly made a success by using technologies of both companies to develop new products with similar functions in order to penetrate the new market. There are other cases of these tie-ups, such as Company F, an Osaka-based production company with special skill of towel manufacturing trying with Company G, a major textile manufacturer (9,613 employees), and undertaking joint research.

④ Furthermore, in connection with the increased market activities related to the high-absorbtion towel for drying hair, the surrounding markets also experienced a similar expansion. For example, Company H, a paper manufacturer (42 employees) entered into the towel market after developing a disposable towel for use on hair made from high-absorbtion paper. Company I, a miscellaneous commodity manufacturer (5 employees), used the materials of high absorbtion to develop water absorbers for shoes and an odor absorber. ⑤ Such is the scene of niche marketing initiated by small and large enterprises in Japan, and the consequential competitive process.

**PROPOSITION 7.** *Diversification is a management strategy for survival. Following such a strategy, many firms in Japan find themselves moving simultaneously in the same direction and thus every new market, domestic as well as overseas, quickly becomes severely competitive. Consequently they start again to seek out the next niche market. This makes Japanese business competitive internationally.*

Fig. 5-1. Important Future Management Strategies



Source: Small and Medium Enterprise Agency: "Survey of Management Strategies in the Retail Industries," December 1989, "Survey of Management Strategies in the Wholesale Industries," December 1989, "Survey of Management strategies in the Manufacturing Industries," December 1989, and "Survey of Management strategies in the Service Industries," December 1989.

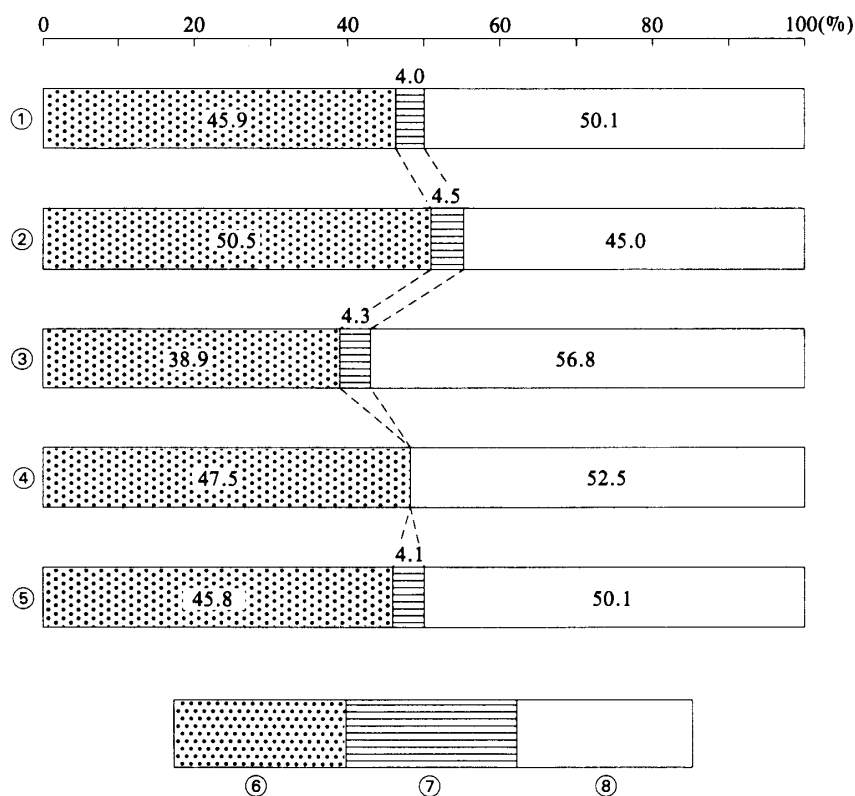
Note: The statistics are for consumer product wholesalers in the wholesale industries, final consumer product manufacturers in the manufacturing industries, and individual-oriented services in the service industries.

# *SMALL BUSINESS in JAPAN* 1990: (English version) p.51.

**Table 5-1. Case Studies of Life-Style Oriented Company Activities**

Type of company		Perspective	Types of product and service	Motives behind and problems associated with the development of products and services
Lifestyle Oriented Product Ranges	Company A Manufacture and wholesale marketing of ladies' clothes; 4 employees.	Lifestyle oriented boutique	The company used the Western goods it had previously handled in the designing of a shop as if it were a model home, which was then used as a sales base, selling interior furnishings, house remodeling services and offering related advice. Besides its regular staff, the company also employed and interior coordinator as a regular employee.	The shop was opened on the basis that clothes were not just things to be worn, but accessories designed to match the locale or lifestyle.
	Company B Miscellaneous goods retailer; 15 employees	Lifestyle oriented, based on real, non-imitation goods	Sells wide range of some 10,000 small, imported, miscellaneous items for an enhanced lifestyle, ranging from furniture to lip-stick, kitchenware, and clothes. Besides selling these products, the company also proposes ideas on how to use, decorate and enjoy the items. The shop is designed so that customers can enjoy their time shopping there.	The company no longer just markets furniture, miscellaneous items, clothes and cosmetics, but also offers a range of services directly connected with the lifestyle of consumers. Turnover has been increasing at the rate of 30% per annum.
Developing goods and services designed to provide a more comfortable lifestyle	Company C Develops a variety of dietary menus; 10 employees.	Health-oriented	Jointly develops diet foods with Company D, a major manufacturer. Offers a home delivery service. Company D makes the retort sections, while Company C has developed the fresh food parts. Delivers through a chain of 40 stores nationwide.	Originally, this company manufactured and marketed general food-stuffs. The company was told by its shop staff of the heightened concern of consumers about geriatric diseases, and so developed specialized menus. The company now develops diet foods taking advantage of the boom in health consciousness.
	Company E Cosmetics wholesaler; 3 employees	Hand-made, health, nature-oriented	Develops and markets turf for garden use. In order to facilitate the cultivation of garden turf, the company has developed a package containing seeds, soil improvement chemicals and fertilizers, and chemicals to promote growth and prevent seedlings from being washed away. One-package is good for 12 to 20 sq. yards.	Aware that there has recently been an increasing demand for turf and horticultural goods, the company developed this system whereby even a beginner can grow a lawn.
	Company F Develops and imports electronic products; 2 employees	Information anti-abuse techniques	The company developed equipment to verify callers' telephone numbers, as a measure to avoid crank or obscene telephone calls. The basic had already been developed in the U.S., but the company added multi-functionality, such as memory functions, for the Japanese market.	With the increasing importance placed on privacy, the company decided to import the system from the U.S. where the awareness of privacy is more developed. Since the second month of sales, the company has been selling about 1,000 units a month, higher than the rate originally expected.

Fig. 5-2. Management Strategies in the Main Field of Business



① Manufacturing industry

② Wholesale industry

③ Retail industry

④ Service industry

⑤ Total for Small and Medium Enterprises

⑥ Developing new business fields while concentrating on the traditional main business field

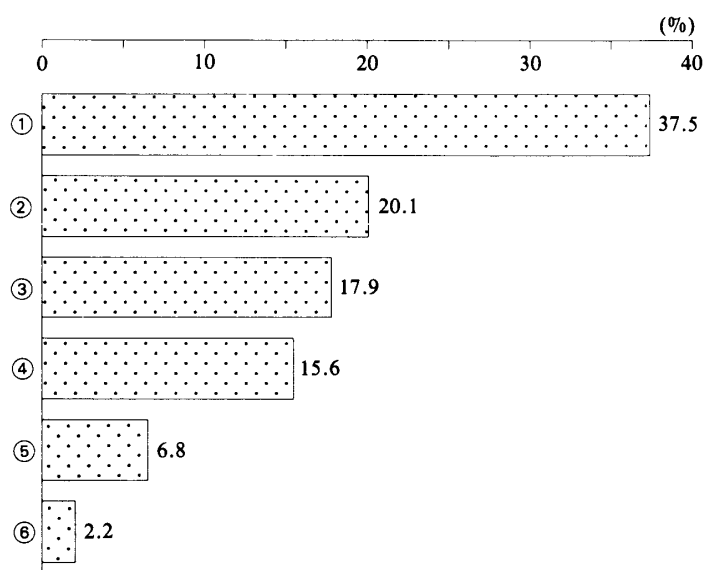
⑦ Developing new business fields, while reducing activities in the traditional main field

⑧ Remaining in the traditional main business field

Source: Small and Medium Enterprise Agency: "Field Survey on the Management of Enterprises Listed on Japan's Stock Market," December 1989, "Survey on Management Strategies of Wholesalers," December 1989, "Survey on Management Strategies of Retailers," December 1989; Japan Research Institute of Small Business: "Field Survey on Business Networks," December 1989

# *SMALL BUSINESS in JAPAN* 1990: (English version) p. 59.

**Fig. 5-3. Market Perspectives when Diversifying or Starting Inter-Business Activities (Small and medium enterprises)**



- ① Market that can use the company's present sales channels
- ② Market closely connected to the company's technology
- ③ Market not particularly connected with the company's main business field
- ④ Market that will allow the company to integrate its present technology with the technology in the new market
- ⑤ Market that is downstream from the company's present main business
- ⑥ Market that is upstream from the company's present main business

Source: Small and Medium Enterprise Agency: "Field Survey on the Management of Enterprises Listed on Japan's Stock Market," December 1989, "Survey on Management Strategies of Wholesalers," December 1989, "Survey on Management Strategies of Retailers," December 1989; Japan Research Institute of Small Business: "Field Survey on Business Networks," December 1989

# *SMALL BUSINESS in JAPAN* 1990: (English version) p.60.

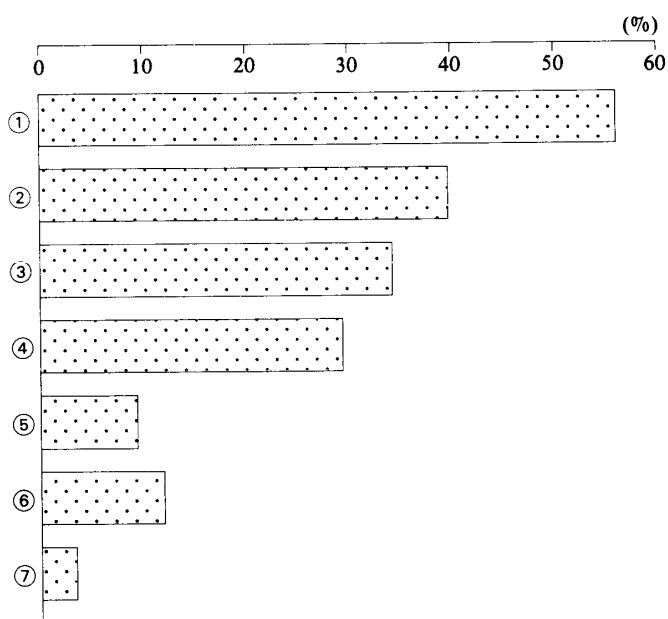


**Table 5-2. Case Studies of the Recent Diversification Among Small and Medium Enterprises**

	Type of industry and Products Handled	Number of employees	Area of diversified business	Comments (Method of diversification etc.)
1	Company A (Fishing net manufacturer and wholesaler)	86	Medicinal baths, sauna facilities	Business diversification through franchise contracts with other companies
2	Company B (Manufacturer of valves and related accessories)	280	Water pots for growing flowers indoors	Training of external specialists such as designers
3	Company C (Seasoning manufacturer)	150	Bio-related industries (cancer-research related pharmaceuticals)	Tie-ups with large foreign enterprises at the sales level
4	Company D (Textile wholesaler)	98	Rental building industry	Established a subsidiary, makes use of idle land
5	Company E (Manufacturer of heat resistant materials)	260	Growing and processing mushrooms	Established a subsidiary, makes use of idle land
6	Company F (Printer)	94	Clothing retailer (Specialty Italian fashion shop)	Business diversification
7	Company G (Manufacturer of precision instruments and medical equipment)	70	Construction and marketing of apartment buildings	Technical cooperation with a dairy product manufacturer through a capital joint venture
8	Company H (Manufacturer of food products)	100	Dairy products (yoghurt), noodle products, milk	Technical cooperation with a dairy product manufacturer through a capital joint venture
9	Company I (Agriculture, wholesaler of food products)	42	Importing and marketing mini-houses from Europe for use as second homes	Business diversification
10	Company J (Wholesaler and retailer of ornaments, miscellaneous Western products)	110	Housing redevelopment industry, leasing, manufacturing cushions, Buddhist and calligraphic artwork, and hanging scrolls	100% owned subsidiary established through an operations tie-up with a construction company
11	Company K (Manufacturer of fishing equipment and metal molds)	270	Sales of pickled plums, a local delicacy	Tie-up with a company in a different industry
12	Company L (Tack manufacturer)	125	Development, manufacture and sales of golf putters	Business diversification
13	Company M (Wholesaler of machinery for industrial use)	98	Designing and constructing shops	Subsidiary established through joint financing with another company
14	Company N (Textile wholesaler)	80	Franchise chain for the retail sales of personal textile-based accessories	Business diversification
15	Company O (Rice retailer)	6	Packed lunch business, restaurants	Business diversification through the use of know-how acquired in the main business field
16	Company P (Gasoline wholesaler)	6	Construction of convenience stores at gasoline stations	Business diversification through franchise contracts with other companies

# *SMALL BUSINESS in JAPAN* 1990: (English version) p.61.

**Fig. 5-4. Reasons for Diversification and "Gyosaika"  
(Small and medium enterprises)**



- ① For positively making inroads into growth fields and increasing profits
- ② Unable to cope with diversification of market demand through existing business alone
- ③ Due to intensified competition on the market of regular business
- ④ Sluggish market for regular business
- ⑤ Company technology (products, services, etc.) have become obsolete
- ⑥ For an effective use of real estate property
- ⑦ Other reasons

Source: Small and Medium Enterprise Agency: "Field Survey on the Management of Enterprises Listed on the Stock Market," December 1989, "Field Survey on Distributors (Retailers)," December 1989; Japan Research Institute of Small Business: "Field Survey on Network"

Note: was used.

# *SMALL BUSINESS in JAPAN* 1990: (English version) p. 63.

## 6. *How the Established Small Manufacturers are Seeking Niche Markets*

### (1) **Endless self-revolutionizing activities by small manufacturers**

In 1990 a survey was conducted by a research team, of *which I was the chief*, into how small manufacturers in *Tokyo Metropolis area* are *making new self-revolutionizing strategies when they encounter serious business-condition changes*. The survey was intended to recognize the up-grading of Japanese small business *amidst rapid changes in technologies and market-needs*. At the same time, because of the concentration in Tokyo of population, information, governmental functions, etc. in Tokyo, small businesses, especially small manufacturers are suffering significantly from various demerits/problems (such as, extraordinary high land price, noise regulations and the vibrations they create, labor shortage, and high wages, and so on). So research team wanted to know what sort of strategies enterprises were intending to develop.

< *Profiles and some characteristics of the respondents* >

- ① Sample: The Tokyo Chamber of Commerce member companies, with 30–300 employees:

5,168. \* Of these 1,362 company's top-management members responded. (effective response rate 26.4%)

- ② Size-, industry-, and age-distribution of companies and top-managers:

\* less than 49 employees 34.1%, 50–99 33.6%, 100–199 23.0%, over 200 9.4%.

\* Printing and publishing 14.2%, Metal-working 11.7%, Electrical machinery 9.5%, Chemicals 7.8%, Precision machinery 6.8%, etc.

\* Year of establishment: before 1911 5.1%, 1912–25 11.1%, 1926–45 17.3%, 1946–70 59.2%, after 1971 7.3%.

\* Top managers' age: less than 30 0.4%, 30's 4.5%, 40's 19.4%, 50's 38.8%, 60's 27.4%, over 70 9.4%.

- ③ Characteristics of production and sales:

Its own products production/sales	40.4%,	Only one customer	4.3%,
Diversified customer base	43.5%,	Multiple customers	12.5%,
Outside order manufacturing-process	4.4%,	Others	2.3%.

- ④ How the top managers came to their posts:

Founder of the business	28.3%,	Decendant of founder	40.9%,
Relative of founder	8.2%,	Former employee	10.8%,
Came from another company	9.0%,	Others	2.8%.

- ⑤ Main career-backgrounds of the top managers:

Sales 51.4%, Production 23.3%, Accounting and general management 22.0%, Technology/R&D 20.6%, Design/planning 4.7%, Others 4.5%.

- ⑥ Do special products or technology exist?: Yes. 79.5%, vs No. 20.5%.

Grade of the speciality: Top class 36.8%, Upper class 48.6%, Middle 11.1%, DK 3.5

- ⑦ Have production facilities within center Tokyo: out of a total of 1,362 respondents, 700 do have.

< What was the most serious management crisis in the past? >

- ① Historical economic-environment factors: (MA. choose 3)
- |                               |        |                                   |        |
|-------------------------------|--------|-----------------------------------|--------|
| Oil crisis                    | 54.9%, | Sudden appreciation of the Yen    | 29.6%, |
| Rapid technology innovation   | 26.2%, | No significant crisis experienced | 21.5%, |
| High land price & Rent        | 12.4%, | Being caught up by NIEs           | 13.6%, |
| Regulations and their changes | 9.7%,  | Others                            | 8.1%.  |
- ② Inner company crisis factors: (MA. choose 3)
- |                                   |        |                       |        |
|-----------------------------------|--------|-----------------------|--------|
| Serious labor shortage            | 56.2%, | Excessive competition | 54.1%, |
| Decreased orders/demands          | 37.8%, | Customer's bankruptcy | 13.9%, |
| No significant crisis experienced | 10.8%, | Management succession | 8.1%,  |
| Conflict with labor union         | 5.0%,  | Others                | 5.8%.  |
- ③ *Measures adopted when the management crises are encountered* (MA. free answers)
- (1) Technology innovation/automation 255, (2) New product development 152, (3) Measures to adapt to labor shortage 84, (4) Making business entity slim 71, (5) Strengthened sales channel 48, (6) New marketing strategy 44, (7) Re-structured management organization 36, (8) Re-location of plant 30, (9) Going overseas 19, (10) Affiliation with other company 17, (11) Others 77.
- ④ *Anticipated major tasks that must be conquered in near future* (MA. choose 3)
- (1) Redevelopment of employee's ability 50.8%, (2) Acquire technical staff 53.8%, (3) Market development 46.9%, (4) Introduction of advanced technology 34.7%, (5) Foster management successor 33.3%, (6) Innovate management structure 20.5%, (7) Going overseas & internationalization 10.1%, and Others
- ⑤ *Most realistic management strategies*: (MA, choose 3)
- (1) Strengthen management structure 80.6%, (2) New technology development 56.8%, (3) Innovate production process 52.8%, (4) Go into new business/Gyosai-ka 42.2%, (5) Further specialization in the field 19.5%, (6) Technological cooperation with other companies 13.3%, (7) Going overseas 10.3%, and others.

These are the main points of the survey results, and the Report contains a number of realistic pictures reflecting the history of the management revolution.

## (2) Self-revolutionizing activity is the responsibility of entrepreneur

The following question was particularly critical in the same survey-questionnaire.

\* It is said "Small business has been defensively adapting itself to environmental change on in the past. However, now it is time that small business should have a positive or aggressive managerial revolution of corporate strategies. What is your opinion about such a 'Managerial self-revolution'? Please choose one."

- |   |       |
|---|-------|
| (1) It is the entrepreneurs' responsibility to constantly perform self-revolution | 79.1% |
| (2) With limited intent we are performing self-revolution within the company.     | 15.4% |

- |   |      |
|---|------|
| (3) At this moment, we are not conscious about the need for Managerial Revolution | 4.4% |
| (4) We believe there is no problem requiring a revolution within the company.     | 1.1% |

As shown above, 80 percent of small business entrepreneurs believe it is the duty or responsibility of entrepreneurs to perform self-revolution of management structure, and a further 15 percent of them are doing so, without so much intent. There is overwhelming strong attitude of small business entrepreneurship.

The most realistic situation of such self-revolution in management can be illustrated by the cases provided in the next section.

One of the most predominant features that the Japanese small business people now show is that they have confidence of their own status in industrial society. Consciousness, or self evaluation is very important for the vitality of small business.

\* Small business had been considered at 'the bottom of dual economy', and 'The weaker class in the society'. However, recently small businesses, so it is said, have made progress in their level of technology and management, and so social evaluation of small business has changed.

Managers' opinions about *the image-change* of small business are shown here.

- |  |       |
|--|-------|
| (1) Not changed. Still at the bottom of "dual structure"       | 13.9% |
| (2) Large change, for example in bargaining with big business. | 55.2% |
| (3) Cannot say which is realistic.                             | 30.9% |

\* "Are the words 'Subcontractor(Shitauke) or Subcontracting relation (Shita-uke-kankei)' are still appropriate to be used to describe the recent situation of small business?". (1) No needs to change. 12.1%. (2) *We should change the expression.* 87.9%

\* "What is the most appropriate expression of these relations?". (Choose One) (1) *Cooperator* (52.3%), (2) *Business-partner* (22.0%), (3) *Speciality company* (9.0%), (4) *Prosper-together relations* (7.3%), (5) *Networking relationship* (6.0%), (6) *Others* (3.4%).

*Such is the evolution of the small business people's consciousness and self-evaluation.*

### (3) Cases; Three realistic pictures of management revolution histories

The survey report was titled as, "Self-revolutionising activities by small manufacturers are endless". It also contains eight cases of management revolution histories. They are quite realistic and instructive. The first three cases are mentioned here.

#### < Case A > *Amidst Innovation and The Tidal Change of Society:* *Ogura Jewel Industry Co.*

(1) Started as a jeweler in 1888, the company made a success in producing an agate bearing for the sight of torpedo discharge in 1895. After that, the Ogura Company took leadership in industrial jewel works. It experienced various changes and management crises during the Century that has passed. Now the company has three main divisions,; Fine-Tech. Div., Diamond Tool Div., Electronics Divi.. They are endeavoring to establish

their own New Production System, performing KKS Movement, which stands for; K = Kaizen = Improvement, K = Keikaku = Planning, S = Suishin = Pursuing. One of the new Production System techniques the company is adopting is *ABC Analysis Method*, which is characterized by dividing everyday orders into three categories. A = constantly accepted orders; B = orders which come once a month or once every two months; C = rush orders, such as test pattern productions. They attempt to balance the growth of the total business. As an example, we can see the ABC Composition data as of Feb. 21, 1989 (Jan. 21–Feb. 20).

	A		B	C
② Sales Amount	61.8%		29.4%	8.8%
② Inventories	47.4%		34.8%	17.8%
③ Number of items	166	398	1,052	
	10.3%	24.6%	65.1%	

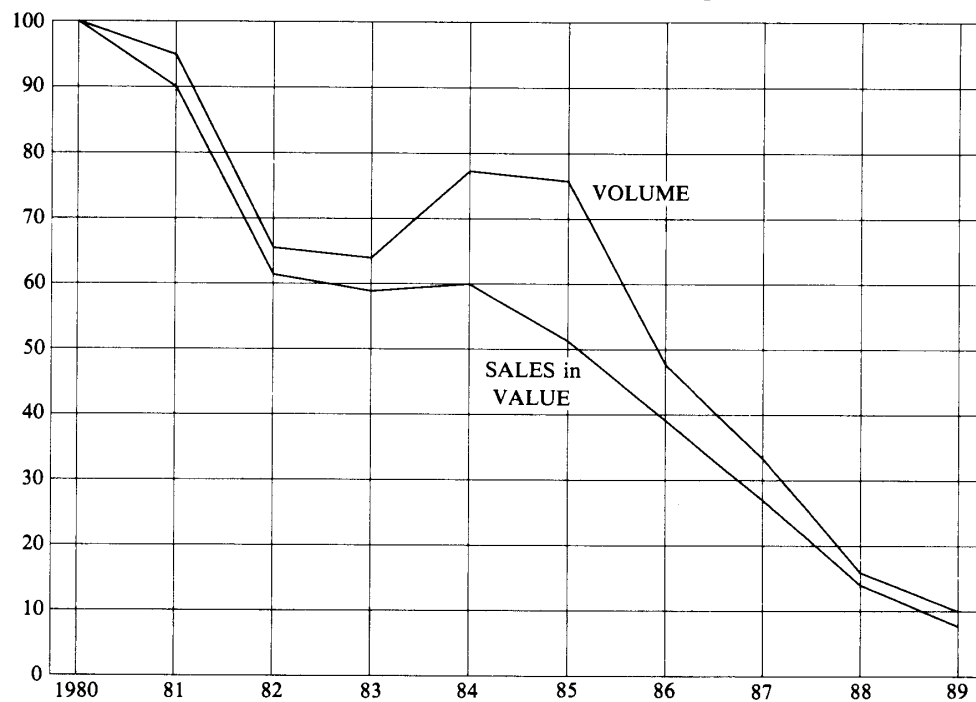
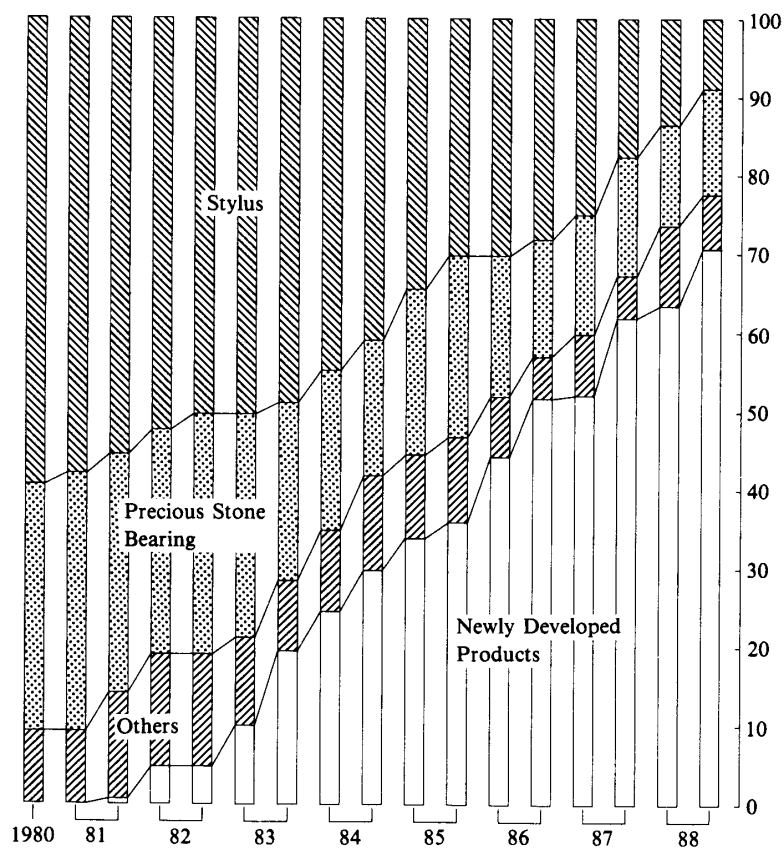
(2) During the company's long history of development, it encountered various sort of management difficulties. Here we focus the most recent, but most serious problem it experienced during the last decade.

The company was in a fortunate position when the sales of *diamond record needle (stylus)* for stereo rapidly increased. By production innovation in the way of diamond-metal brazing technology development, they could reduce the price of stylus to 1/100 the previous level, and moreover as they improved the diamond needle for high grade solid types, the company could exploit fully of the so called audio boom.

However, the emergence of CDs (compact disks) brought a panic to the company's main products, that is diamond needle production. As you see in Fig. 7-1, production volume and sales amount of stylus dropped sharply. So through out the 1980s, the company struggled for survival by diversifying its production by concerted efforts. Fig. 7-2 shows the change sales composition, and it is quite noteworthy that the newly developed products' sales accounted for 70 percent of total sales in 1988. Among the newly developed products are: *Wirecut wire guides, Diamond tools, Tools for Semi-conductor, Fiber optic cable connectors, Electronics appliances, Scientific-chemical instruments, Medical instrument, CAD/CAMs for textile manufacturing, Comfortable bed for bedridden patient* and others.

(3) Management philosophy of the company is: the future of industrial society is quite opaque, or difficult to anticipate, and the pace of innovation/progress in technology is overwhelming and rapid like a big tidal wave, so that we must always be prepared to adapt ourselves in pursuit of niche marketing and in small-volume production system. The firm must always be careful what is happening in the world. There is no easy way to be in business forever as it is now. All "profits" are invested in R&D.

(4) Capital: 50 million yen. Employees: 239 (of which 15 are in R&D activities). Main Office & Factory: Ota-ku, Tokyo. Sales: 2,250 million yen (1988 fiscal year).

**Fig. 7-1. Sales Index of Stylus, 1980-89: (The Ogura Company)****Fig. 7-2. Changes in Sales Composition, 1980-89. (The Ogura Company)**

< Case B > *Adaptation of Unique Technology to New Products; Yoshinaga Technica Co.*

(1) Starting from *Dead Copy* manufacturing of advanced foreign cigarette oil-lighters in 1961, now the company has diversified into three new business areas besides lighter. (A) Leather goods (handbags, purses), (B) incinerators for home use, (C) medical instruments manufacturing. All of these new products are based on the technologies accumulated and developed while the company made efforts to improve lighter production.

(2) Around 1961–69, they received the fundamental technology and developed the high quality image of the product, “PRINCE LIGHTER”. Fuel change from oil to gas. During the period of 1969 to 1975, the company invested in manufacturing technology in Brazil (1972) and Korea (1975), while keeping the high quality “PINCE LIGHTER” image, and making new electromagnetic lighter (1970), and electron lighter (1972).

The third period (1975–80) could be called “Emergence of technology-oriented PRINCE”, while the company developed all required technology by itself. It developed a table battery lighter achieving the licence of Pierre Cardin in 1976, solar battery lighters and static pressure lighters both in 1978. The company made a contract with 14 foreign designers, and extended the product quality-assurance period, to be a more consumer-oriented company. In those days, 70% of production was exported.

Around 1976, cheap disposable lighters became fashionable and popular, however “no smoking” campaign began. This began a great challenge for the company, and they started again to review their fundamental management resources. Tentatively, it developed a super thin type lighter (4.5 mm).

In the period of 1973–87, the company aggressively diversified its business into various new items manufacturing, for example: codeless hair curler; industrial robot parts; medical instruments (pace-maker, hearing aids, etc.). All these new products were sprung from the accumulated technologies of the company. They had also sintering technology, precision cutting technology, and deep drawing press technology. Fashionable lighter decoration techniques made it possible to produce leather goods, for example, handbags.

After 1987, the company pursued a new principle: New Entrepreneurial Spirit, or the Second Starting Point of Business. “Society changes, Company Changes, and Let’s change the Company” is the slogan of the company now.

(3) The key point for the company is to keep growing through training and education of their employees. Leadership by middle management, utilization of outer resources (university and college; public laboratories; group member of inner-business activities), and also having a divisional organization. The company still depends upon lighter sales as its main business.

(4) Capital; 61 million yen. Employees; 116 (out of those, 15 are technicians), Main Office; Taito-ku, Tokyo, Factory; Soka-shi, Saitama-ken. Sales; 5.2 billion yen. (1988 Fiscal year)

< Case C > *Persistent Products Development and Diversification; Senju Metal Industry Co.*

(1) This company has four divisions. Solder Div., Bearing Div., Industrial Machinery Div., and Sales Div.. Also, it has American and European Sales Agents, and overseas



factory in Malaysia.

Core technology of this company is the melting of tin and lead. The fundamental management strategy is to keep the top share of main products, and never be defeated anywhere in the world. It has a 30% share of pressure welding type bearings in the world, and 80% share of hydraulic bearings, 45% share of cream solders in the domestic market. It is offering technical assistance to China, Taiwan, Korea, Malaysia, and India.

“*Challenging Techno-Gang*” is its catch-phrase. *Supplying best quality products with more creative technology* is its motto. *Jointing Technology* is its technological identity, and it is aiming to be a small but excellent world company.

(2) Started business in 1938 as lead-related products manufacturing small factory, supplying lead-foil, lead seal, lead water-pipe, lead tin alloy solder line, & solder bar, before and soon after WWII.

During the second stage of its development (1952–59), the company launched into auto parts production, that is bearings. Around 1955, it began to produce sparkle solder for connecting cables of radio and TV.

The third stage (1960–64) was characterized by new management philosophy which was established by the new president (now chairman), Mr. C. Sato. The company developed padding solder (1962), and sprinkler heads, first made in Japan (1964).

During the fourth stage (1965–76), the company established a Research Laboratory to develop its technology, and developed a pressure welding roller bush, first in Japan (1967), sparkle print solder (1969), side plate for gear pump (1974), and so on. Then came the oil crisis and the company was severely damaged by the economic confusion.

During the fifth stage (1977–86), the company made various developments, namely the complete automatic soldering machinery, high speed multi-layer board soldering machinery, and back-of-the-board washing instruments (all in 1980).

The company had offered technical assistance of soldering to India in 1982, a bearing manufacturing plant to China and soldering technology to Malaysia in 1983, etc.

(3) In June, 1984, Mr. I. Sato became the president, and made the company's new corporate strategy clear, which was introduced at the first paragraph. We must add some more of the management philosophy of this company.

Philosophy of new product development and diversification should be *new creation* based, not on new technology, but on the technology the company already holds.

Philosophy of sales is “to sell service”. Adherence to customers with supplying hard wares. Target in marketing is *niche marketing*.

Philosophy of price/cost formula is that [Market price – normal profit = cost]. By all means we should realize that cost.

Europe, America, East-South Asia, and Japan are four poles of the company's world strategy. And production site should change according to the changes in markets.

(4) Capital; 200 million yen. Employees; 450. Main office; Adachi-ku, Tokyo. Factories; Tochigi, Tokyo, Soka. Affiliated Companies; Senju Sprinkler Co., Industrial Testing Center Co., and oversea Agents. Sales; 16.5 billion yen. (1989 Fiscal year).

*PROPOSITION 8. Endless self-revolutionizing activity is the responsibility of entre-*

*preneurs. It is observed each company has its history of managerial revolutions.*

**(4) Brief Conclusions; The factors which make niche marketing activity successful**

The cases of the self-revolutionizing management strategies may not be sufficient explanation, and many other related stories in the previous sections suggest that the factors which make niche marketing successful can simply be summarized as follows.

1. Strong entrepreneurship spirit, and a certain background/foundation of technology and managerial resources. Those elements should go together at the top level in a upward spiral.
2. Ability to adapt technology and management resources flexibly to new circumstances.
3. Powerful initiatives by the entrepreneurs to improve and realize innovation and marketing techniques to exploit niche markets.
4. Here the Japanese case has been dealt with. Factors which make niche marketing activity successful may differ from country to country, depending on the stage and speed of economic growth. However, it may be expected that competition and certain managerial resources are necessary to be active in niche marketing. Not only high-tech. but also low-tech. can be an actor in niche marketing. Intermediate technology, or handicraftman may also be able to make a success with special design or service if it meets specific market needs.
5. Niche markets issues are apt to be treated just as success stories of new ventures. However from the stand point of "Entrepreneurship and Economic Development", these issues might be integrated into a wide range of corporate and management development strategies, and competitive advantage issues.
6. Newly developing countries have many of their own new business and market expansion opportunities as Japan has experienced. Therefore there could be a further discussions concerning "exploitation of niche market through innovation and marketing".
7. This paper aimed at introducing and reviewing various cases of, and levels of, "Exploitation of niche market through innovation and marketing". This issue is especially difficult to generalize into some simple patterns or conditions of success. All of the entrepreneurship, technology-innovation, and marketing strategy are not homogeneous. However, we are sure we can learn from these cases various ideas for niche marketing success.

[END]

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