

Changing Consumption Patterns and New Lifestyles in the 21st Century

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Nomura Research Institute carried out large-scale surveys to record and analyze the views of Japanese people in 1997 and 2000. According to the results of these Surveys of 10,000 Consumers, Japanese appear to be losing confidence in existing organizations and institutions and are moving towards what might be called a self-protective attitude in their lives in the face of rapid social changes, such as the aging of society and a fall in the birth rate, internationalization, and uncertain economic prospects.

Furthermore, because of the significant changes in the communications environment accompanying the wide-scale spread of portable phones and Internet technologies, social groupings are coming in for increasing diversification. People are tending to look around more at what are their neighbors and colleagues are thinking and doing, and this new attitude is exerting a significant influence on consumer behavior as a whole.

In the future the concept of community marketing will become important as a new marketing strategy for businesses, as it takes advantage of the changing communication formats among consumers, the relations between companies and consumers, and the ways in which information is exchanged in general.

I Rapid Changes in the Overall Social Environment

In order to understand the basic structure of Japanese lifestyles and mindsets and the transitions that are taking place in these areas, Nomura Research Institute carried out large-scale surveys to measure and analyze public attitudes in 1997 and 2000. These appraisals, known as the Surveys of 10,000 Consumers, targeted males and females from 15 to 69 years of age by means of delivering questionnaires through face-to-face visits (the number of responses totaled 10,052 in 1997, and 10,021 in 2000).

The results of these analyses indicated that clear and sometimes remarkable changes in values and lifestyles are taking place under the impact of the rapid changes that are occurring in social environments. This paper describes these transitions in consumer values and lifestyles, predicts the emergence of new styles in consumption among Japanese people in the 21st century, and suggests new marketing strategies that are designed to respond to such changes.

The following trends among recent changes in social circumstances can be singled out as having the greatest impact on social attitudes:

- (1) The aging of society and the fall-off in the birth rate
- (2) The emergence of an information-intensive society
- (3) Increasing internationalization in the living standard
- (4) Income levels reaching maturity
- (5) The growing concentration of city dwellers and urban-centric lifestyles

1 Fewer Children to Support the Society of the Future

According to the Ministry of Health, Labour and Welfare estimates of Japan's future population, the age 65 or older cohort in Japan's population will rise from 14.6 percent in 1995 to 22.0 percent in 2010. The main reasons for this expansion can be attributed to the steady increase in longevity and a fall in the nation's birth rates.

With respect to the latter, the tendency among younger women to either delay marriage or to remain unmarried throughout their lives appears to be advancing. Moreover, the generally unsatisfactory conditions of child-care facilities in contrast to the improved working environments offered to female workers also seem to be having an impact on the falling birth rate. As evidenced by the survey results as well, an increasing number of Japanese elect to marry in the later half of their 20s—substantiating the fact that marriage later in life is favored by a large number of young people. Presently, the ratio of those who were married by the age of 30 is 75.9 percent, a significant drop from the 84.0 percent of people now 60 years old (excluding those who are divorced or

widowed) who reported that they were already married when they reached 30 years of age.

Demographic data indicate that this rising ratio of the elderly in Japan's total population is inevitable. Moreover, there are no signs that the trend towards having fewer children will change in the future, if total fertility rates (estimates on the number of children a woman will bear during her entire lifetime based on a hypothesis that birth rates by age in any given year will not change) over the recent few years are used as a guide.

Accordingly, as the trends towards population aging and a declining number of children will continue, Japan is certain to face the serious problem of too few younger people to support its society in the future. This decline in the number of younger people will not only increase the burdens this cohort will have to shoulder in terms of pensions and welfare costs, but also weaken the nation's social activities and international competitiveness. Although much attention has been given to this continuing graying of Japanese society, it cannot be emphasized enough that this is the most significant change that will affect Japan's social environment in the 21st century.

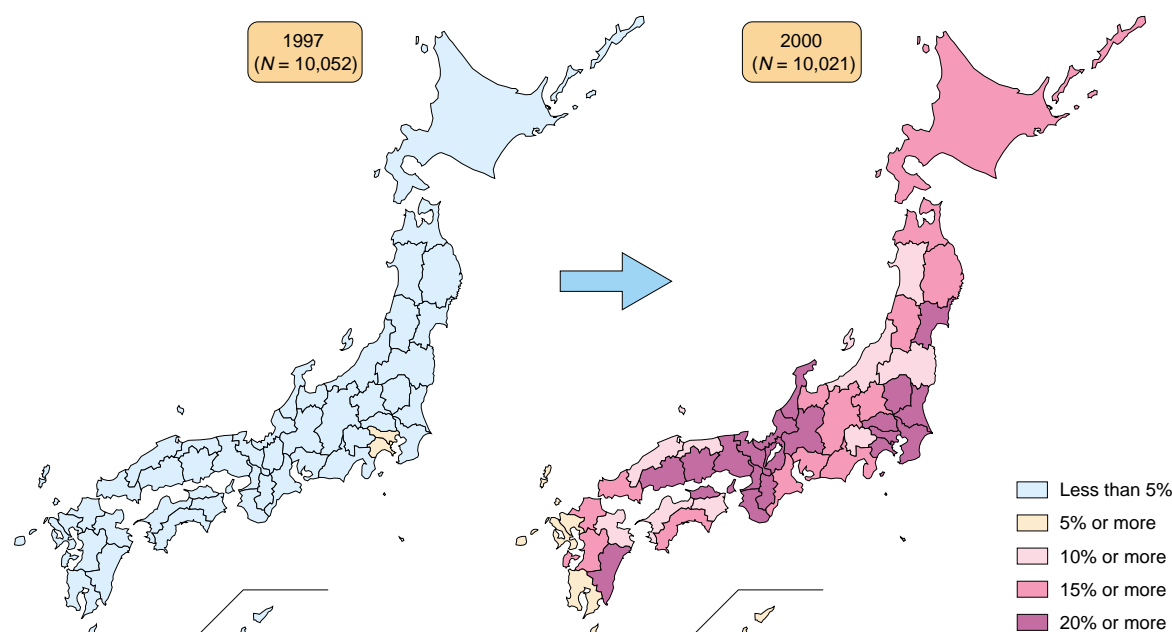
2 Improvement in Networks Including the Internet

As shown by the explosive growth in portable phone and Internet usage, the scope of information regularly available in our society has been rapidly expanding, particularly in the most recent three years. For instance, the Internet utilization ratio has jumped from 2.6 percent in 1997 to 21.4 percent in 2000. While only two prefectures (Tokyo and Kanagawa) exceeded a 5-percent usage ratio in 1997, all prefectures surpassed this level by the year 2000. (See Figure 1.) As this figure illustrates, the number of Internet users is rapidly increasing especially in urban areas. This mushrooming growth in information intensification is providing society with a host of new means for both information collection and communication, leading to major changes in consumer lifestyles.

3 Increased International Experience and Lifestyles Meeting Global Standards

Under the influence of economic globalization, international experience is becoming an increasingly common phenomenon even among the lives of average people. Results from the Survey of 10,000 Consumers show that the ratio of respondents traveling overseas in the past one year grew from 18.8 percent in 1997 to 26.5 percent in 2000. Moreover, the averaged ratio for all Japanese who reported having lived abroad for one month or longer reached 4.3 percent in 2000.

It is virtually certain that such overseas experience will affect lifestyles, consumption patterns and basic values, spurring attempts by an increasing number of people to replicate overseas culture, concepts, and consumption

Figure 1. Changes in Internet Usage Ratios

Note: Internet usage ratio means the percentage of people using the Internet at home or in their companies at least once a month.

Source: Nomura Research Institute, 1997 Survey of 10,000 Consumers (N = 10,052) and 2000 Survey of 10,000 Consumers (N = 10,021). Unless otherwise noted, all data cited in this article are from these surveys.

patterns in Japan. And prompted by the changes in the lifestyles of such open-minded people, consumers in general might also be tempted to experiment with new styles of living.

4 Life Design Without the Expectations of Continuing Economic Growth

Under the impact of the prolonged economic stagnation in Japan, most people are coming to a growing awareness that an ever-improving economy can no longer be expected. While the results of our survey data indicated that most respondents are slightly more optimistic about the economy in 2000 than in 1997, they still harbor a great deal of skepticism about maintaining family income levels. (See Figure 2.)

Most people can be expected to set their future life designs, including consumption patterns, on the condition that matured family income levels will not easily be improved. And as large income increases cannot be anticipated in the future, the propensity to save will likely remain high, and temporary increases in income are not expected to directly contribute to any expansion in consumption. Indeed, in their preparations for an uncertain future, we expect that the pervasive tone in the thinking of most people will be a pursuit of security and a passive attitude towards consumption.

5 Regional Penetration of Urban Lifestyles

Although Japan experienced a pronounced concentration of population and economic activities in the

country's three major metropolitan areas during the period of high growth period after the war and especially in Tokyo in the 1980s and thereafter, this trend appears to be weakening in recent years. Nevertheless, the concentration of population in core cities within various regions, such as prefectural capitals, is continuing and is leading to rapid urbanization in local communities.

At the same time, residents in smaller communities are now finding it possible to enjoy an easy and comfortable lifestyle thanks to a variety of services provided by convenience stores and similar commercial facilities. In short, local residents can now experience many of the benefits of urban lifestyles while living at some distance from large cities. This phenomenon is expected to continue in the future, bringing urban-like lifestyles and consumption patterns to an increasing number of people throughout Japan as a whole.

II Retreat Towards Self-Protection

1 Erosion of Social Trust

According to an analysis by the US political scientist Francis Fukuyama, Japan has achieved tremendous economic development on the basis of mutual trust among members of its society. Such a social relationship has played an important role as a type of social capital. (See Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*, trans. Hiroshi Kato, Mikasa Shobo, 1996). While Japanese in the past have tended to focus

on maintaining warm and harmonious relationships based on mutual trust and duties among various groups such as the family, the local community and the workplace, this trusting relationship is now on the verge of a crisis.

For example, in response to our survey question on whether one trusts one's neighbors, fully 24.6 percent of respondents answered in the negative (the total of those replying "Neighbors are not trustworthy" or "Inclined not to trust my neighbors"). This would suggest that human relationships at the local community level are no longer strong enough to maintain mutual confidence.

To questions on whether respondents trust various organizations, systems and occupations with which they have had dealings, those scoring high on the trust index (e.g., "Very trustful" or "Relatively trustful") included physicians (81.8%), newspapers (77.9%) and TV (62.7%). Conversely, the least trusted were religious organizations (6.1%), Diet members (12.0%) and central government bureaucrats (20.3%).

Several points should be noted in comparing these results with those of the previous survey in 1997: (1) trust in Diet members and bureaucrats remains low;

(2) the trust evaluation for police officers has declined significantly (from 70.9% to 44.2%) due to a number of scandals and reported criminal cases; and (3) school-teachers are also losing the confidence of citizens (a decline in the trust ratio from 65.2% to 52.5%). As these survey results would indicate, social institutions and public organizations in Japan are facing a sharp loss in public confidence.

2 Emergence of Clear Hierarchies in Society

The ratio of survey respondents who believed that "Anyone can get a desired job by making the efforts" declined to 25.6 percent in 2000 from 29.2 percent in 1997. As this decline showed up among both male and female respondents and in all age groups (see Figure 3), an increasing number of people feel that they cannot get a decent job even if they work hard—essentially resigning themselves to the difficulties of overcoming barriers in the real world. We have used the term "stabilized hierarchy" to characterize this feeling of resignation.

Figure 2. Future Life Prospects

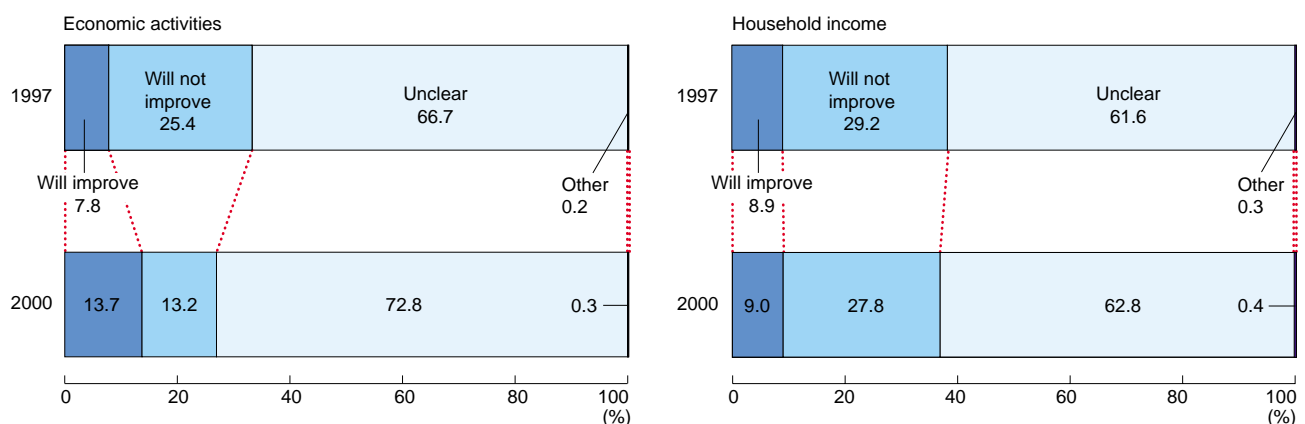
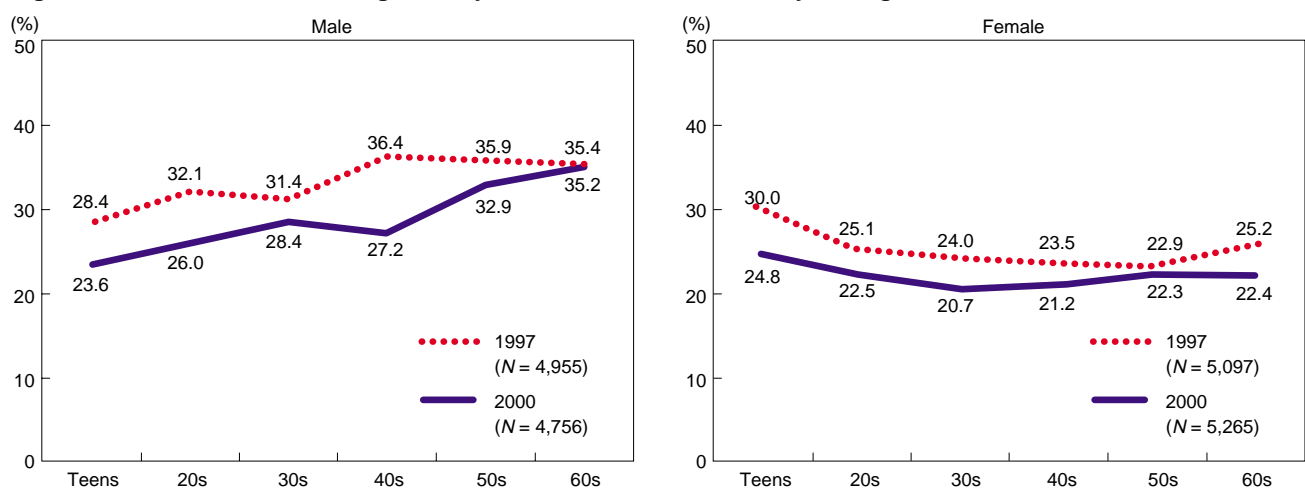


Figure 3. Ratios of Those Believing that Anyone Can Get a Desired Job by Making the Efforts



Note: Ratios of those who answered Yes or Inclined to say Yes.

Following the Second World War and especially during Japan's high-growth period, income inequality was reduced to the extent that people came to believe that they could reach high social positions regardless of their birth if they made sincere efforts. The idea of a homogeneous society (i.e., a society essentially composed of 100 million middle-class citizens) appeared to take root at the background of the public concept of equality. Moreover, occupations such as government bureaucrats and schoolteachers were accorded high social esteem even though they typically did not represent highly paid jobs.

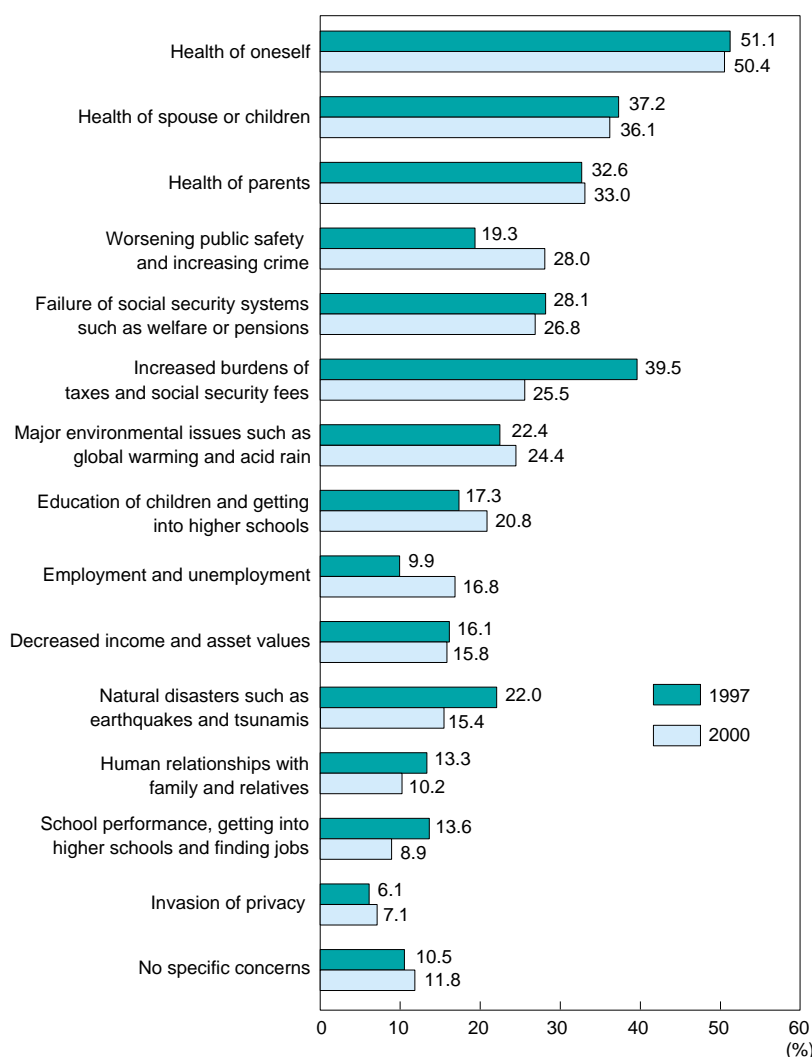
However, as a result of the major social changes occurring in Japanese society, including the shift from high to stable economic growth, the so-called economic bubble in the later half of the 1980s and the expansion in asset inequalities, the yardstick in evaluating occupational ranks and social positions has been replaced by economic or monetary standards. At the same time, we are also seeing a second generation consisting of the

children of Diet members being elected to their fathers' positions—a phenomenon with disturbing overtones in that it treats political office almost as if it were an inherited post. As a result, the perception of equality has been eroded and advancing hierarchies are undermining the once sacred idea of occupational openness. These trends have become more evident in recent years.

3 Uncertainty Due to Increasing Crime and Unemployment

Among the gnawing uncertainties and fears that have been becoming more prominent in the past three years, worsening public safety and increasing crime, higher unemployment rates, and getting a proper education for children are frequently cited. And as noted above, the decline in the trust once afforded police officers is reflected in these fears over worsening safety and increasing crime, and the falling confidence in schoolteachers can be traced to the public's concern over the education

Figure 4. Uncertainties and Anxieties



Note 1: Only those options included in both the 1997 and 2000 surveys are compared.

Note 2: The 1997 option of "Failure of social security systems such as welfare or pensions" was replaced with "Failure of social security systems such as public pensions" plus the added option of "Failure of the welfare insurance system" (11.8% response ratio) in the 2000 survey.

of their children. In sum, this erosion of social trust is increasing the sense of public unease. (See Figure 4.)

On the other hand, uncertainty has tended to recede with regard to increasing tax and social security burdens and natural disasters. The 1997 survey was conducted at a time that saw a number of negative reports about the increased costs to be shouldered by the current generation in terms of pensions and caring for the aged, the hike in the consumption tax rate from 3 percent to 5 percent, and the disastrous Great Kobe Earthquake. Although such external conditions remain unchanged even now, people generally appear to feel less uncertainty about them, perhaps indicating a certain degree of resignation or numbness concerning such matters.

However, a clearly apparent change can be seen with respect to the increasing concern about the employment situation. Along with the raft of corporate reorganizations and restructuring moves that have taken place in response to the disappointing bottom lines in general, traditional employment practices in Japan such as lifetime employment and the seniority system have already been badly shaken and are now nearing complete collapse. Against this background, people no longer can rely on one company for their entire working lives. And because labor markets still lack fluidity, it is difficult for workers to find opportunities to change their jobs—another factor that has inevitably heightened fears over unemployment.

At the same time, however, moves towards establishing independent businesses by entrepreneurs as well as private and public support for such activities are attracting attention. Nevertheless, the affirmative response ratio to the question of “Would you like to set up your own independent business if you could?” declined somewhat from 39.6 percent in the 1997 survey to 38.2 percent in 2000. Generally speaking, it would seem that employees are rather reluctant to leave their current employment to set up new businesses on their own.

4 Always Attentive to Neighbors and Colleagues

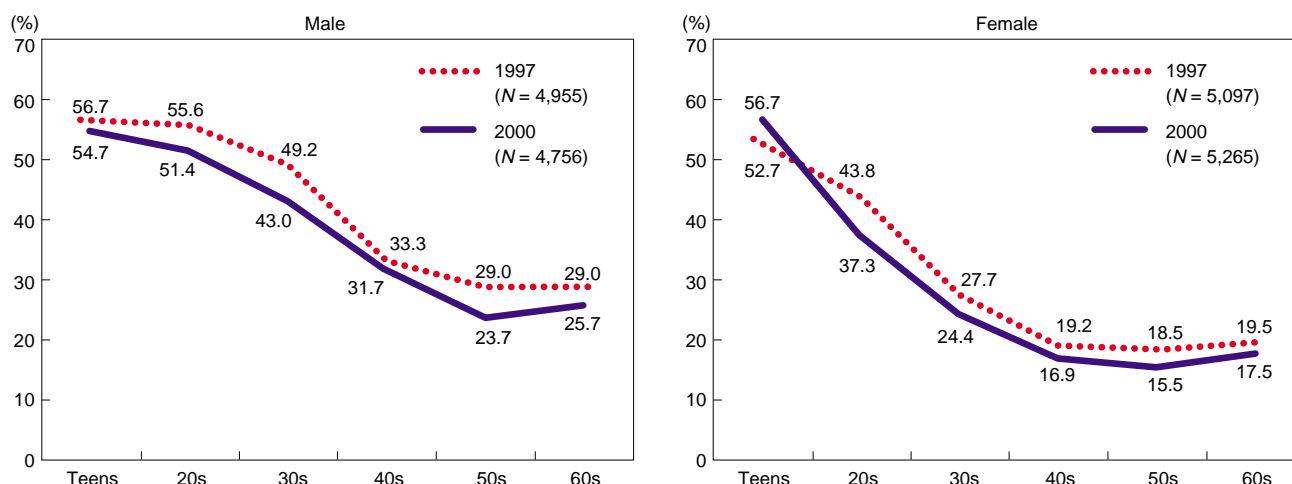
Both surveys included the question: “Would you like to do something that attracts the attention of others?” The ratio of yes responses decreased to 29.4 percent from 33.0 percent during the intervening three years. Our analysis by gender and age group also indicates that this ratio declined for all groups except female respondents in their teens. (see Figure 5.) At the same time, the ratio of positive answers also declined from 70.0 percent to 67.2 percent when asked the question: “Do you try to make decisions based on your own beliefs regardless of other people’s views?” These results can be interpreted as evidence of a passive attitude in everyday life, as they indicate a reluctance to make judgments on their own and an attempt to accommodate themselves to others in order to avoid being isolated from the people around them.

This passive attitude can be attributed to the desire to live quiet lives without facing the risk of being excluded by friends or colleagues and by avoiding anything that is different from the behavior of others. As it is possible now for many people to communicate frequently with each other via portable phone or email, this ease of communications also leads to the attentive attitude described above with respect to constantly monitoring the feelings of others and making efforts to accommodate themselves to the shared thinking of their associates. We believe that the increased use of IT (information technology) may accelerate this “group think” tendency to pay careful attention to others.

5 The Movement Towards Self-Protective Postures

As noted above, our surveys revealed that major changes are tearing the social fabric: the erosion of trust, the emergence of social hierarchies, the increase in crime,

Figure 5. Ratios of Those Who “Would Like to Do Something That Attracts the Attention of Others”



Note: Ratios of those who answered Yes or Inclined to say Yes.

the growing fear of unemployment, and a generally accommodating attitude towards others. All these changes point in the direction of developing more self-protective postures. The prime emphasis in daily life is now shifting towards how people can protect their own lives.

This belief in the need to be more self-protective is a direct outgrowth of the perception that people can no longer put their confidence in current social systems, organizations or companies. As social hierarchies have continued to expand and become more stabilized, individuals tend to feel that any efforts to climb the social or occupational ladders will inevitably be fruitless. As a result, people are becoming less ambitious (i.e., less willing to pursue upward mobility) and more reluctant to make positive efforts for that purpose, and are therefore taking refuge in a self-protective consciousness.

As a large number of Japanese benefited from continuing economic prosperity during the past high-growth era, people were able to enjoy high incomes and higher living standards if only they kept pace with others (i.e., as long as they demonstrated average performance). Now that the nation's economy appears to have achieved maturity, however, we can no longer expect continuing high growth. This means that maintaining one's current position and income level is becoming more difficult. Moreover, the erosion of trust has compromised the ability of existing systems and institutions to function well. In view of these circumstances, people are being forced to protect themselves by limiting their activities to a narrow area in which they can put their confidence.

III Responding to Self-Protective Lifestyles

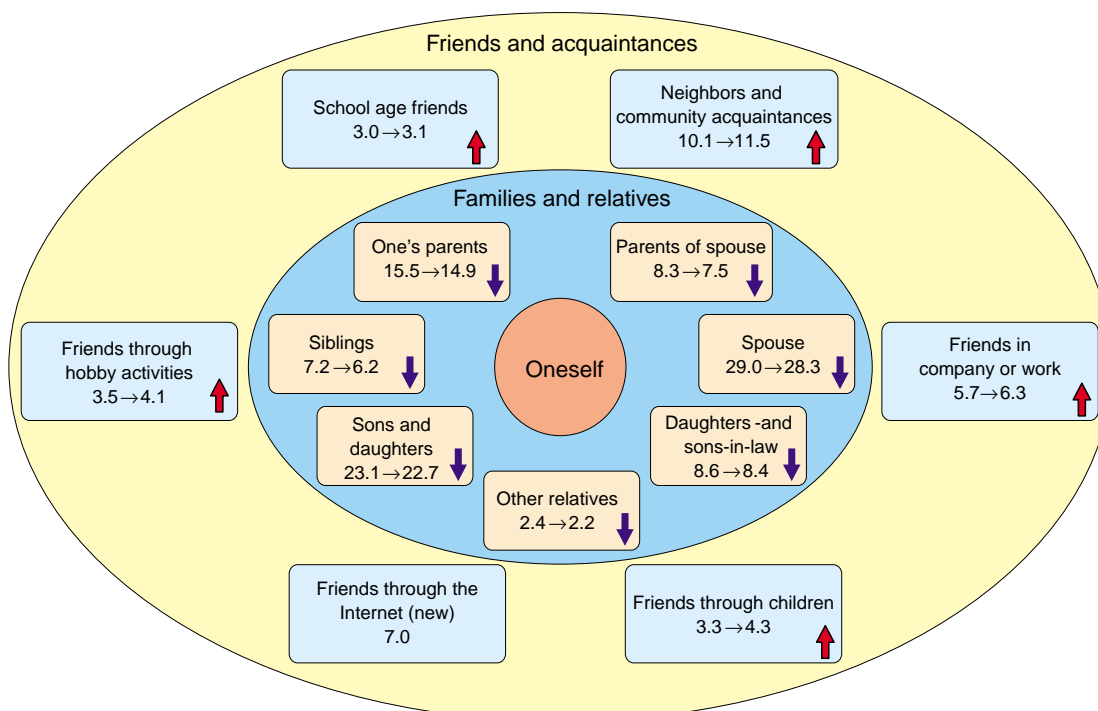
1 Diversifying Personal Networks

What lifestyles will people adopt when they become self-protective?

The first noticeable change can be seen in their patterns of communication. While intra-family communications (including parents, siblings and relatives) became less intensive, communications with friends and acquaintances developed through a variety of networking contacts have increased during the three-year period covered by our surveys. (See Figure 6.) Moreover, the number of personal networks (i.e., the number of people that respondents tended to rely on) is increasing particularly for older groups. In the case of people in their 60s, for example, the average number has increased from 2.9 to 3.7 persons for males and from 3.0 to 3.9 persons for females.

As these results indicate, people are trying to expand their personal communication networks by not only maintaining close relationships with families and relatives but also extending communication links to as many people as possible to acquire information from a wide range of sources or to find others they can rely on for support. This self-protective attitude can also be seen as a type of risk hedging, as people wish to improve their living standards and to find others who can provide the support they need for emergency situations or for daily

Figure 6. Changes in Communication Frequency



Note: Figures indicate frequency of communication (times per month). Bold arrows show increases or decreases from 1997 to 2000: ↑ (increase) ↓ (decrease).

necessities by diversifying the groups to which they belong and expanding their communication networks to include a variety of people.

Progress in recent IT technologies such as email and portable phones is also supporting this diversification in human relationships. For example, although communication among alumni association members tended to diminish over time in the past, a network of such members can be maintained on the Internet. Accordingly, this can also be seen to facilitate the trends described above.

2 Loose Ties Among Families

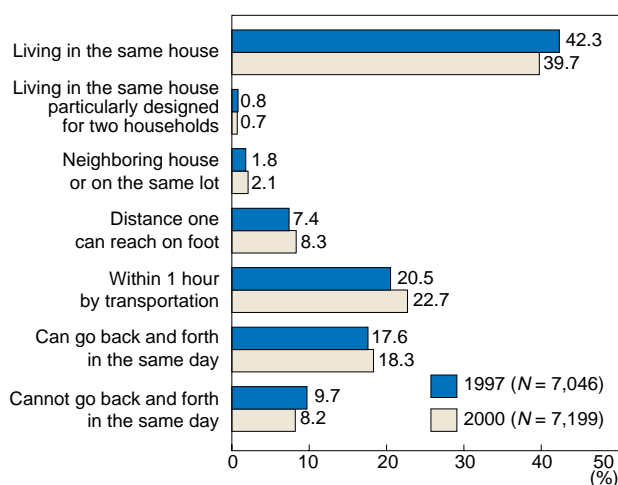
The results of our survey questions that asked married people about the physical distance between their own homes and those of their parents revealed that, while the number of couples who are living with their parents is declining, those who are living in close proximity to their parents are increasing. The latter case includes those who live in the same neighborhood, on the same property, or in locations that can be reached by walking or within less than one hour by using some form of transporta-

tion. This would suggest an increase in cases in which loose but emotionally close ties are maintained between children and parents. (See Figure 7.)

Our surveys also examined the frequency of communication between children and parents according to the geographic distance separating them. As noted earlier, while intra-family communication has become less frequent for respondents as a whole, communication opportunities have increased for those living apart from their parents regardless of the distance between them. For instance, those living within one-hour of travel time from their parents communicated 6.6 times per month in the year 2000 compared to 6.0 times per month in 1997.

To the question of how often one expected support from parents or children, all age groups responded that they expected intra-family support more frequently than in the past. In particular, those in their 50s and 60s tended to rely more upon their children. Although survey results showed that communication among family members had become less frequent from 1997 to 2000, parents and children now expect stronger mutual support than ever before, confirming the tendency to maintain loose but close ties within families. In the case of children who live apart from their parents, communication is more frequent than in the past, perhaps suggesting that the telephone, facsimile, PC and other IT equipment are helping people improve communication among family members.

Figure 7. Changes in Distance Between Homes of Respondents and Those of Their Parents

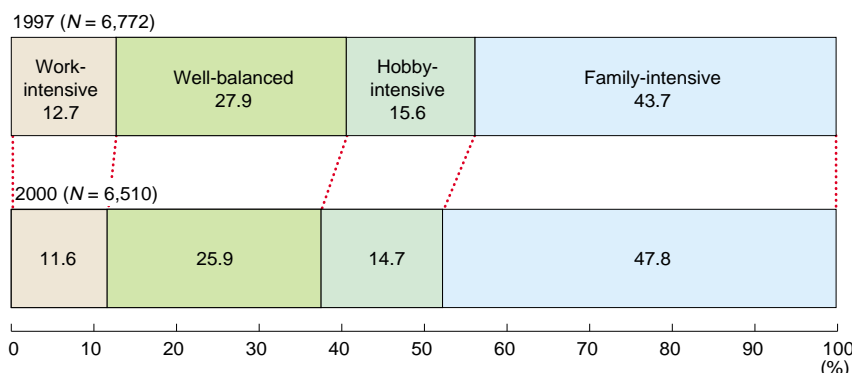


Note: Limited to married people with living parent(s).

3 Return to Family Life from "Workaholism"

Based on the results of our surveys, we developed a four-segment classification of Japanese workers, namely: work-intensive, family-intensive, hobby-intensive and balanced-life groups. The last classification covers those who strike a seeming balance among the three categories mentioned earlier. An analysis of full-time workers indicates that the family-intensive group accounted for 47.8 percent in 2000, a moderate increase from the 43.7 percent recorded in 1997. All of the other three classifications showed some declines between the 1997 and 2000 results. (See Figure 8.) We have assumed that the

Figure 8. Changes in Purpose of Life



Note: Limited to full-time employees.

ratio of those who give greater emphasis to their families is steadily increasing in a society where people are losing confidence in existing systems and organizations, and company loyalty is declining.

It should be noted, however, that the relative increase in the family-intensive classification means not only that such people strive to maintain strong ties with their families, but that they are also concerned about safeguarding their economic well being. In terms of the relation between parents and children, for instance, both sides expect mutual economic support, including the inheritance of residences and other assets, and support in terms of human resources in caring for children or the elderly. Accordingly, families are expected to play an increasingly important role as the basis around which individuals in the future will plan and design a broad range of life choices.

We can also foresee that families will come to play a platform role when IT networks connect families via PCs and other IT equipment, thereby enabling family members to rely on these networks to collect and use a variety of information, carry out asset management or purchase financial commodities.

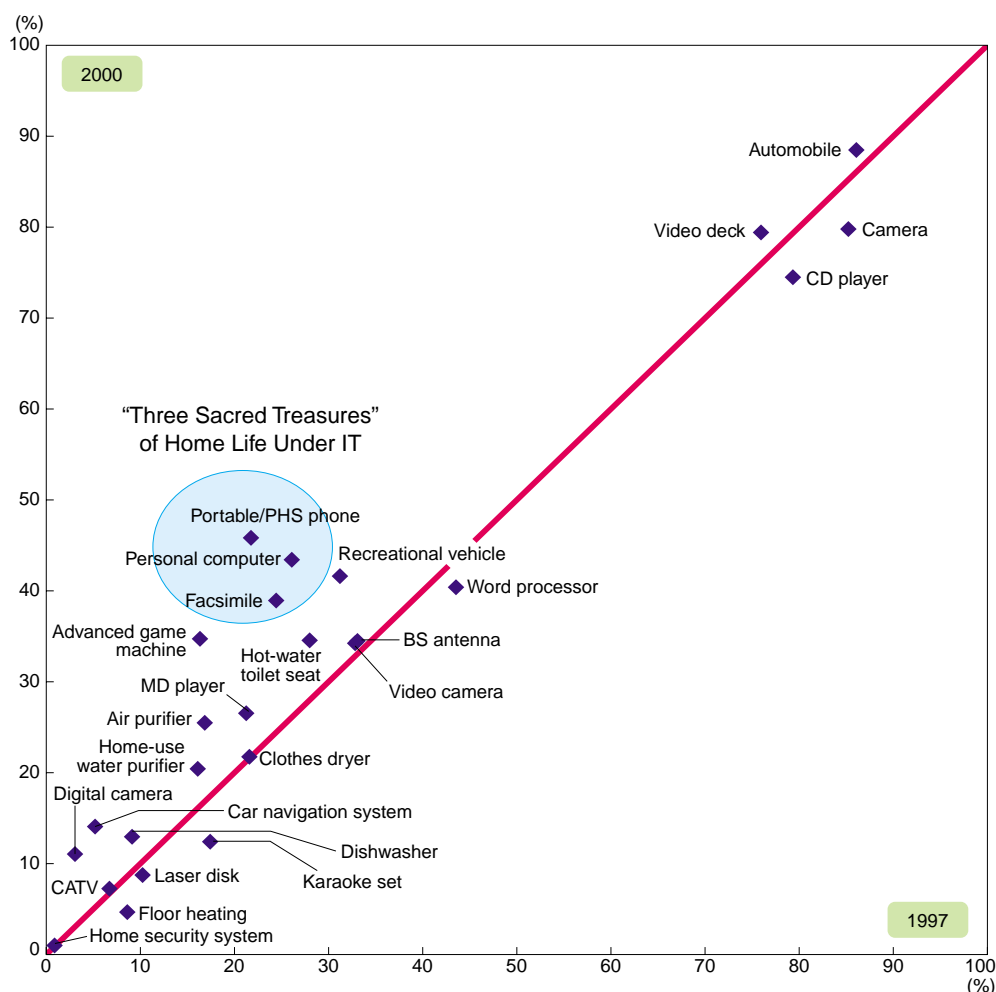
IV Japanese Consumption Patterns

1 Trend Towards Convenient and Comfortable Products

Now that we are living in an age characterized by consumption maturity, almost all households own the necessities of life. As early as in 1997, more than 80 percent of households had passenger cars, video decks, cameras and CD players, and the ratio of households owning such items in 2000 remains roughly the same as in 1997. This would suggest that commercial product ownership has also reached a matured stage.

As detailed below, the ownership ratios of commodities that make our lives more convenient or fit in with changing new lifestyles did rise during the three years between the first and second survey. Consumers are expected to continue to purchase products that meet such attributes. Figure 9 illustrates changes in the ownership ratios of major consumer products based on data generated from our surveys. The horizontal axis shows own-

Figure 9. Ownership Ratios of Major Households Goods



ership ratios in 1997, while the corresponding figures for 2000 are plotted on the vertical axis.

To borrow a term from Japanese mythology that has often been used by economists to label consumption benchmarks at various stages of Japan's economic growth, the "three sacred treasures" of today's IT-intensive family are the portable/PHS phone, the personal computer, and the facsimile, all of which have seen sharp increases in market penetration during this three-year period. As indicated in Figure 9, ownership ratios have jumped to 45.8 percent for portable and PHS phones, 43.3 percent for PCs and 38.9 percent for facsimiles (all three up from the 20%–25% range in 1997; figures cited cover individual ownership for portable and PHS phones and household ownership for PCs and facsimiles.)

These new consumer products have provided Japanese with the latest means of communication and information exchange that offer a new convenience never seen in the past. For example, we can talk to friends or family members by portable and PHS phones where no public payphones are available, collect the latest information by utilizing PCs and the Internet, and manage a variety of information including address books.

In addition to these three sacred treasures, products that people are using more frequently than ever before include advanced game machines, heated toilet seats combined with hot-water washing facilities, air cleaners, home-use water filters and purifiers, automobile navigation systems, and digital cameras. While we all can live without such products, they are still useful in enhancing our living standards and making our lives more convenient and comfortable.

At the same time, ownership ratios have declined for some products, such as cameras, CD players, and word processors. These items have been superseded by the appearance of a new generation of products: MD players in place of CD players, digital cameras for film-based cameras, and PCs in lieu of word processors.

2 Opening New Purchasing Channels

As the next step in our analysis, we have used our survey data to measure and describe the features and changes in the channels through which consumers purchase products. In order to better understand the transition in utilization frequencies for specific purchasing channels, we have compared the results obtained from our recent surveys with similar data available for 1987 as far as possible.

Convenience stores can be cited as one of the emerging channels that have seen the greatest increase in consumer usage during the recent three-year period. The average monthly utilization frequency for all respondents (including those who do not use them) increased to 6.5 times per month in 2000, up from 5.7 times in 1997 and 3.7 times in 1987.

While the incidence of using convenience stores has remained generally unchanged for female respondents during the recent three-year period, usage by males in their teens through 30s increased slightly, and rose by one or two times per month by males in their 40s to 60s. One conclusive fact is that the average utilization frequency of convenience stores in Japan from 1997 through 2000 increased because of the growth in the number of middle-age and older male customers. In other words, convenience stores have now become a matured commercial channel for female customers in general and for younger male customers.

Conversely, department stores represent a commercial channel with a declining utilization frequency. Although department stores enjoyed an average monthly utilization frequency of 1.5 times in 1987 and 1997, they suffered a sharp setback to 1.1 times in 2000. Even after the collapse of the so-called bubble economy, department stores were able to maintain steady utilization rates through the support of a large number of faithful customers. However, these customers now appear to have shifted to other channels during the three-year period under study.

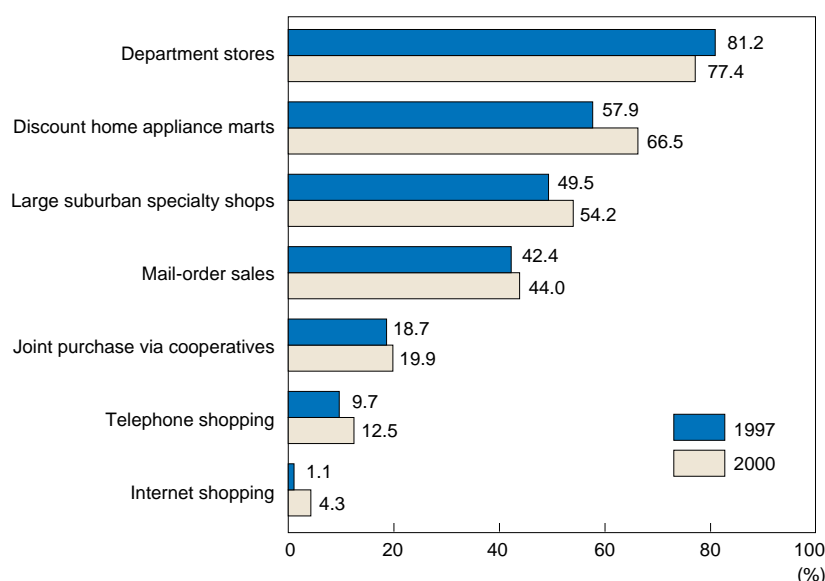
With regard to changes in utilization frequencies for other channels between 1997 and 2000, some expansion was observed for drugstores (1.4 times per month to 1.8 times) and supermarkets (9.1 to 10.3 times), but other shopping districts registered a decline (5.2 to 4.8 times).

The key background factors accounting for the rising utilization frequency with respect to convenience stores can be attributed to changes in Japanese consumption patterns (in particular the demand for more convenience in our daily lives), as well as a supply-side demand to expand store networks. What, then, are the major reasons for the decline in department store utilization rates?

Figure 10 shows the commercial channel utilization rates (the percentage among all respondents who use these channels once or more per year) for department stores and other competitive channels. In line with a general decline in utilization frequency, the utilization rate for department stores dropped to 77.4 percent in 2000 from 81.2 percent in 1997. On the other hand, discount home appliance marts saw an expansion from 57.9 percent to 66.5 percent, and large urban specialty shops (apparel, sporting goods and automotive supplies) also enjoyed a growing utilization rate—from 49.5 percent to 54.2 percent. The utilization rates for mail-order sales, telephone shopping outlets and Internet shopping sites show slight increases.

The three major causes for the shift in consumer preference from department stores to these new channels appear to be following.

First, people tend to prefer highly specialized shops and channels. Discount home appliance marts, large urban specialty shops and Internet shopping sites surpass department stores in providing consumers with a more diverse range of products in terms of casual clothing,

Figure 10. Changes in the Utilization Ratios of Channels Competing with Department Stores

Note: Utilization ratio means the percentage of those who used a channel at least once in the past year.

personal computers, automotive supplies, etc. And even though department stores offer what can be described as adequate product lines, specialty shops outperform department stores with a seemingly endless variety of products in their target specialties—and all at cheaper prices. Because of these advantages, consumers are gradually being attracted to such type of specialty retailers.

The second reason is the consumer preference for cheaper prices. New shops and channels provide very clear price advantages over traditional channels. This is especially true of discount appliance marts, large urban specialty shops like the UNIQLO apparel outlets, and Internet shopping sites that allow consumers to compare prices offered by various shops before making their purchases.

The third reason is the consumer tendency to demand high channel convenience. For example, mail orders, telephone purchases and Internet shopping all provide consumers with the opportunity to enjoy the shopping experience anytime they wish and while they are at home.

3 “Flocking” as a Means of Achieving Consumer Value

(1) Concern over the reaction of others

Figure 11 outlines the results of our surveys with respect to the Japanese mindset in terms of consumption behavior. These data indicate that consumers are highly conscious about the economic effect of their purchasing behavior and the quality of products purchased, as shown by high affirmative response rates to items such as “Purchase goods after confirming that quality meets price” or “Purchase inexpensive or sale goods regardless of other conditions.” Changes in consumer values during this three-year period are characterized by increases in consumer price-sensitivity and a compare-before-buying attitude.

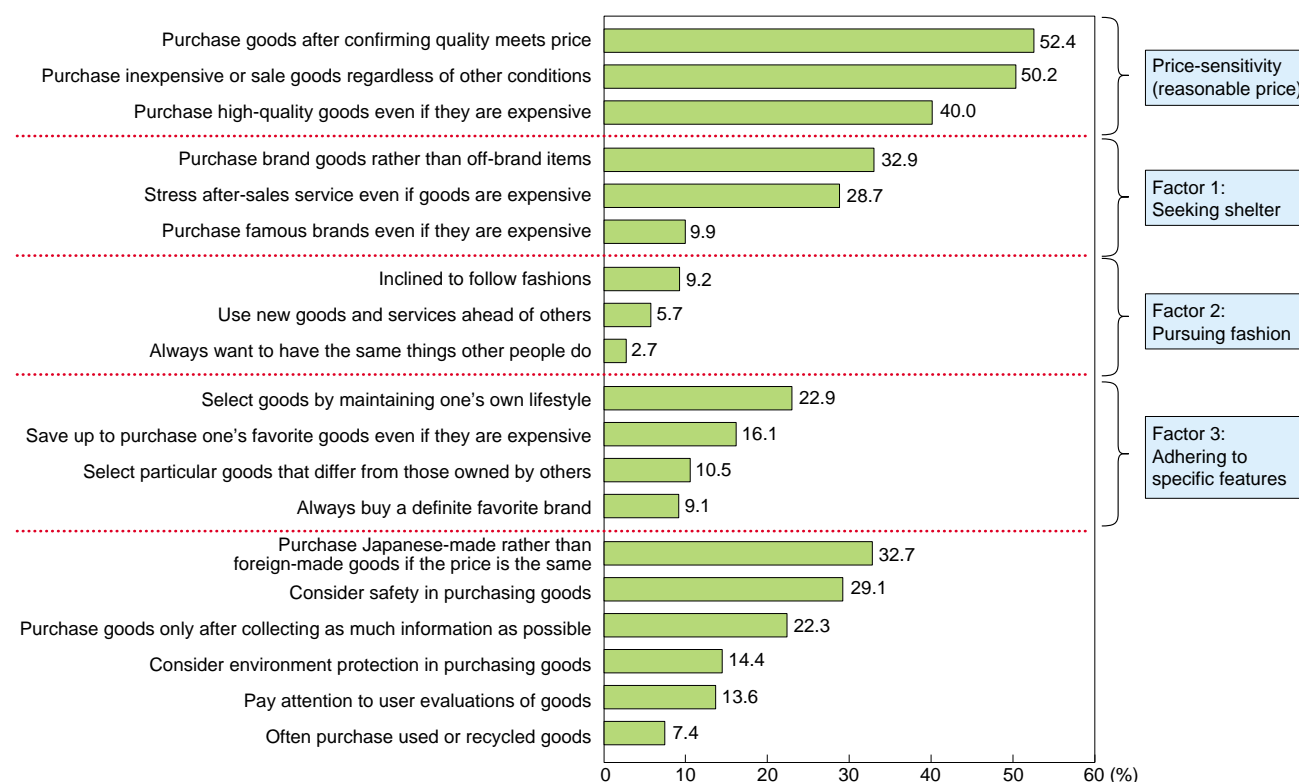
Our factor analysis on the basis of these responses revealed three fundamental concepts in Japanese consumption-related values, which we have labeled “seeking shelter,” “pursuing fashion” and “adhering to specific features.” Price-sensitivity (i.e., seeking reasonable prices for preferred products) is a basic consumption-related value that is embraced by such a large number of consumers that it cannot be isolated by factor analysis.

(Factor analysis is a method to identify the correlation between various concepts and isolate common factors underlying such correlations. However, values that are common to all survey subjects cannot be isolated as factors. For example, the desire to purchase a good product at the lowest possible price is so common to almost everybody that it cannot be isolated as a factor. Accordingly, the three factors that have been extracted in this analysis represent qualities that are not commonly shared, but which still represent characteristic factors in consumption-related values among Japanese consumers.)

To a large extent, consumption-related values for Japanese can be described by combining the expectation of reasonable prices as a basic condition and varying degrees of seeking shelter, pursuing fashion and adhering to specific features. These three factors can be defined as follows:

First, seeking shelter refers to the consumer preference to select products from famous manufacturers rather than unknown makers, or to select brand-name products more often than off-label items even if the former are more expensive. While consumers want to purchase products that meet their preferences, at the same time they tend to favor famous brands that are likely to satisfy consumer pride in terms of outward appearance.

Second, pursuing fashion represents the very same attitude as seeking consumption in line with voguish trends. More specifically, this is an attitude that says “I

Figure 11. Japanese Mindset Regarding Consumption (2000)

Note: Figures show the ratio of those who responded Yes to the relevant question.

am not satisfied with a product without certain specific features” or “I always use a new product or service before other people do.”

Third, adhering to specific features conveys an approach of selecting unique products that meet specific values and lifestyles, and is manifested in the desire to buy products that satisfy perceived lifestyle preferences even if such goods are more expensive. In short, it represents a consumption pattern that is designed to pursue a unique way of life and which differs from that of other people.

As these three consumption-related values emerge from current lifestyles, they are highly sensitive to the thinking, behavior and lifestyles of others. Seeking shelter, for example, essentially means the inclination to buy brand-name goods with the aim of seeking the approval and support of others. Similarly, pursuing fashion means the desire to stay abreast of what others are doing, while adhering to specific features caters to the pride of demonstrating one's uniqueness by purchasing goods that are slightly different from those owned by others.

(2) The “flocking” model and consumption-related values

This consumption-related inclination of Japanese people very much resembles the flight patterns of a flock of birds—an example that is often cited in examining the concept behind complex systems. When the movement of a flock of birds is replicated on computers (including

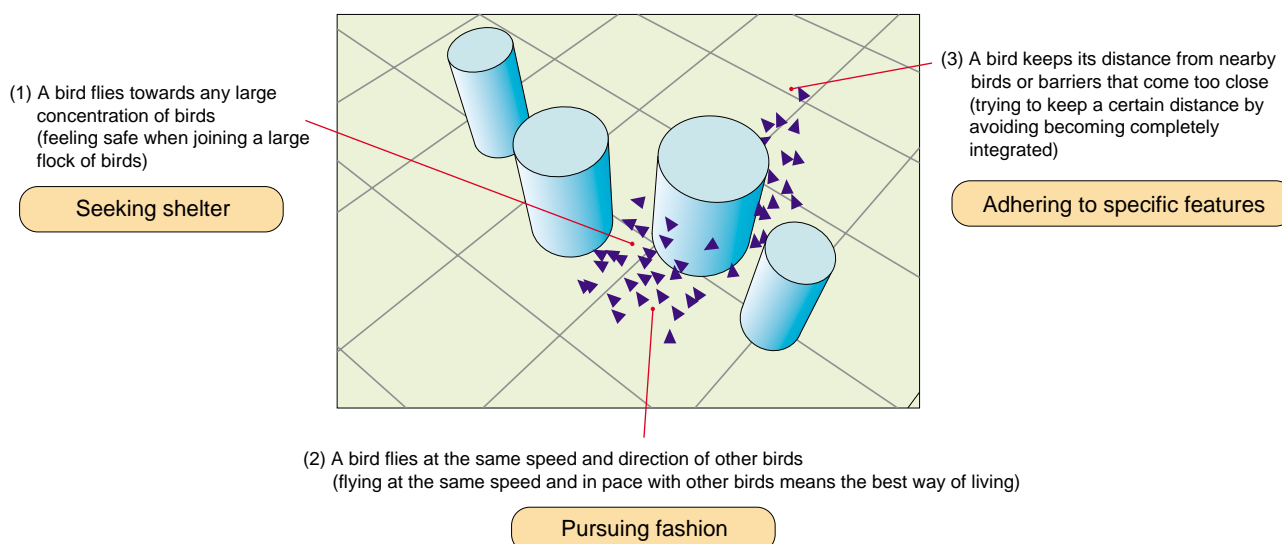
take-off patterns, forming a flight group, simultaneously making sudden turns, regrouping immediately after avoiding barriers, etc.), it is extremely difficult to model the movement of the entire flock. But this mass phenomenon can be approximated if the movement of each bird is programmed. (See Yoshimasa Yoshinaga, *The Nature of Complex Systems*, Kodansha, 1996).

Moreover, the movement of any single bird can be determined by three simple principles.

- (1) A bird flies towards any large concentration of birds.
- (2) A bird flies at the same speed and direction of other birds.
- (3) A bird keeps its distance from nearby birds or barriers that come too close.

The characteristic of this model is that the complex behavior of a flock of birds can easily be described by the simple principles that govern the actions of each bird, even though the movement of the flock appears to be centrally controlled.

If we consider Japanese consumers as analogous to a flock of birds, their behavior can also be described by individual consumption preferences. Just as a bird determines its actions on the basis of the three principles cited above by only watching the movements of other birds, Japanese consumers similarly keep an eye on what is happening around them and make decisions in accordance with the three basic values.

Figure 12. Three Principles of “Flocking” and Japanese Consumption Values

Source: Yoshimasa Yoshinaga, *The Nature of Complex Systems*, Kodansha, 1996.

Figure 12 indicates the correlation between the movements of a flight of birds and the consumption behavior of Japanese. Like the bird flying towards any large concentration of birds, consumers want to purchase brand-name goods that have the support of people around them. And just as birds instinctively fly in the same direction as other birds, consumers also find relief when their purchases mirror those of others.

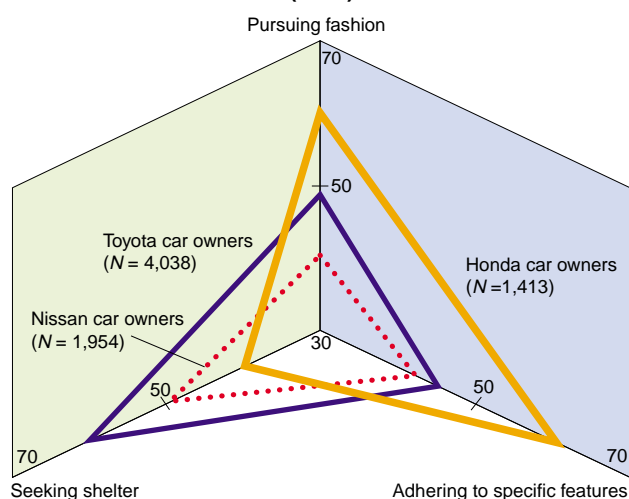
The action of a bird flying at the same speed and in the same direction as those around it is indicative of the consumer inclination to make consumption decisions that parallel the direction taken by the group (e.g., fashionable goods).

The third principle of keeping a distance from other birds or barriers corresponds to a consumer tendency to purchase goods that slightly differ from those of others.

Consumers are not taking any action under a unified concept or direction as a group, but rather are determining their behavior on the basis of a relatively simple concept: individuals select their own speed and direction by making reference to others. Accordingly, in considering marketing strategies aimed at consumer markets, it is important to appeal to individual consumers and to try to induce them as part of a group to pursue the direction desired by the seller, rather than working on the group as a whole.

(3) Relationship between consumption-related values and product purchases

As an example of the relationship between the three basic consumption-related values that are affected by the behavior of others and actual purchasing behavior, we have constructed an analysis of the relationship between the manufacturers of passenger cars owned by individuals and their consumption-related values. In Figure 13,

Figure 13. Japanese Consumption Values in Relation to Automakers (2000)

Note: Values in the chart show relative benchmarks for the three makers (differences from the average value (50) of three makers)

the owners of different car models are classified in terms of the three basic consumption-related values discussed above, i.e., the relative emphasis each of the owners gives to each of these values.

The figure suggests that owners of Toyota and Nissan models are inclined to seek shelter, i.e., rely on the brand names of major manufacturers. Moreover, Toyota car owners have a stronger interest in pursuing fashion than do Nissan car owners. On the other hand, the owners of Honda cars display a weaker tendency to seek shelter, but a strong emphasis on pursuing fashion and adhering to specific features. The characteristics of each car manufacturer are well reflected in the consumption-related values of those who favor their products.

V Prospects for Future Consumption

1 Greater Acceleration in Fashion Trends

In the previous section, we noted that Japanese consumption behavior is strongly influenced by the actions of others, as seen in the action-governing principles used to create models for a flight of birds. This phenomenon is well represented in the three major consumption-related values of seeking shelter, pursuing fashion and adhering to specific features.

As people can easily and frequently communicate with each other by portable phones and email (almost on a real-time basis), they tend to monitor the movements of others more closely than ever. Accordingly, the three consumption-related values we have noted above will inevitably be strengthened through IT usage by consumers.

We know that birds monitor the movements of other birds in the same flock by using innate sensors that tell them when they are drawing too close or straying too far. By utilizing a variety of IT tools, consumers are also equipped with highly precise sensors that warn them of any changes in their relationships with others and thereby enable them to become more responsive to those around them.

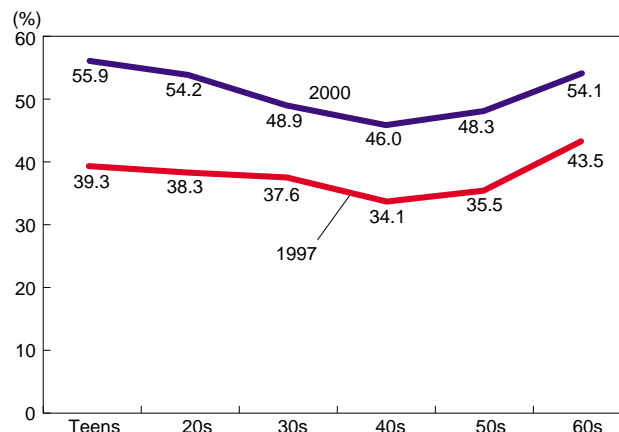
These trends are expected to accelerate the speed and strength of fashion phenomena. Even if a small number of people in the past purchased certain goods because of a preference for their specific properties, large numbers of people did not necessarily follow suit, as this knowledge could not easily be disseminated. In recent years, however, the powerful sensing and transmitting capabilities of IT-related equipment have made it possible to quickly emulate actions taken by others even in distant locations or in small numbers. As such, concerted actions taken by a number of people can have a major and far-reaching impact on others, thereby exerting a multiplier effect within the broader society.

In such a closely-knit society, novel fashion phenomena can be accelerated to ever-higher speeds. While new fads may emerge at the same pace as in the past, they gain currency and spread at a higher speed (hence a shorter time from appearance to fade out) than before, as people are more concerned with the taste and actions of others.

2 Markets Will Be Dominated by Steady Consumption

Self-protective consumers are now turning to steadier purchasing strategies. During the three-year period from 1997 through 2000, there has been a drastic increase in price sensitivity, coupled with a strong inclination to search for value and economy in buying all goods. Figure 14 indicates the results of these changes. The ratio

Figure 14. Inclination to Purchase Inexpensive Goods Regardless of Other Conditions



of respondents who stress economic aspects in terms of consumption increased by 10–15 percentage points in all age groups from 1997 to 2000. As other tendencies in consumer behavior have not shown such notable changes, this rising consumer sensitivity to prices should be seen as an important transition.

This heightened price sensitivity can be attributed to consumer uncertainty about their lives. As self-protective consumers are unwilling to pursue active consumption in the face of vague fears about the future, they tend to select products by attaching a clear importance to prices. Strategies taken by suppliers such as the UNIQLO apparel shops and McDonald's fast-food outlets to offer a range of low-priced goods have been effective in appealing to this new consumer attitude. In other words, the success of suppliers in responding to such self-protective tendencies has revealed the existence of steady purchasing behavior on the part of consumers.

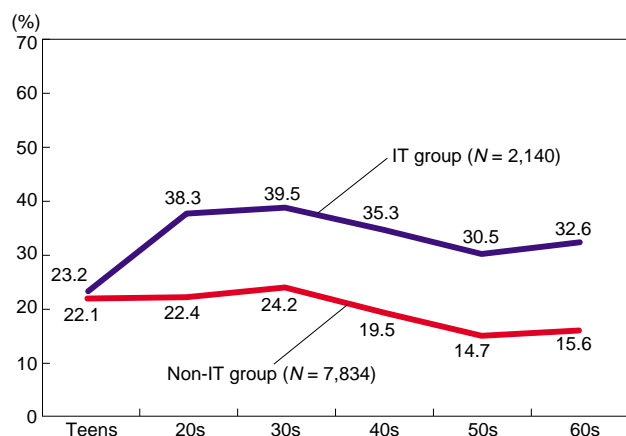
Consumer familiarity with IT has also supported the expansion of steady consumption, as IT channels (such as email) have enabled potential purchasers to obtain detailed price and product information from a far wider range of distributors and manufacturers than in the past. They can also access various information resources to directly compare prices at various sites. This phenomenon of steady consumption is clearly represented by consumers who are now able to actively seek out the best possible prices through the broader use of IT tools.

Comparisons between users and non-users of the Internet reveal that online shoppers tend to carefully examine prices in terms of quality before making any purchase. As the number of Internet users increases in the future, the number of wise consumers who are more price-conscious and steady is expected to expand further.

3 Consumers Collecting Information by Themselves

The future is also likely to see an increasing number of consumers who collect information by themselves. As a

Figure 15. Percentages of Those Who Purchase Goods Only After Collecting Information (2000)



Note: IT group means those consumers who use the Internet at least once per month.

means of arming themselves for self-protective consumption, consumers will collect a wide range of information directly from manufacturers and/or distributors in addition to their efforts to monitor the thoughts and behavior of others around them.

Up to now, the efforts of manufacturers to advertise their products and services has largely been confined to using TV and other mass media to provide only favorable information that works to the advantage of the suppliers. In essence, as provider companies controlled the information channels and revealed only the information they wanted publicized, it was very difficult for consumers to access the information they wanted to have. Now that the use of IT tools has enabled consumers to easily obtain information that companies are reluctant to disclose, the leadership in information provision has been shifting from manufacturers to consumers.

As shown in Figure 15, Internet users are cautious purchasers, as they tend to buy goods only after collecting as much information as possible. The ratio of those who have had some experience in collecting information relative to products and services via the Internet jumped from 1.2 percent in 1997 to 8.9 percent in 2000. This essentially means that roughly one of every ten persons in Japan has used a PC to obtain purchase-related information online.

As such, IT tools have provided new avenues of communication between companies and consumers, and have accelerated the process by which consumers can acquire the information they desire by themselves.

4 Growth in Consumption Under the Influence of Groups

Marketing strategies recognize that consumer decision-making is subject to three core factors: the aging effect, the generation effect and the time effect. The first is simply the matter of an individual's age in affecting pur-

chasing decisions. The second represents the impact exerted on members of the same generation who supposedly share common traits and beliefs that were shaped by the social environment in which they were raised. And the third relates to the given era (fashion) regardless of an individual's age.

As discussed in Section III, consumers now have less communication with their families than in the past, and alternatively have more frequent contact with friends and other acquaintances. In short, communication networks have become diversified as individuals have broadened their contacts with a wider range of groups. This diversification of networking groups constitutes a fourth effect in addition to the aging, generation and time effects.

In purchasing any goods, Japanese consumers are subject to the influence of not only people in the same age group, the same generation and the same era (fashion), but also the groups to which they belong. And as each individual's groups are diversified and intra-group communication becomes closer, the influence of such groups tends to become more effective than ever. Accordingly, we foresee a situation where belonging to groups can exert a greater impact on decision-making than that of age groups or generations.

VI What New Marketing Strategies Are Required?

1 "B2L2C" Marketing

In conclusion, we offer some suggestions with respect to the new marketing strategies that companies should examine in light of the changes in consumer attitudes discussed so far.

Consumers in the future are expected to have a wide range of communication with the diversified groups to which they belong. At the same time, consumers will be more concerned with the thinking and actions taken by other group members, and more subject to the influence exerted by such groups and networks in terms of consumption.

In recent years, marketing strategies have tended to focus on one-to-one marketing, i.e., information is provided to individual potential customers by utilizing customer databases and similar resources. As customers must be handled individually, this strategy is very costly; moreover, its overall performance may be losing its effectiveness. If equated to the flocking analogy we discussed earlier, this strategy can be likened to efforts to catch all the birds in a flock by focusing efforts on selected birds (consumers) within the flight group.

Segmentation marketing, which was adopted before one-to-one marketing, classifies a group into various segments on the basis of shared tastes or other attributes in common, and goes after each segment within a group by appealing to these attributes. In order to develop a

marketing strategy that meets consumer conditions in the future, however, it is necessary to properly deal with the diversified groups to which consumers belong. This means finding relatively small groups (such as alumni associations, hobby clubs, or in-company circles) and the leaders who influence group members, and actively working with them in going after members of the group. We call this strategic concept “B2L2C (Business to Leader to Consumer)” marketing.

Specific examples of B2L2C marketing could include the offer of corporate assistance in the development of consumer groups, or using the Internet to find leaders in small groups to whom a company might direct its marketing efforts.

In the US, for example, several product evaluation websites have emerged that invite the participation of a number of network communities in evaluating products or services via the Internet. One of these websites, *epinions.com*, features consumer evaluations of more than 200,000 products and services, in addition to a major attraction known as the Web of Trust, which is essentially a venue for members to review the evaluations made by other members.

The Web of Trust incorporates mechanisms to expand and select network communities by consumers themselves. This includes: (1) member rewards ranging from \$1 to \$3 for each 100 new hits to the product evaluation site; (2) member bonuses based on high evaluations by other members; (3) highly rated members are invited to participate as experts in the product evaluation site; and (4) 10 percent of the points earned by new members are awarded to those introducing such members.

As these sites can provide participants with a variety of incentives to increase the number of high-quality community sites, such mechanisms can be developed in the future to offer information to consumers and utilize their reactions in deploying new marketing strategies.

2 Click and Mortar

The phrase “click and mortar” has been coined to describe marketing strategies based on the convergence of Internet transactions (virtual) and traditional channel transactions (real) such as physical outlets. The phrase is a clever take-off on the well-established “brick and mortar” expression used in marketing to mean a physical store, but modified to include the “click” of a computer mouse.

Click-and-mortar companies that combine online and in-store sales account for more than half of all Internet sales in the United States. Prominent companies that have achieved success in pursuing a click-and-mortar strategy include REI (recreational equipment), Barnes and Noble (book sales), Lands’ End and GAP (apparel), and Wal-Mart (discount mart).

REI has been developing outdoor events and nature preservation activities through 57 stores nationwide and

its website provides information concerning products and stores. Customers can collect information online and complete such purchase procedures as authentication, settlement and delivery at the physical stores.

Charles Schwab is another example. Although 80 percent of the company’s securities transactions with customers are carried out electronically, 70 percent of new accounts are opened at branch offices where sales representatives handle customer requests. Many customers prefer to visit real outlets because sales representatives can explain the details of any complicated transactions. Moreover, talking with a live representative at a branch enables a new client to get a better feeling about the company’s attitude towards its customers.

Japanese are also expected to collect information and make comparison-based purchases via the Internet. Because they tend to favor greater transaction security, however, they are less willing to handle everything online. This means that developing strategies that combine real store or attended transactions with the Internet can be highly effective in Japan.

3 Collaborated Marketing

Collaborated marketing refers to a marketing method in which companies develop products in cooperation with consumers. This approach is effective in not only reflecting consumer views and improving the quality of products developed, but also enhancing the loyalty of consumers who participate in the development process.

Various companies are now trying to elicit product ideas or other comments via their websites. Examples include Let’s Note (a notebook PC from Matsushita Electric), STATES FORUM (a condominium development scheme by Nomura Real Estate Development) and Golfers’ Land (Mizuno Golf Club).

Askul, a rapidly growing DTC vendor of stationery and office supplies, submits the comments and requests it receives from customers to a group of about 30 suppliers (Matsushita Electric, King Jim, Coca-Cola, and Nestle Japan). This process has led to such new market successes as Matsushita’s small foot warmer and Nestle Japan’s refillable aluminum-foil coffee packets.

Another type of collaboration can be seen in websites where consumers publicize their ideas on new products, and companies participate in the hopes of finding product ideas that can be commercialized. Examples include *tanomi.com* and Elephant Design, which operates a website called Imaginative Life.

In the case of *tanomi.com*, consumers submit their product ideas to the site and companies show their prototype versions of such products for a certain period of time. If the demand for a new product exceeds a specified threshold number, the relevant company manufactures a limited number of the items. The number of orders received, commercialization status, and production status are available through the website on a real-time

basis. Thus the site can be especially appealing to consumers who are concerned with the behavior of those around them.

4 Towards Community Marketing Strategies

The three new marketing strategies discussed above are structured by focusing on changes in the communication formats among consumers, the relationship between companies and consumers, and the various ways to exchange information in general.

The world of the Internet in recent years has seen the development of new relationships or groups—often called communities—formed by the participants themselves. The new marketing strategies suggested in this paper are based on this concept of community-focused marketing, which is expected to play an increasingly important role in the future.

In structuring a community-marketing concept, the way such communities can be utilized in the real world

of traditional stores or in the virtual world of the Internet will be an important consideration. There are several approaches that can be adopted, such as using existing groups or human relationships or to promote the formation of new communities by using the Internet.

As we believe that consumers make their decisions on the basis of the views of those they can trust and the type of purchases such people will make, an approach to build a venue that offers such key information on the Internet—without necessarily being bound by any community format—will be effective in the future.

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