BUSINESS INSIGHT Winter2002

Top Interview: User-Oriented Marketing System

Interview insights of Top management

User-Oriented Marketing System

Mr. Kohei Nishiyama

CUUSOO SYSTEM co., Ltd
(In the time "Elephant Design Co., Ltd.)

Chairman / Founder

Kohei Nishiyama

1970: Born in Hyogo Prefecture

He spent his teens in Colombia, South America and came back to Japan due to his university entry.　He was a member of the "formative culture" seminar run by Shigehiko Hasumi at Tokyo University where he entered.　He researched a process from "consumption" to "abolishment".　On one hand he was learning industrial designs

at Kuwasawa Design School, on the other hand he established a custom-hand-made bag company.   From the customers' satisfaction with the products, he recognized a strong possibility in the custom-made business and its business limitation, so after his graduation from the university he joined a foreign-affiliated consulting company called McKinsey & Company.   After learning the basic business administration, he founded CUUSOO SYSTEM with his friend from Kuwasawa Design School.   In 1998, it was incorporated and started a digital mock-up business for other businesses based on the computer graphic 3-D lettering technology.   And he also started "Cuusoo Kaden" (currently "Cuusoo Seikatsu"), a product planning/sales system by the technology and Internet marketing and is commercializing the cuusoo system that has been developed from that.

This interview was conducted in 2002. So, what Mr. Nishiyama talked in this interview and his background are original.

We desire that you search their website for the latest information.

Click this URL: http://www.cuusoo.net/en/

Recently, some trials have been conducted on the Internet that let their consumers write what they want on a page of a website, and based on that, new products are developed and then sold.   The consumers add their own ideas on someone else's idea and conduct a popularity poll.   And the ideas that attracted popularity are actually commercialized and sold.

President Nishiyama, who we invited in this interview, actually practices such "user-oriented business model" through a website called "Cuusoo Seikatsu".   The name of the company that runs Cuusoo Seikatsu is "elephant design"(currently "CUUSOO SYSTEM").   The nose of an elephant is used to breathe, to drink the water and to bring food to its mouth.   The company wants to satisfy its customers in various ways just like the elephant's nose plays various roles.   He named the company elephant design to express such meanings.

Some consumers want a particular thing but they cannot buy it because no such thing exists in the world.   He wanted to create such a system that would solve the

consumers' satisfaction in terms of its design. Cuusoo Seikatsu has such intention of President Nishiyama.

It is not easy to make a business out of creating what the consumers want.   There are some big companies who are trying to do the same thing as Cuusoo Seikatsu but there are no companies with big success.   But he established such business model with high difficulty and is managing it.   We conducted this interview focusing why this young president started up this business and where he is going.

About CUUSOO SYSTEM

Editor: Recently, Marunouchi Building was opened, and your company was in the news, such as newspapers and so on, and drew a lot of attention. Can you please tell us what kind of company your company is and how the company has become the current company?

Nishiyama: My company develops and sells the support system called "cuusoo system" for other companies to take consumers' voices into consideration.   We originally started from a very little thing.   I was looking for a cell phone as a user, and I couldn't find what I wanted.   I was just about to give up but then thought there might be a way to order from the manufacturer directly and started to plan how.   That was how it started. At the beginning, I distributed fliers to my friends and received orders by phone.   And it gradually changed.   We used magazine articles and postcards/faxes, and Internet and e-mails, and magazine articles and Internet.   And now you can order at a store and you can even vote.

The newest test is being conducted on the first floor of Marunouchi Building. We show so called samples, model products, and let the customers judge if they want the products or not, and if they want to they can order.   That is how we conduct its demand prediction.   Also we can receive requests from the customers when they cannot find what they want at the store.   We are trying to spread out this kind of way of thinking. We cannot conduct this kind of a new test on our client's website so we are using our own website called "Cuusoo Seikatsu" (http://www.cuusoo.com).

Editor: So there wasn't a cell phone you wanted?

Nishiyama: No. And then I asked my co-founder who was good at creating CG, Yosuke Masumoto, to create a design that I wanted. Because I was studying industrial design, I knew the manufacturers have the profit lot that is the minimum lot must be sold to make a profit. So I knew it was necessary for me to show the demand for this design. So I came up with idea to persuade the manufacturers by creating a virtual product to prove that there were actually people who would buy the product even if they would have to pay a premium. So I could tell them that the product actually would make profit.

Editor: How old were you at that time?

Nishiyama: 27.

Editor: It sounds like a grass-roots activity by listening to your story. Usually people give up if there isn't what they want, or if they would think it would not be possible to produce what they want. So is the reason why you didn't think that way because you saw some kind of a possibility through your experiences or something?

The Background of the Foundation of "Cuusoo Seikatsu"

Nishiyama: I can think of three factors to assist the diffusion of "Cuusoo Seikatsu". It is cost reduction in communication with users by the widespread use of the Internet. I used to run a business of making and selling custom-made bags ten years ago. Since we made products after listening to users, we had to make sure what they wanted many times face-to-face like "is this okay?" or "why we applied this method". That process consisted of a lot of communication with the customers. On the other hand, we received money ahead of time and we didn't have to worry about that the stock. And we had many repeaters. Since it was made-to-order, it was very satisfying as a business. However, it took a lot of time and cost a lot too. However, by the appearance of Internet, we can communicate with the customers by e-mail, and we can give a suggestion to many people at the same time. So it started having a possibility to develop the business with the advantage of custom-made business. This is the first

4

factor.

The next is that a technology called CG that expresses things don't exist is getting cheaper, and media where we can place CG are getting cheaper too.   This is possible because a service that provides us a constant Internet access has started and also because of compression technology.   In Japan, the number of magazines increased for the last few years.   It has become easier to put information on paper media.

And the third factor is a change of consumption behavior by the maturation of the market.   In a growing market, the product value is determined by the price and basic functions of the product.   However, once the market has reached its maturity, the market is filled with the products that satisfied those basic functions. On top of it, the increase of the human population cannot be expected, so the frequency of the purchase decreases.   The demand of the products will be a shift from the product the consumers are using now to another product.   Therefore, the consumers only purchase the products when the already-used product is broken or they find a better product.   This means the market that couldn't supply to match the demand has come to be able to supply more than the demand.   In such a market, it is hard to protect future demand, so the manufacturers had to have an interest in what they should produce and how many they should produce, before they actually develop.

In other words a custom-made business is developed by the appearance of the Internet while keeping the other foundations of the custom-made business.   The business structure has been changed.   And the value created there can be diffused by the decrease of the price in CG and media.   And lastly, I think the consumers' purchase criteria have changed.   That is the foundation to develop "cuusoo system's" service and way of thinking.   And its start was the custom-made business of bags I did 10 years ago and also taking orders by distributing ads five years ago.

Business Called Custom-Made

Editor: Can you tell us more about the business you did 10 years ago?

Nishiyama: We asked our customers about what they wanted, with a sketchbook in one

hand and a pencil in the other.　And we drew a picture of what they wanted, asked for their budget, received some money in advance for leather, and got our customers to check the feel of the leather and the texture.　If they liked it, we started producing. If what we made was what they expected, we got a full payment.　It was a very orthodox custom-made business.

Editor: I read in magazines and so on that you thought that the business had a kind of limitation so that the business was not going to grow.　Can you please tell us more about it?

Nishiyama: The equation of sales in a custom-made business is a price x the number of products made per hour x work hours.　The cost rate is almost always the same, so we can define the profit by those three.　The price of a bag had already been set up as it was a little bit more expensive than ones in a department store but only really excellent brands could charge a few fold more expensive than ones in a department.　We didn't have that kind of brand value at the time.　Therefore, a price of a bag could not be too expensive.　I had already worked from the morning to the late night every day, so I couldn't extend my work hours.　Was it possible to increase the productivity per hour? Since a certain amount of communication with the customers and listening to them actually created our customers' satisfaction and also having no stock was our formula, we could, for example, decrease 10 or 20% of that part but it was hard to decrease the amount of work to 10%.　That was a situation I had.

We purchased materials individually and also the materials were remnants so they were already cheap.　We could not decrease the cost in the materials.　At that time, car manufacturers were emphasizing their leather seats, so the leather shops always had extra leather for the demand from the car manufacturers.　It didn't matter what they did, some leather was left over, so the leather shops sold the left over leather as remnants in a market.　It wasn't realistic to increase the number of staff who could design and sell.　For those reasons, I felt limitation in the size of business, and I decided not to continue.

Editor: So does it mean you already had a kind of a feeling that you wanted to do a big business back then?

Nishiyama: My business was a few tens of millions of yen business back then, but I

couldn't make it to 100 million.   My salary wouldn't go up if the business didn't reach 100 million.   I couldn't live off the same salary that I had at the age of 19 when I became 30 or 40.   Even if I had enough money then, I wasn't too sure if I had already reached the amount of money I wished.   When I calculated the size of business based on the amount of money I wanted to have, I needed to expand the business.

To a Consulting Company, McKinsey & Company

Editor: After that you quit the bag business, and what did you?

Nishiyama: First of all, I thought that different materials had more potential, more expensive unit price and similar demand.   However, as long as we got an order one by one, the equation of the business would not change.   After realizing that I could not increase sales by doing that, I joined a consultant company called McKinsey.

Editor: Do you mean you did a furniture business while you were still at university?

Nishiyama: Consequently, yes.   I wasn't going to University even though I registered.

Editor: So you had your name registered and did the business.   And you would decide to graduate afterward, wouldn't you ?

Nishiyama: Because I heard that I couldn't get the job if I didn't graduate so I tried to get all the credits necessary to graduate suddenly.

Editor: So basically after you decided to join the company, did you plan to graduate?

Nishiyama: No, I didn't really have enough credits even though I wanted to get the job. It took me two years to graduate since I found out that I had to graduate to get the job.

Editor: And then, you joined McKinsey.

Nishiyama: Yes. But I couldn't find good ideas there as soon as I joined.

Editor: Why did you choose McKinsey?

Nishiyama: I personally was thinking that a secret to breaking through the limitation of the custom-made business was not consumption but when the products become waste. If I knew when an individual throw away a product, I could approach the individual. In short, I thought I could have repeaters. In the business process of a product including users, firstly there is purchase of materials, production, consumption, use and throwing it away. By knowing the mechanism of throwing away the product, I could know when the consumers were turned on to product, and thus I could establish the continuous sales. So I intentionally paid attention to the waste.

I didn't want to know about so-called industrial waste, but I really wanted to know the mechanism of how the waste was created.   If you throw away waste that means you have some other products or services, right?   At the moment of throwing away or right before that there must have been a chance of business.

I was thinking that if I could know the mechanism I could do the business.   And once, I started studying waste, but I was not a good student so the study itself was called a waste. I wasn't thinking to be a researcher, so I thought it would be a good idea to join a company that dealt with waste.   I was thinking to join the Tokyo cleaning department once.   But I happened to know that a partner of McKinsey was the minister of the Ministry of Environmental in Holland, and I heard the company was good.   So I decided to join the company.

Editor: What did you think of the McKinsey after you joined?

Encountering the Idea of Community of Interest

Nishiyama: After joining the company, I took part in starting up a recycling business for a chemical manufacturer as a client, but it wasn't what I wanted.   It involves too many policy theories, so I thought this business was not what I should do right now.   That was the second year.   After I joined, I was always a part of cost reduction projects, but I started being a part of starting up businesses.   One day, I had to start up a radio transmission business. So I became a member of a team that was going to establish data

transmission replacing the voice market of the cell phones. That was a mission from the top of the company back then.

We were the first team of the mission, and in order to start up a business from scratch, we decently needed some leading index.   It doesn't matter what such as technologies, market trend or anything, we need some leading index.   We had many technologies at our research institute, but we didn't know which one was good. People said they weren't going to do it if the market size was less than a million people.   Of course, we could measure the market of the business that didn't even exist. We needed something that could be a leading index.   And then, if there was a market overseas, we should go and check it.   Some of the team went to North Europe and the other went to West Coast of America and asked around.   We went to universities, research institutes, and asked user groups and start-up companies.   We asked around and found some markets.   We repeated this process over and over.

I happened to know a concept, community of interest. For the work it was a byproduct, but for me it was a great gain. For those who could not communicate with each other or could not exchange values face-to-face, it was very useful for them to have a virtual interactive network. I found a principle that the virtual network was useful when people with the same hobbies or favorites lived in communities geographically far away from each other and were a minority in the community they lived in.

For example, there was a mother who went to Paris to study and thought that the French style matched her style. But if she lived in one of the feudal Islamic areas, she wouldn't be able to enjoy her French style.   And also let's say there were people who went to France to study before and couldn't get whatever they wanted after returning to Venezuela.   For them, those magazines such as "Vogue" and "Elle" would be the only information they could get.

However, with the magazines they couldn't exchange information and get feedback. But, in the virtual network, if they could speak English as a common language and liked the same things, they could exchange information interactively.   The more of a minority they were where they actually lived, the more they could get along in the virtual community. Such people tend to get other people who want the same thing.

I thought that was great. It would be possible to break through the limitation of the

custom-made business.　They were already people with the same hobbies and favorites out there.　The unit didn't consist of a few people, but a few hundred people.　If one person wanted something, that would influence others.　If the timing was right and they had money, they would be our customers. This is not the marketing where we produce products first and then promote the products.　It is a market we go to a place where people are already gathering and ask them what they want and produce whatever they want.　So it is a business with high reliability, less risk, and the possibility to develop.　So I found it very interesting.

Editor: Do you remember the moment you found it out?

Nishiyama: Not at all.

Editor: Oh, I see.

Nishiyama: I didn't know what it was back then.　I just thought it was great, but I didn't know why it was great until much later.　I can talk about it now, but back then I just wrote a short note about it when I thought that was great. I couldn't explain what it was with words.

Editor: During that time, you didn't have a cell phone you wanted back then.　Did you have anything else before that?

Meeting Mr. Masumoto

Nishiyama: Yes.　I met Masumoto.

Editor: How did you meet Mr. Masumoto?

Nishiyama: He was my classmate in a night school, Kuwasawa Design School, when I was doing the bag business.

Editor: Did you have something in common? Good friends?

Nishiyama: Yes, he was a good friend of mine.   He was the most excellent person among my friends and he had an ability to describe things by drawings.   He bought a computer before anyone else did, and he was planning using CG how he was going to paint a used model cycle that he bought.   He was only one who did such thing.

Editor: I see.   But, it took a while to found a business with him after you met him for the first time.

Nishiyama: He joined a manufacturer and I joined McKinsey and lived in Korea, so we didn't communicate each other much.   But before I was sent to Korea I had some opportunities to meet with him.   Every Saturday 10 of us had a gathering with other friends, an engineer used to work for Sony, an advanced technology called IML research assistant at Tokyo University, a president of a software company, a craftsman of furniture, a lawyer in the making who worked with intellectual property, Masumoto and me, talking about making a Doraemon, a future robot of a Japanese animation. It sounds like a comedy.   But we knew the demand for computers even though the computers were still very expensive back then.   It was a bit before the computer was diffused.   We all thought it was so difficult to use computers so we were thinking to make the computers much easier to use.   That's why we got together.   We all agreed that the ultimate computer was Doraemon.   So we all said to each other to make Doraemon.   We couldn't make a humanoid robot from the beginning so we decided to make a chair formed computer.   We planned to use a projector as its monitor, an armrest as a keyboard and to put a CPU in the sitting part.

Editor: Was it completely a hobby?

Nishiyama: It was not a hobby but more like I really wanted to have that computer. We went to America and purchased a test chair that was close to the image we had, and we cut a keyboard in half and put them with others.   There was a time that we tried to make prototypes.   But we didn't have money to continue, and some were transferred to other places, and we all got busy.   After all, we all went to different places.

Editor: And you went to Korea and returned to Japan.

Foundation of CUUSOO SYSTEM

Nishiyama: Yes. I went to Korea and returned to Japan. I contacted Masumoto to ask him to give back my book that he borrowed from me, and we got together at a cafeteria in Harajuku. We asked each other how we were doing and he told me, "I am planning to quit work". Then I thought I would quit McKinsey and co-founded a company called elephant design (currently "CUUSOO SYSTEM"). It was fall in 1997.

Editor: Did you have money then?

Nishiyama: No, we didn't.

Editor: How brave.

Nishiyama: No, I wasn't brave, so it took me a while to found the company.

Editor: When you quit the job, did you know what you were going to do? Did you have a plan to do what you are currently doing?

Nishiyama: I was thinking to do close to what I am doing now. When I went to town and didn't find what I wanted, I thought I would want to produce what I wanted. But I did not really see how it could be our income that we could live off.

Editor: Did you think that you were going to make bags again if you failed?

Nishiyama: I wasn't thinking that. There was always a connection with the bag making business. But I didn't even think about the bag making business I had to do all day long when I decided to leave the company with the ambiguous business ideas in my head.

Now we can display mock-ups, and like what we did at Marunouchi, we can tell people how much demand we need to create this product or we can tell demand such as how many people will buy if the product is this cheap and will not buy if the product is this expensive by analyzing a price sensitivity for each price. What we could do back then was more primitive. For example, in the second lot of bags we are working on now, we can tell its demand very precisely that if the price is 35,000 yen we have two people who

would buy, and if 25,000 yen we have 15 people who would buy. And there will be 45 people who will buy if the price is 18,000 yen. We can calculate the rate of the number of people increased who would want to buy a product if the price went down. This value is a value curve of this product. If we have a supply curve that is made from an estimate from a manufacturer, we can even know where the next market will be.

Editor: You did not imagine such things back then.

Nishiyama: It was not organized like that. I could organize it when I applied for a patent of this business model. It can be done for the first time when people who can logically verify things such as a chartered patent agent. The people who helped me out with it were Mr. Mine, a chartered patent agent, Mr. Kuroda, a senior student at my university and current lawyer of our company, Mr. Matsukura, the "top" of the business model patent and so on. Because I had these people helped me out, what I am doing now was made clear and the meaning as business was defined. Of course, we did not have the vocabulary to express it.

The First Product Produced

Editor: What was the first step of CUUSOO SYSTEM as a business? I think you did not make any cell phones, or did you?

Nishiyama: Yes, we made an orange case for a cell phone.

Editor: You had an image of a cell phone that you wanted because there wasn't a cell phone that you could be satisfied with. Am I right?

Nishiyama: First, we distributed ads with CG that Masumoto designed, and some were in magazines that Recruit Co., Ltd. published. But since it was hard to make a cell phone I suggested the readers or the users producing a case for a cell phone. We reached the minimum lot we needed to create the product so we went ahead and produced them. And the same kind of a process was repeated and we started selling the products. I was telling people that there were no cell phones that I wanted, with an illustration and comment, but we could not make the cell phones. So I suggested making a cell phone

case.

Editor: Didn't you want a cell phone at the first place?

Nishiyama: So I think we can more precisely define what is really necessary by dissolving what we want from a cell phone and what we want to change. The cell phones already had functions as a cell phone with the affordable price. But designs that we wanted were not provided, so we wanted something to cover the design. We filtered the idea out to that point.

Editor: I see. You can see what is necessary in the process. Isn't it right?

Nishiyama: Yes.   Moreover, I was aware of the reason, "That is why even a cell phone case is good".   This is the factor I mentioned at the beginning for this business to be successful and to develop, or the third factor I mentioned at the beginning about the market and the technologies.

Editor: Normal people didn't even interact with a company like Recruit.   But you were a normal person so how did you get to interact with magazines like Recruit?

Nishiyama: At that time, Recruit received investment from Daiei and an idea called convenience concept came out.   The convenience stores must have what consumers want.   In addition, if they don't have what the consumers want they have to make sure that the consumer can get what they want if they really want. So it is a so-called Loppi, a multimedia kiosk that was developed with IBM.   If the consumers requested tickets, concerts, insurances, financing and so on, the convenience stores would have to provide them.   They could deal with the demand as a retailer until then.

The third condition was that even if there were no such products in the world, we had to sell them if they were wanted.   Recruit just started developing content, so it was focusing on the Pokémon goods and products related to musicians.   So the top of Recruit gave an order to Media Factory to develop products for Lawson.

Editor: Media Factory is a subsidiary of Recruit, isn't it?

Nishiyama: Yes. Product design division for Lawson was created in Media Factory.

14

The division was a team to find out products needed.   But the team was created because we went to talk to them, "There are this many people who wanted a product like this CG, but there are no stores selling such a product".

Editor: How did you get to know about the situation of Media Factory?

Nishiyama: Just by accident.

Editor: An Accident. Did you go around every publisher or media ?

Nishiyama: But it was the first one.

Editor: The first one.

Nishiyama: Yes. That is why it was an accident.

Editor: Did you think that it could be the one so you went in?

Nishiyama: No. I did not even think that much. It was just accidental.

Editor: Then, they also wanted to do what you suggested, so you got together and started the project?

Nishiyama: They also had needs.

Editor: Special needs.

Nishiyama: We also were doing something special so we did not know what to do. That is why it was an accident.

Editor: So you went along with the project.

Nishiyama: Yes. So basically a series in a magazine started.   We started a series in a magazine called "Loppi". We asked what users wanted and created a CG, and if it was produced, the users could order it and be charged at a multimedia kiosk, Loppi, and the product will be delivered to the users at the convenience store.

15

Editor: Were you about 27 years old?

Nishiyama: I might have been 28. It was around 27 or 28.

Development as Business

Editor: How is your company going to develop from now?

Nishiyama: We have a business, or we can get royalties, from but the sales from that business alone wasn't sufficient.   We commercialized cases for cell phones, but it didn't make a profit.

In order to sell 200 cell phone cases that cost 3800 yen per case, two people created CG, analyzed post cards, put a double postcard in each envelope, and sent away the envelopes.   This process cost us 600 yen per envelope.   Since a lot is small, the ratio of selling, general and administrative expenses to net sales became high.   As long as people handled the process, it didn't make profit.   But it had needs so it was commercialized.   We had repeaters too.   We created what the consumers wanted, and if there were different versions of the same things we sold.   We were in such cycle so we repeated that cycle 12-13 times.

However, cost was bigger than profit, so of course cash decreased.   We strongly wanted to do something about it but our will to make what we wanted happen first was stronger. We rented a space called AXIS and held an exhibition of "Cuusoo Kaden". What we could do back then was only to display the first commercialized products and printed product images.   The process of our business flow was being established around that time; we drew pictures, got consumers to vote the pictures, created CGs of the pictures, took orders and found a manufacturer.   We reorganized the process to be done on the Internet, and we came up with how to display and came up with some calculating formulas, and then we applied for a patent.

We created the first homepage.   The number of people who ordered by e-mail and inquired increased.   So it was very meaningful for us to use the Internet, which has potential in expanding business while keeping communication cost low.

This was also accidental, but a movie made by Masumoto's CGs caught the eye of a person working at a home electronic appliances manufacturer.   So it grew into a business of digital mock-up.   This became a cash cow that creates cash flow and made us able to continue the business.

Editor: So you mean, someone working for a manufacturer happened to see a digital movie that you made and he offered you a job.

Nishiyama: Yes.   Back then, CGs that were used for arcade games were not used for presentation.   So there were no such people who understood industrial designs and also could make movies.   There were only designers of CAD or game creators who dealt with movies.   They were never combined together before.   Since we were able to provide those two different technologies combined together, Matsushita and Sony offered us jobs.   There weren't such businesses back then, and the profit ratio was good and was instant cash.   So it became a very important pillar of our business.   And this technology is the core factor of the competitiveness of "Cuusoo Seikatsu".   The technology that expresses things that don't exist as if they exist has been used until now.

Income from royalties by product development is gradually increasing now.   We only commercialized three products at "Cuusoo Seikatsu".   Despite such a slow pace, money keeps coming in from repeaters as royalties.   We will have income from the sales of products that our clients commercialized.   Even though the proportion of that income from the clients is small, it has a big meaning to us.

Editor: So you have businesses for corporations and those businesses have grown as pillars of cash flow. Additionally, you have this business that creates what the consumers want, but it's not in any market.

Nishiyama: And we have improved the system based on the case examples of product development proved in "Cuusoo Seikatsu".   Every time we created a product, we increased the speed too.   By proving and showing the effectiveness and the efficiency such as making a list, we started getting corporations as our clients.

Cuusoo System

Editor: How long ago did the situation become like it is now?

Nishiyama: One year ago. "Cuusoo System", a package of service, turned a profit. Now it is our main income.

Editor: A package called "cuusoo system"

Nishiyama: Yes.　It is so that the customers can do what "Cuusoo Seikatsu" does. That is a support service, as I said at the beginning, to ask what users want and use the users' opinions for production development.　To develop and sell this service is the answer to the question at the beginning, "what does CUUSOO SYSTEM do?"

Editor: Do you basically sell the same package to your customers?

Nishiyama: We have components and it will be a combination of the components. Our assumption is the customers will not need all the components. It is because our client companies have their own demand.

Editor: Is the current "cuusoo system" of CUUSOO SYSTEM already a completed version?

Nishiyama: No, it's not completed.　It depends on the definition of our completed version, but I don't think it is a universal package. Those first-year freshmen with a company wouldn't be able to visit a company that they don't know and sell the package after three months of manual training.　It needs a significant amount of explanation by those who know how to use it and also have experiences of failing and success in the process of its commercialization; otherwise, we cannot sell it.

Potential of "cuusoo system"

Editor: I used to study in America about business models that users innovate, such as creating what the consumers want.　There are two ways of thinking.　One is, actually

I was also told about it by Professor Eric von Hippel (MIT), that the product could be very niche or what a small minority wants. Another is that a great hit product or large-lot product such as "Tare-Panda" could be created among these many products. Which one do you think this "cuusoo system" is aiming at?

Nishiyama: I don't really know which one it will be, but at least the direction I'm aiming at is that I want to make products as close as what the consumers want. It is simply the same story as the story of how our success equation is created, but this is how it goes. We want to create products with small lots, and the product should sell stably for a long time, and the product should have high royalties. Additionally, only we or our clients can make those products, and we should create such a situation that we can get royalties from as many products as possible for a long period of time. I think that increases our corporate value for the future, considering the going concern. Thus, I am not aiming to create products for temporal popularity. On the other hand, I'm not against mass-production. I will like to mass-produce products that can sell for a long time.

In those countries where manufacturing has a long history and the industrial structure consists of small and medium corporations, such as Japan, Italy and Denmark, the system we prepared should be well-received, I think. In other words, our system is suitable to those factories that have such a situation as that the capacity has limitation because the lines are small so the amount of supply is always the same, but the products can be made at only these factories.

There is only occasional demand for what they can make. In such a case, they can keep communicating with their clients cheaply, and when they take orders they can produce products stably. This style is suitable for medium and small companies. There is such a way of thinking too. In many cases, each market is too small to be attractive for big companies. Hence, less competition. If additional value is high and satisfaction is high and since a decision maker is an owner, once negotiation is done there is high possibility that the business keeps going, I think.

Editor: My understanding from what you told me just now is that it is easy for this kind of business to grow under the circumstance that Japanese industrial foundation has sufficient medium and small manufacturers and the market is matured with consumption. And one more thing is, according to my understanding, is that aiming at

19

essential goods means that you think there is a possibility that products that make a certain amount of lots will appear. Am I right?

Nishiyama: I think I have to add notes two points.　One is how we define essential goods.　I think it is whether or not design is going to be a definite demand.　If the design is necessary because without the design people will have difficulty in their life, and then we can define the design is essential, I think.　It is not whether or not the design influences people's lives.　It is more important for us as businessmen whether or not the customers keep buying a product by paying a lot of money. I think it is important to know if there is such demand.

Another is a definition of lot.　I am thinking that it makes a big difference depending on the definition because we can call the total number of products during the total life expectancy of a market as a lot and we can also call the number of products produced during certain period as a lot.

Editor: For example, it looks to me that a product called "A light You can Carry" developed by Ryohin Keikaku Co., Ltd. using your system, "cuusoo system", is well matched to the way of thinking. Is it right?

Nishiyama: Yes. I think so.

Editor: In terms of another point you mentioned, my understanding is that you think there will be a product that makes money based on the total number of production of the total number of hours. Is that right?

Nishiyama: I don't know if I can answer you well or not... The life expectancy of many industrial products is made short, and by spreading them out at once in a market it creates economic potential, and based on that depreciation of a mold is decided such as two years in accounting.　What I have come to think recently is that I must think how much demand on the products there is in the market.

For example, in a case of a Japanese hot chili spice or shichimi manufacturer in Kyoto that has kept providing particular restaurants with their shichimi for 100 years, the return against the development cost of shichimi is high. I am sure that during their 100 years of history they additionally invest in its package and so on, but if we see ROI in

20

the entire period of time of the demand, it is very high. Why did one choose 2 years and not 100 years? Of course, it may be necessary to analyze it through the size of the business. But when we think about whether or not we are using our equipment efficiently, I think it is okay to think that it is better to use one mold or design for a long time. I think it is okay to have an argument about which one is more optimum in the viewpoint of the entire society.

The market evaluates what a company summarizes from the sales of its products, and the evaluation is a stock value of the company. So companies intentionally make the life expectancy of their products shorter in order to create figures at each settlement. But I think the harm caused by this has already reached the level that cannot be neglected anymore. Users will not be able to get the product in two years, and manufacturers throw away the product that might improve ROI little by little if the product was created a long time ago.

I would like stop the definition of the short life market. In the distribution system that has a short life expectancy, if we calculate its cost, make the time span longer, make the depreciation rule not two yeas but the appropriate amount of the time and reevaluate it, we may get a different result. I think there are actually many products that cannot create big cash but have high value, so I don't think we can say that the number of such products is small.

Reaction from Media

Editor: I would like to ask some more things. You have already told me about the users and companies that use the package now so I would like to know a reaction from media. That is one thing. Have you had reactions from media as you expected? In short, what I want to ask is how you think about the reactions from media. The press has given some kind of evaluation of your company, right? I want to know what you think of it. You started up a business that can provide what the consumers want, and media talked and wrote about your business. What do you think about that?

Nishiyama: This is my personal opinion. I think those articles included evaluation about what has not been formed yet. I mean there are many articles that say if this kind

of thing is created the world will be like this. The reason the articles are like that, I think, is that when they look at our products and services they think that the current business that sells products already in stock may be changed or may be getting changed. It is not what we are trying to tell them. Through their various interviews, what we are doing was a good case for what they are thinking in the times of the change of the consuming and retailing.

So, I think we should pay more attention to how these journalists who know about many cases treat us in their articles, rather than to what we say or what we think. They write what they feel when they see a thing from a big perspective and with backing them up by various data. So I think they write about us as one of their cases.

What CUUSOO SYSTEM Aims at

Editor: I have this impression that there were relatively many articles about production development after asking what the consumers wanted, by accident or not, around the time of your company's emergence. Do you see what these companies do and what you do are basically the same? Or do you see your company's uniqueness in certain areas?

Nishiyama: I think this is going to be about the three conditions I mentioned at the beginning. Definitely the market will be mature and the money of the consumers will be invested in exchanging the products. The cost of Internet will be cheaper and it will be easier to do custom-made and to take orders. DTO business potential is becoming stronger, so the mentality of suppliers will change. If I say more, media and communication costs are becoming cheaper and the technology of CG is easier to get now so the suppliers are becoming interested. To back up this theory, the number of the players who supply user-oriented manufacturing is increasing, I think. This is not accidental, and I think it is because the environment necessary for this is getting organized now.

What it means for us is, one thing, they create a market. Simply they play a role to lead the market to expand at the beginning of the market and at the same time they are competitors. Or there are some cases that in the market we should have opened up to seek clients they have already started developing on their own. There are some cases

that clients have already begun to be our competitors. We don't produce or sell, but we do design management, but in a way we don't do design either. Our strength is to listen to our users, organize and conceptualize it. So there probably will be some cases that some companies see a value in what we do but they cannot do it, so they come and ask us.

Editor: You mean that that is your competitive superiority?

Nishiyama: I would like it to be. Such companies are our target. This is how it goes. They couldn't sell their products even when they produced them. They could do the user-oriented manufacturing, the business had the potential, they wanted to do it and the company decided to invest. Then they tried but they couldn't do it well. "What shall we do? We've got to do something". Then, we went to them and told them, "This is how you do this". They would tell us, "You are right. It works well. At this moment, we had already satisfied their needs, so we would become necessary partner for them. Our sales assignment to get companies as our clients is how we can catch them in such situation and get into the very beginning of the process of the clients' product development.

Editor: In short, is it a service package provider?

Nishiyama: Yes.

Editor: This is the last question. What are the assignments of your company, CUUSOO SYSTEM, for the future and the assignments you are facing right now? How do you see the future of CUUSOO SYSTEM now?

Nishiyama: The times definitely push our business forward, and the fact that many people who collect data admit our system is a big push for us. On the other hand, I don't think that the time when our business grows big will come soon. There is a process that people understand what we are doing when they are explained, so it will take some time to become established, I think. Until we get there, we have to start up businesses to make cash and have to modify our service package to carry usability for our clients to use. Our big theme is to create a success in those client candidates who want to do user-oriented manufacturing, have money and budget but are not being successful. That is because the service we provide originally can provide profit to medium and small businesses, but it is too expensive for them to introduce in their companies. We don't

have technology to make the service cheaper. That is why only clients who don't mind the pricing can have the service. Our short-term strategy is to increase a market share greatly with the price zone.

But our real mission and potential in the industry are not only in there. I think we can influence surroundings too. So whether or not we can get there is our big assignment in long term.

Editor: One of our adult MBA students quoted what you said before at the end of his thesis. The world you want to make is the world in which if a girl said she wanted a pair of red shoes the information would go around the world and a few weeks or a few days later a pair of red shoes would be handed to the girl. I would appreciate if you could lastly express the benefits of "cuusoo system" for the consumers that you are picturing now or the world it will make or explain them along with episodes.

Nishiyama: I was raised overseas until 19. I was in this country that restricts imports in order to acquire foreign currency because of a lack of foreign currency. In South America, some American broadcasts were through satellite. So even though people know what kinds of products were out there in the world, they cannot get them where they live. In Japan, if we want something, we can parallel import them or order on the Internet, but most people in the world are not as lucky as we are. They have people who have to live on only a few hundred yen per day. It is not that they don't want the products. They want them but they cannot get them.

The more problematic thing is that they have come to the place where they can get them if they try hard. For example, they are industrious and have reached the level that if they save money they can buy, and they know the products are out there and know what they want. But they cannot get them. Those who moan that they cannot get what they want without working hard maybe don't deserve the products. But they have been striving to make their life better, and they want to live in a way they saw in a magazine or something. They are almost there but they cannot reach it. I think this can be solved by simple technology, printed paper and phone.

The good thing about this earth is that we have the time difference. Because I lived in the other side of Japan, I know that morning and night are reversed. Well, it is common sense. We only have one sun so when Japan is daytime, the other side of the world is

night. There is 13 hour difference. We cannot work 24 hours ourselves, can we? And also not everyone is awake. This is based on my memories when I was doing the custom-made business that we had limited time to work and to get customers. Except those special customers who go to convenience stores, we cannot get customers for 24 hours. However, if we have business on the other side of the world, we can do that. I think it is actually a good point. But if someone in India said, "I want red shoes. I can only pay this much. But I want this and this. My size is this". Specification is very clear but such market would be really limited. But if we reached out to the world, we could have sufficient demand. What we should do when it happened is we would talk to the person on the phone, put the specification on media and get feedback immediately. Because we are human, while we are awake, if we could increase demand most effectively, probably someone's imagination could be commercialized.

So we kept getting demand while the sun shines from the moment everyone wakes up and to the moment everyone goes to bed. By the time the person got up, we could have gone through the entire population of the world, and demand would be only 10 people out of six billion.   But if it reached the minimum lot, it wouldn't be strange to supply there because there was a market. I could make a profit. It wouldn't matter in what county the shoe manufacturer was located. As long as it had profitability after including the logistics cost, it could be a business because the product had its market, suppliers, and could make a profit. This is the story. I think it would be even more wonderful if we could share product information with designs and numbers.

Editor: It is a system that we could get what we wanted after sleeping a night.

Nishiyama: I wish it would be like that in the future. And probably it will happen. It is because I think it makes sense. There is an advantage to keep working while sleeping.

Editor: I see. Thank you very much for your time.

[From Editors]

I, the interviewer, have been studying a theme that sometimes users innovate something (user innovation). As a researcher of user innovation, I was shocked when I

happened to know about the existence and the system of "CUUSOO SYSTEM". It is because if the system of CUUSOO SYSTEM functions well, the system can develop user innovation even more.

The system of CUUSOO SYSTEM is called DTO (Design to Order). That is to differentiate it from the system of BTO (Build to Order) such as Dell Computer. The consumers don't purchase a mass-custom-made product built by combining the already made parts, but they purchase a product they want. In DTO system, the customers don't choose a product out of options that a manufacturer provides.   Even though what the consumers want doesn't exist now, the consumers can get a manufacturer make what they want and purchase it. DTO is the system to make it happen.

Of course, the system of DTO has not been developed without any problems. For example, there are not many products that have created their markets by the DTO system. But there is surely the increasing number of products that have made the markets through DTO. Also there is the increasing number of companies that want to plan and sell products. It is one of the reasons why President Nishiyama called CUUSOO SYSTEM "service package provider". In such sense, the business of CUUSOO SYSTEM is currently expanding rapidly.

The reason why we invited President Nishiyama in this interview is that we wanted to introduce you to someone who is tackling a creative work to create a new social trend. I am sure that there are many people after reading this interview who have realized the nobility and found it interesting in the user-oriented business, who have thought to start up a business to create a new social trend or who have gained new insight in the future consuming society. This interview is a message sent to such people.

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