

The Significance of Serendipity in New Market Creation

Akihiko. Nagai¹, Takayuki. Ito²

¹Department of Computer Science and Engineering, Nagoya Institute of Technology, Nagoya, Japan

²Master of Techno-Business Administration, Nagoya Institute of Technology, Nagoya, Japan
nagai.akihiko@nitech.ac.jp, ito.takayuki@nitech.ac.jp

Abstract – The word serendipity means the accidental finding of potential or invisible needs without looking for them. In case studies, serendipity created new markets. Potential needs is exposed only part of like an iceberg. To obtain business opportunities, business creators must uncover the buried potential needs. If an entrepreneurial business creator can fully uncover potential needs, this will lead to opportunities for new market creation.

Keywords - Serendipity, New market creation, Potential needs, Core competence

I. INTRODUCTION

The term serendipity was coined in 1754 by Horace Walpole based on the fable “The Pilgrimage of Three Princes of Serendip.” Serendipity means the ability to find desirable things by accident [4][16]. The use of the word serendipity in the field of scientific research began with [11]. Serendipity was used as a sociological method in [2].

The Grounded Theory (GT) was built on an idea of reference[9]. There, the word serendipity was used to explain the occasion for developing a new theory or for extending an existing theory (e.g. [8][9][15]). GT is a systematic methodology of the social sciences [1][10]. Serendipity is a highly correlated factor for market creation. Indeed, serendipity is often played important role in the new markets creation. Potential needs is exposed only part of like an iceberg as shown in Fig. 1. The role of serendipity is the find of potential needs.

We focus on the correlation between market creation and serendipity, and clarify its significance.

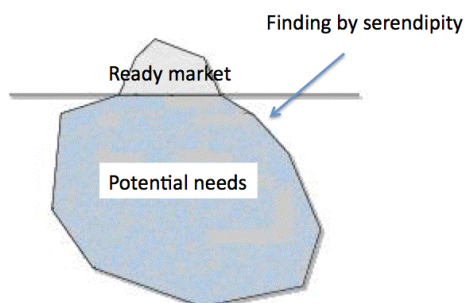


Fig 1 tip of the iceberg

II. METHODOLOGY

In this paper, the authors discuss the benefits of serendipity through case studies. Serendipity is the ability to find potential and invisible needs. Case study is useful method to be abstracted the behavior of companies and organizations([5][6][7][13][14]).

The first is the case of a little flower shop. Normally, location is the most important condition for operating a flower shop, such as opening next to a major hospital or a large cemetery. But, the flower shops in this case study found the potential need of people desiring to live with flowers every day. These flower shops sell flowers for display in milk box at a reasonable price.

The second case is a public bathhouse (sento in Japanese). In the past, sentos have played an important role as community facilities for local residents. Recently, the regional environment has changed greatly. In general, studio apartments and houses are equipped with baths, thus, users of sentos have decreased each year.

In this situation, two sentos that opened in the immediate area of the Imperial Palace (Koukyo in Japanese) are used daily by many city runners. These sentos provide a new service to city runners: bathing after running. The service provided by these sentos is not a service for regional residents; this is a new service for the convenience of city runners.

III. CASE1: STYLISH FLOWER SHOP

A. Serendipity: Living with flowers every day

Park Corporation runs the Aoyama Flower Market (AFM), which operates under the concept of “living with flowers every day.” According to a survey by the Japan Flower Promotion Center Foundation, the sales volume of cut flowers was 1,200 billion yen in 2011. The flower shop has decreased to market share the past 10 years and many flower shops have closed. Generally, flower shops set up practice next to facilities known for great consumption (i.e. location specific advantage). Specifically, flower shops open in the vicinity of business areas, major hospitals, general merchandise stores (GMS), and large cemeteries. Fig. 2 is a photograph of a small flower shop. Recently, small flower shops are often found on busy streets. These little flower shops are the AFM. The AFM sells “lifestyle bouquets” to adorn a variety of rooms in the home as a regular item (e.g., Fig. 4.). To

borrow an old-fashioned epithet, a “lifestyle bouquet” is like a “single flower in a glass cup as a substitute for a vase.” The potential needs of “living with flowers every day” were found serendipitously by Hideaki Inoue, president of Park Corporation [3][17].

Mr. Inoue decided to enter the flower business after reading an article in the Nihon Keizai Shimbun (a Japanese business newspaper). The newspaper article indicated that the flower business could be lucrative. But, the existing market consisted of mainly gift flowers that must compete with large companies. The Internet flower business had already been started by Hibiya Kadan, the leading company. Hibiya Kadan combined real flower shops with a virtual shop. Mr. Inoue traveled to Paris for business. The rooms of his hotel were stark. He thus bought flowers by the Marche (Market) and decorated his room, instantly brightening the atmosphere. As a result, Inoue understood the great value of cut flowers. That is, he discovered the potential needs of “living with flowers every day.”



Fig. 2. AOYAMA Flower Market

The AFM has opened 77 shops as of January 2012 in metropolitan areas such as Hokkaido, Osaka, Fukuoka, and Tokyo. The AFM shops operate in crowded areas such as train stations or commercial neighborhoods (e.g. Aoyama, Shibuya, Yokohama).

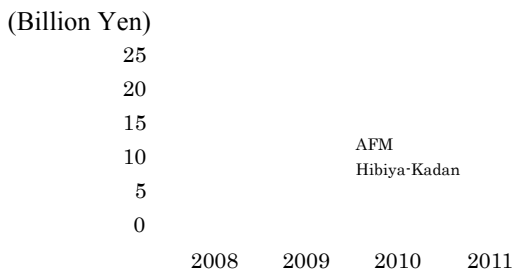


Fig. 3. Transition of Sales

Reference: <http://www.aoyamaflowermarket.com/pc/index.php5>

Fig.3. represents the transition of sales for the AFM and Hibiya-Kadan (Top flower company). Sales in 2000 of 610 million yen increased to 5,290 million yen in 2011.

But, Hibiya-Kadan has decreasing sales. Park Corporation received the Porter Prize in 2009. The Porter Prize is awarded by the Graduate School of International Corporate Strategy of Hitotsubashi University to companies with outstanding originality and profits. Normally, the standard flower shop business model is located next to facilities where large consumption of cut flowers can be expected. Location is considered the most important key for success in the flower shop business. But, the AFM has opened small flower shops in crowded areas such as train stations and shopping malls (e.g., Tokyo station, Shibuya Hikarie).

B. Little flower shops create a new market

Normally, flower shops are equipped with refrigerators in order to prolong the life of the cut flowers. But, this refrigerator space is a dead zone for small flower shops. The AFM's shops do not have refrigerators. Because cut flowers die quickly, the flower shop must sell as fast as possible. In a typical flower shop, the user selects their favorite flowers from the showcase, which the florist then makes into a bouquet. The AFM shops, however, display many ready-made bouquets suitable for display in milk box for a reasonable price. These are very colorful bouquets, enticing passersby to stop in front of the shop and make a purchase. These bouquets are sold for the reasonable price of a few hundred yen to a thousand yen. Thus, the AFM provides easily obtainable fashionable flowers.



Fig. 4. Glass Bouquet

Despite the AFM shops’ not have refrigeration, the flower disposal rate is only 3%. The average disposal rate for typical flower shops is 10%. The AFM’s low disposal rate is ostensibly due to its excellent ability to find sellable flowers. This business model can be easily imitated. But, rivals cannot immediately imitate the excellent ability to find sellable flowers. This will needs greater business experience.

C. To catch a women’s heart

Vases filled with flower bouquets are common in everyday life in entrance halls, on desks, and in kitchens, bedrooms, studies, dining rooms, and living rooms. Serendipity found the market for “living with flowers every day” and this market has attracted many users, particularly women. Cut flowers quickly die. A lot of users admit to feeling lonely without flowers and believe they will want to buy flowers again. If cut flowers can entrench into “everyday life,” the demand for cut flowers will increase.

D. Second strategy: Flower school (Hana-kichi)

The Aoyama Flower Market started several new services to increase its market of “living with flowers every day.” One is a cut florist training school (hana-kichi), which gives users lessons in the art of bouquet making. Park Corporation believes that hana-kichi is important. It responds to changes in the consumer. If lifestyle bouquets pervade everyday life, users will not be satisfied with ready-made bouquets and will want to style their own bouquets. Hana-kichi is a core competence for the AFM that will allow it to continue to maintain its superiority in the market.

E. Third strategy: Rare flowers

Flower growers want to produce a variety flowers, but their flowers are not involved in the flower distribution market. In general, rare flowers are not sold to the distribution market, thus flower growers cannot sell rare flowers. But, if a flower shop sells these rare flowers in a bouquet combination, there is a use for these rare flowers. Bouquets of rare flowers may have a good demand.

Park Corporation entered into partnership agreements with flower growers all over Japan. The shop managers of the AFM have the authority to obtain flowers directly from these flower growers. Therefore, the AFM sells different bouquets in different flower shops or regions. Therefore, the AFM shops can buy and sell flower bouquets that include flowers not found at other flower shops.

IV. CASE2: NEEDS CREATE NEW MARKETS

A. Serendipity: City runner

Fig.5. is a public bathhouse in Japan (sento). This sento is located within a one-minute walk from the Hanzomon subway station. Fig.6 shows the map of Koukyo Running Course. The surrounding area of Hanzomon was once residential, but recently this area is predominately business oriented. Few people currently reside in the Hanzomon area. In addition, rented accommodations (such as apartments or studio apartments) are generally equipped with baths.

Occupants of such rentals rarely use sentos. In such areas, the use of sentos has decreased each year. In the Hanzomon region, there is no need for a sento for local residents. In other words, the established market for sentos has disappeared.

This situation appears to be a national trend in Japan. Fig7. represents the changes in the sento users in Tokyo’s 23 wards. As shown in Fig.7., the head-count of sento users decreased every year. Because of this incident, the number of sentos decreased every year from a peak in 1988 of 2,408 stores to 730 stores in 2010. Sento users decreased by factors as follows:

First, the number of area residents was reduced by changes in the environment.

Second, almost homes are equipped with baths. For these reasons, there are fewer sento users, so the market has shrunk. Therefore, the traditional business model for sentos no longer works. But, the following public bathhouses have many users.



Fig. 5. Bain Douche



Fig. 6. Koukyo Running Course
Reference: OpenStreetMap
<http://openstreetmap.org>

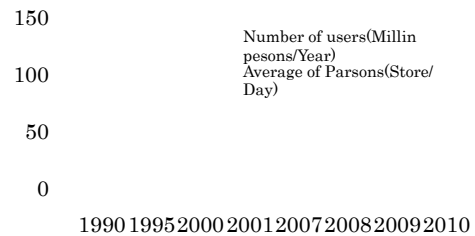


Fig. 7. Changes in Sento users in Tokyo’s 23 Wards
Reference: Tokyo Sento Association
<http://www.1010.or.jp/menu/sentousu.html>

One is a new type of facility called the super sento. Super sentos provide access to hot springs all over Japan for a reasonable price. Super sentos have been increasing, primarily in major metropolises and their suburbs. But, the super sento requires a great initial investment in order to transfer the hot springs from the hot spring areas and to build a large-scale facility. It is therefore difficult for traditional public bathhouse owners to start a super sento business.

Another type is the sento designed for city runners who run for exercise. These sentos are overcrowded by city runners every day and this head-count increases with the start of the marathon race season in October.

Fig. 5. is the Bain Douche sento (the French word for bathhouse) that is used by many city runners. Sento users are usually 10,000 people. But Bain Douche has used by city runners more than 30,000 in year. Bain Douche is used by city runners who start running from the Hanzomon area. The peripheral road of Koukyo (Fig. 6.) provides a running course of 5 km. Koukyo is conveniently located for workers in Tokyo and many city runners use this road as a running course. When these city runners run the Koukyo course, they mainly use two sentos. One is Bain Douche, located near the Hanzomon subway station. The other is Inari-Yu, which is near JR (East Japan Railway) Kanda Station (Fig. 6.).

These sentos have three factors in common:

1. They are both located near a park (Many city runners warm up in this park) on the Koukyo course.
2. City runners wish to bathe after running the Koukyo course.
3. City runners pay a 450 yen bathing fee. (This fee is determined by the Tokyo sento Association)

City runners pay the bathing fee, store their baggage in a locker, and take a bath after running. These sentos therefore provide a new service similar to a "running station" for city runners, thus filling a need. Major problems faced by city runners include where to change into their running gear and where to go to freshen up or bathe after running. Many change clothes at the station lavatory and store their baggage in coin lockers. Several city runners, however, use a sento after running to wash up. The proprietor of a sento, while sitting at watching stand (Bandai), found the increasing head-count of new users arriving in running gear and, thus, through serendipity, determined that city runners were a potential pool of sento users.

As a result, the proprietor started a new service: Running stations that provide runners with lockers for their baggage, as well as a place to bathe after running. In this way, Bain Douche was established as a sento for city runners. Inari-Yu immediately imitated this business model.

In recent years, due to an increased interest in health, the number of female city runners who work in downtown Tokyo has increased, creating more demand for these

sentos. They now use sentos as running stations. The sentos in their former role acted as community centers. These sentos lost their existing markets, but they found a new market as running stations for city runners.

B. Second strategy: To build a regional cluster

These sentos formed two clusters while achieving this new service for city runners who run on the Koukyo course.

The first is as a community center. These sentos have installed bulletin boards that provide active information exchange between the city runners. Many "run together" communities were created by city runners who met through running. The main purpose of these communities is to "have fun running." They hold regular practices at the course and have led to an increase in users of the sentos. In other words, these communities and the sentos exist interdependently.

Secondly, these communities engage in lively drinking sessions. Clubs of city runners have increased and local taverns (izakayas in Japanese) around the sentos are used as informal gathering places. A Chinese restaurant located next to Bain Douche and the "West exit restaurants street," located near Inari-Yu, are gathering places for many city runners.

C. Third strategy: New advertising media

Recently, several corporations hoping to tap into this major community of city runners have appeared in this market. Several of these companies have started to collaborate with the sentos for the purpose of marketing and advertising.

For example, Otsuka Pharmaceutical is launching an advertising campaign called "Koukyo Marathon Day" during which Otsuka Pharmaceutical is giving away the health drink "amino Value" and a marathon map of Koukyo for free. Recently, Meiji also started campaign for city runners. These campaigns are often seen at marathon events. These companies have now acknowledged that the sentos attract city runners.

D. Core competence of sento

The success factor of these two sentos was the finding of a potential need for a running station for city runners. Their strengths are their locations near the Koukyo running course. In addition, they are close to the park that is the starting point. This is a strength that other public baths in Tokyo cannot imitate. However, newcomers opening new running stations can imitate this business. Actually, a stylish running station has been built around these sentos. These sentos do not need a new business investment. They only provided new services to city runners. Opening a new running station will require a substantial initial investment. A sento that can use an existing facility has an obvious financial advantage.

In addition, these sentos also already hold health center business licenses; therefore, they do not need a new business license approval, which is difficult to obtain.

V. DISCUSSION

The cases described in this paper, potential needs were serendipitously found. New markets were created by serendipity. In general, competitors already exist in a ready market.

Moreover, some markets are shrinking due to environmental changes. Even though a ready market can grow, potential users and invisible needs may not be found. Serendipity is the ability to find invisible needs and potential users. In the case studies, organizational leaders by serendipity found potential needs and created new markets. These markets are growing; little flower shops and sentos for city runners are profitable. The sentos and small flower shops have the following two common points:

First, they have a core competence. The core competence for the sentos soliciting city runners specifically is that they hold a health center business license, do not need new investments for their facilities, and are located near Koukyo. The core competence of the AFM flower shops is that they cultivate the shop manager's skill in selling flowers and are open on busy streets.

Second, they continue to develop new products or services. The sentos set up bulletin boards to provide active information exchange between city runners. Furthermore, the sentos have become community hubs in collaboration with neighboring restaurants. The AFM now offers hana-kichi, which teaches bouquet making techniques to users. The AFM predicts that their users will no longer be satisfied with simply ready-made bouquets in the near future. Moreover, each AFM shop carries rare flowers purchased directly from flower growers to be sold in bouquets.

VI. CONCLUSION

The word serendipity means the accident of finding potential or invisible needs without looking for them.

We demonstrated that if a business entrepreneur finds potential needs, he/she can create a new market.

Potential needs is exposed only part of like an iceberg. To get business opportunities, the entrepreneur should find the buried part of the potential needs. Serendipity is the efficient ability to find potential needs. But, when a new market is growing, newcomers will enter. Therefore the business creator should consider the following two issues:

First, there must be a core competence. Core competence is a strong defense against competitors and makes the model difficult to imitate, providing superiority

in the marketplace. If the business idea does not have a core competence, new competitors can take the market share away from the market creator.

Second, new products or new services should continue to be developed, as users and potential users are always changing. Users grow tired of the same products and services in the market. Moreover, rivals will produce new products and new services.

REFERENCES

- [1] B. G. Glaser, *Basics of grounded theory analysis: emergence vs. forcing*, Mill Valley, CA: Sociology Press, 1992.
- [2] B. G. Glaser, and A. L. Strauss, *The discovery of grounded theory: strategies for qualitative research*, De Gruyter, New York, 1967.
- [3] H. Inoue, *HANAYA no Syacho no Atsui-omoi: About park corporation*.
http://www.park-corp.jp/company/inoue_page/intro.html
- [4] H. Walpole, *Horace Walpole's Correspondence with Sir Horace Mann (Jan. 28, 1954): Yale Edition*, The Lewis Walpole Library, Volume 20, p407.
- [5] K.M.Eisenhardt, *Building theories from case-study research*, *Academy of Management Review*, 14(4), pp532–550,1989.
- [6] K.M.Eisenhardt, *Better stories and better constructs: The case for rigor and comparative logic*, *Academy of Management Review*, 16(3), pp620–627,1991.
- [7] K.M.Eisenhardt, and M.E.Graebner, *Theory building from cases: Opportunities and challenges*, *Academy of Management Journal*, 50(1), pp25–32,2007.
- [8] P. J. Hannan, *Serendipity, Luck and Wisdom in Research*, iUniverse, 2006.
- [9] P. V. Andel, *Anatomy of the unsought finding: serendipity: origin, history, domains, traditions, appearances, patterns and programmability*, *British Journal for the Philosophy of Science* 45 (2), pp631–648, 1994.
- [10] P. Y. Martin, B.A. Turner, *Grounded theory and organizational research*, *The Journal of Applied Behavioral Science*, Vol. 22(2), pp141-157, 1986.
- [11] R. K. Merton, B. Elinor, *The travels and adventures of serendipity: a study in sociological semantics and the sociology of science*, Princeton University Press, 2003, (Manuscript written 1958).
- [12] R. K. Merton, *Social theory and social structure*, The Free Press. Glencoe, 1949.
- [13] R.K.Yin, *The case study crisis: Some answers*, *Administrative Science Quarterly*, 26, 58–65,1981.
- [14] R.K.Yin, *Case study research: Design and methods (2nd ed.)*,Newbury Park, CA: Sage,1994.
- [15] R. M. Roberts, *Serendipity: accidental discoveries in science*, Wiley, 1989.
- [16] T.G.Remer, *Serendipity and The three princes: from the Peregrinaggio of 1557*, Norman, U. Oklahoma P,1965.
- [17] Y. Kawashima, *Syacho to Lunchi*, POPLAR Publishing, 2009.