Online ISSN 1347-4456 Print ISSN 1347-4464

ABAS: Annals of Business Administrative Science

Vol. 3, No. 4, October 2004

Global Business Research Center

http://www.gbrc.jp

ABAS: Annals of Business Administrative Science

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ABAS: Annals of Business Administrative Science is published quarterly in January, April, July, and October, by Global Business Research Center, Marunouchi, Chiyoda-ku, Tokyo, JAPAN. http://www.gbrc.jp

The Early Stage Competition in the Japanese Online Securities Industry: Research Based on Case Studies of Leading Companies

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Abstract: In the early stages of the online securities industry in Japan, combined factors of expectation based on the precedent in United States created a "dominant perception" that the customer base of the industry would dramatically increase. Based on this perception, companies other than Matsui Securities continued to participate in endless and morass price competitions. These companies shared sufficient knowledge on Matsui Securities' strategies as well as Matsui Securities' performance. However, at least for two years, they underestimated Matsui Securities as "a niche company" and did not seek to its strategies. Thus, Matsui Securities were able to enjoy overwhelming performance and establish a solid position in the initial stages of the industry without being imitated by others.

Keywords: online securities industry, internet business, dominant perception

1. Introduction

In this paper, we will analyze how such differentiation between Japanese online securities companies, the source of high performance, has been created and maintained.

One company's success always invites imitation by other companies, and competitive differences among companies tend to decrease over time (Williams, 1994). Especially in industries where there is severe competition, even core resources or competencies that are hard to imitate are likely to leak to other companies (Teece, Pisano & Shuen, 1997). The resulting minimization of differences between competitors works toward reducing a company's competitive advantage (Noda & Collis, 2001).

In the online securities industry, it is very easy to imitate another company's successful strategy because the products and services of competing companies are shown on their web sites in real-time, and because many of the companies publicly disclose performance results. On the other hand, we can see that Matsui Securities' operating revenue and profit as of March 2003 was far above its competitors, making it the "sole winner in the industry." Matsui Securities' strategy in the initial stages of the online securities market may have been correct. However, had others followed Matsui Securities' strategy immediately, Matsui Securities may not have been able to establish such a solid competitive edge as it has today. Nevertheless, Matsui Securities was successful in establishing a predominant position in the initial stages of the online securities industry. Therefore, the question arises as to why this was possible.

In this paper, we will take a closer look at actual cases in the online securities industry in chronological order, through which we will attempt to clarify the question: "How did the corporations differentiate themselves from others, and how did they maintain these differences in the initial stages of the online securities industry when imitation by the others were easy?"

2. Outline of Online Securities Industry

2-1. Beginnings of the Online Securities Industry

The history of the online securities industry in Japan dates back to April 1996 with the entrance of Daiwa Securities. Within a year of the start up of Daiwa, other major securities companies like Nikko and Nomura, together with a few other middle tier companies entered the market, and within two years, the number of competing companies has grown to about 20.

Around this time, the so-called "Big Bang" financial market deregulation in Japan began, which dramatically changed the competitive environment of online securities trading (Takai, 2003a, 2003b). One of the first deregulation initiatives, conducted in December 1998, was the transition from a securities company licensing system to a registration system. Another big change was the deregulation of commission fees which occurred in October 1999. With these changes, it became possible for a lot of companies, including overseas companies and companies from different industries, to enter the market more easily. The number of companies in the market reached nearly 70 by March 2001 (Figure 1).

In the beggining, online securities companies only handled a limited numer of products. However, they soon began to provide products at the same level as face-to-face retail sales (i.e., at actual shop counters), and the quality of services also improved. As a result of such upgrading, the number of exchange transactions conducted online kept increasing despite a depressed stock market. Within few years time, the online securities market has grown as large as the face-to-face retail sales market (Takai 2001).

With this rapid market growth, companies faced severe competition (Takai, 2004). Under the severe competition, many companies including Schwab Tokyo-Marine which had been seen as one of the major competitors to exit the market in 2001. By 2004 the number of companies in the market decreased by more than ten companies compared to the peak in 2001. Currently, the oligopolization of the industry is progressing where a few companies handle most of the stock transactions.

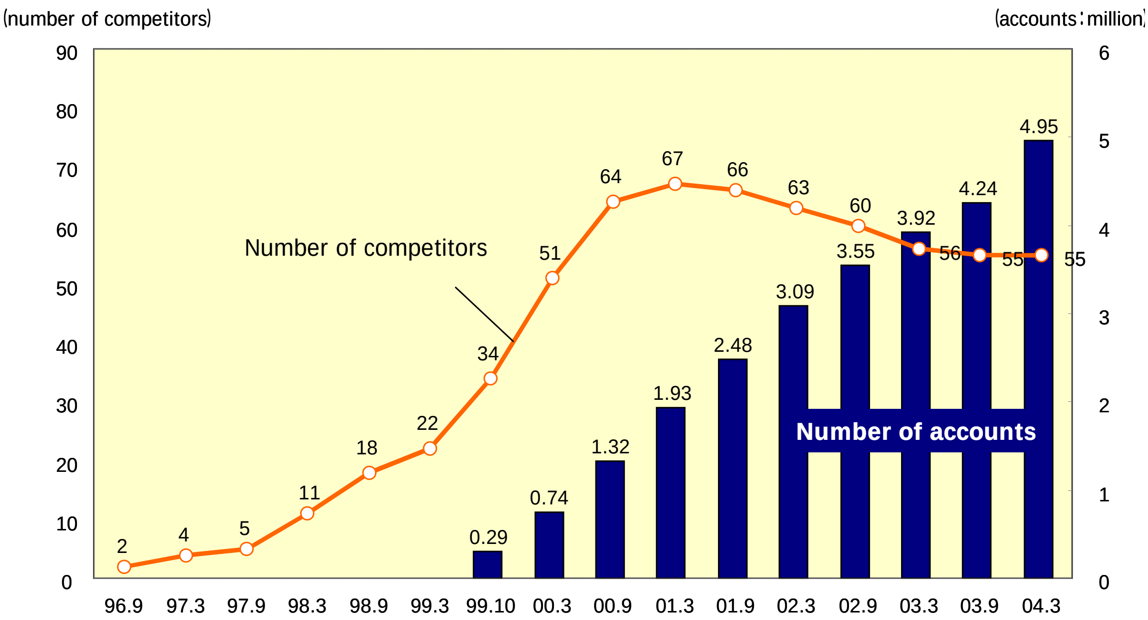
2-2. Sample Companies: Six Online Specialized Companies

In this paper, we focus on the six leading companies (Table 1). For reference, the total market share of the six companies account for more than 70% of online trading and also for more than 52% of the total trading by individuals including face-to-face retail trading. Thus, it can be assumed that these six companies have a strong influence on the overall online securities industry, as well as the securities industry as a whole.

3. Matsui Securities: Making the Early Moves

Matsui Securities made its entry into the Japanese online securities market in May 1998, making it the

Figure 1. Number of Competitors and Total Number of Accounts (Online Trading)



Source: Japan Securities Dealers Association "Result of an investigation about Internet trading." Company annual reports

Table 1. Profile of Six Companies Covered in the Case Analysis

Company	Entry for online business	Business grouping
Matsui Securities	May-98	Middle-ranking securities firm
E*Trade Securities	October-99	Foreign company (USA：E*Trade; Japan：Softbank)
DLJ direct SFG Securities	June-99	Foreign company (USA：DLJ Direct; Japan：Mitsui-Sumitomo Bank)
Monex Securities	October-99	Independent company (stakeholder: SONY, etc.)
Nikko Beans Securities	October-99	Leading Securities firm (Nikko group)
Kabu.com Securities	February-00	Independent company (stakeholder: UFJ Bank, etc.)

Source: Company annual reports, investor's reference guides, and press releases.

13th company to enter the market (Osaki, 1999). Thus, it is clear that the company was not necessarily ahead of others in terms of the timing of market entry. However, the company's quest for a new business model started in 1992 when it announced the complete abolition of face-to-face sales activities. This decision was driven by President of Matsui Securities' conviction, based on his firsthand experience in Nippon Yusen (a shipping company), where he worked prior to joining Matsui Securities, and where he witnessed post-deregulation competition. He firmly believed that the cost of sales persons would not be accepted by customers in a deregulated market. Based on this conviction, Matsui Securities spent four years completely eliminating its sales persons and transitioning itself into a call-center specialized securities company. Adding a new line of "internet business" to this "call center business," Matsui Securities dropped from the call center business within half-years time after entering internet business to become the first company to specialize in online securities in Japan.

Prior to specializing in online securities business, Matsui Securities conducted "firsthand analysis" using its own customer data to identify the emerging trends in the Japanese online securities industry, something which no other online securities companies had done before. Thus, Matsui Securities entered the as-yet-unknown market with the know-how and data accumulated through its experience as a securities brokerage operating as a call center under the anticipation of eminent deregulation.

4. The Formation of a "Dominant Perception"

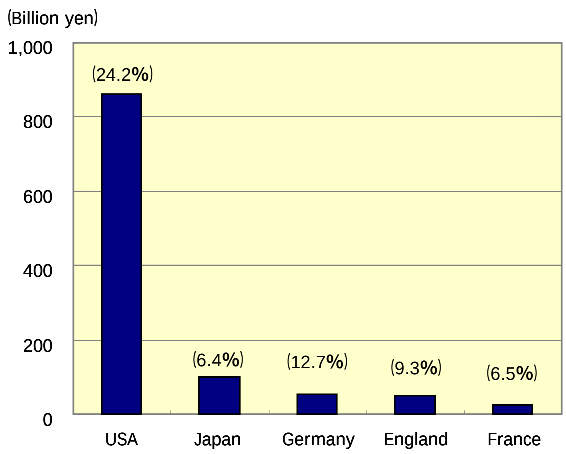
The securities market became easier to enter in December 1998, upon its transition from a license system to a registration system. Around this time, many companies specialized in online securities were incorporated, including DLJ, E*Trade, Monex, Nikko Beans, and the two companies that were the former entities of Kabu.com. From the very initial stage of market entry, these online securities companies except for Matsui Securities, entered into severe competition to increase the number of accounts by way of discounting commission rates.

Behind these companies engaging in such severe competition to increase the number of accounts was a so-called "dominant perception" that had taken hold in the early stages of the Japanese online securities industry.

The roots of this dominant perception can be traced to what occurred in the United States after the deregulation of securities commissions in 1975, more than 20 years before such deregulation took place in Japan. Deregulation in the United States spawned the creation of new types of securities companies called "discount brokers." These companies provided little or no investment information and consulting services, but offered large discounts on commissions. Consequently, stock investment gained popularity not only among affluent consumer groups but also among the general public.

In contrast to this, the ratio of individual assets made up by stock investments was very low in Japan as compared to the United States (see Figure 2) largely because the securities companies have long since focused their efforts on providing face-to-face service to their main customers, namely affluent middle-aged customers. Thus, in the Japanese securities industry before deregulation, the only successful business model was to have as many "good customers" as possible. Securities companies sought to keep good customers as long as possible by providing valuable investment information and advice tailored to the needs of each customer under a relatively high and uniform commission fee structure. The fees were not viewed as particularly onerous to the affluent, middle-aged consumer groups with their

Figure 2. The Ratio of Individual Assets Made Up by Stock Investments (1999)



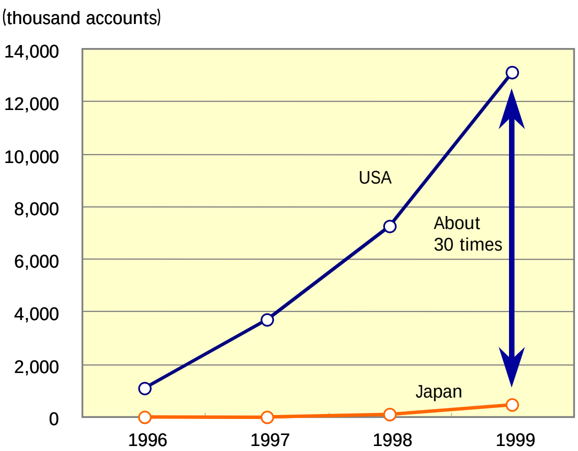
Source: Japan Securities Research Institute.

surplus assets, to which most of the securities companies' customers belonged (Saga, 2000).

However, amid the public discourse of the "Big Bang" financial reforms in Japan, which gained momentum from around 1997, the government decided that securities commissions were to be deregulated from October 1999, among other anticipated deregulatory moves in the Japanese securities industries. At the time, there formed the strong expectation that the assets of general customers who had previously not been targeted by the securities industry would flash into the stock market upon commissions deregulation.

Providing support for this assumption was the fact that there was a high increase in the number of online securities accounts after 1996 in the United States (see Figure3) where commissions had already been deregulated in 1975 and where the transition to online businesses has preceded Japan. By comparison, in September 1999, just before deregulation in Japan, there were only 130,000 online securities accounts in Japan whereas the figure in the U.S. was 13 million (Saga, 2000). Thus the Japanese market was much smaller than that of the U.S. yet taking into consideration differences in population, individual asset compositions, and the total assets. Nevertheless, based on two significant upcoming changes, namely "the convenience provided by online services" and the "commissions deregulation," securities companies held high expectancy for explosive growth of the Japanese market based on the precedent in the United States.

Figure 3. Increase of Online Securities Accounts in USA & Japan



Moreover, at the time, Japan was in the midst of the so-called "IT bubble economy," with the Nikkei stock index enjoying a rising trend. Additionally, with various other financial policy reforms coming along around the same time (attempts to create the so-called "Financial Big Bang"), the mass media and other sources predicted overwhelming market growth, with predictions such as, "This year will be the year of the popularization of the securities trading businesses. It may not be as big as the five million accounts seen in the United States, however the market is still expected to grow vigorously."

In summary, the target customers in the Japanese securities industry had been limited to affluent, middle-aged and elder customers for a long time. However, as expectation of an increase in the customer base rose, hopes for the viability of the online channel also rose. As such, driven by the anticipation of explosive market growth, as seen in the United States' case, and with a push from the IT bubble economy, the dominant perception that "customers would vigorously increase" was formed.

5. Reactions of Major Face-to-face Securities Companies

At this stage, the major securities companies thought that, while continuing to target affluent middle-aged customers as their major customers in the conventional face-to-face retail shops, they should also start pursuing online business and take in general customers who have no experience in stock trading.

Yet in the United States where deregulation of commission fees drove the formation of discount brokers and popularized stock trading, not all customers switched to discount brokers for the sake of cheaper commissions. Even in 1980, five years after deregulation, discount brokers accounted for only 1.3% of all brokerage fees for individual trading by NY stock exchange members. In 1995, twenty years after deregulation, the figure was still below 15%. It has been pointed out that the reason behind this slow increase is that many customers highly value the investment information and advice which sales persons of full service securities companies provide (Osaki, 1999).

This data seemed very encouraging to major Japanese securities companies since they also provided full service. Based on such data, the major securities companies who entered the online market in its early stages, consistently maintained that their major revenue source would continue to be "affluent middle-aged customers," and that they would continue to provide a high level service consisting of full investment advice in their retail establishments. Moreover, the major securities companies judged that, since important retail customers might start online dealings and significant investment information may be obtained online, it would be difficult to differentiate the commissions charged online from face-to-face transactions. Therefore they announced their policies to minimize commission discounts after deregulation in October 1999.

As a result, it was difficult for major securities companies to take proactive actions towards expanding of their online business because they were anxious to minimize "cannibalization"——revenue loss due to important long-term customers shifting to online dealings. The semi-large and middle-sized enterprises, which did not spin-off online securities divisions, were also facing the same situation more or less. As a result, it was difficult for the online business divisions of the leading large-scale, semi-large or middle-sized companies to be the leading player in this market.

On the other hand, companies specialized in online securities trading quickly became the leading players of the online securities market. Despite their entries into the market being later than the larger securities companies, they were capable of implementing aggressive strategies because they had no "constraints of existing customers." However, most of the online securities companies set their targets for number of accounts at a level that was, in retrospect, too high. At the time, their objective was to attract new customers of younger generations who had no securities transactions experience or from the large pool of businesspersons who were too busy to visit retail shops. Each company tried to be first to obtain in such customers in bulk and a severely competitive environment ensued.

6. Competition for Increasing the Number of Accounts: Fierce Price War and Mergers

With deregulation, companies specialized in online securities trading announced unique commission fee schemes and proactively tried to attract new customers. However, many of them basically adopted a "commission per transaction in proportion to the contracted price format," along with setting up price variation by target segment (i.e., transaction price or setting up stages for level of required deposits).

On the other hand, Matsui Securities alone announced a "fixed commission fee system" under which the commission (3,000 yen) will remain the same for up to three transactions as long as the total amount does not exceed a set range (three million yen). Matsui Securities claimed that their fee system was "unprecedented in Japan or overseas" in that it was determined by a matrix of "the number of transactions" by "the total contract amount." Matsui Securities called its system the "Box Rate Fee."

When commission fees were deregulated in October 1999, the proposed fee systems of the leading companies specialized in online securities trading except for Matsui Securities were already below the profitable line. Although there was a common understanding at the time that "3,000 yen was the profitable line," the companies other than Matsui Securities proposed fees that were below this line (e.g., E*Trade=2,500 yen, DLJ=1,900 yen, Monex=1,000 yen). In fact, many of these companies admitted that upon deregulation they had set the fee below the "profitable line," as is shown in their comments: "We are prepared to suffer loss for three years (Nikko Beans)" and "The fee will not cover fixed costs (DLJ)."

Despite the fact that companies were already incurring losses, a fierce price war soon started. The first company to decrease its commission fee was E*Trade, which was also the company that was first to trigger "price destruction" in the United States. Initially in October 1999, E*Trade began a "free commission fee" campaign for a limited period without changing its revised price scheme that had just been set up.

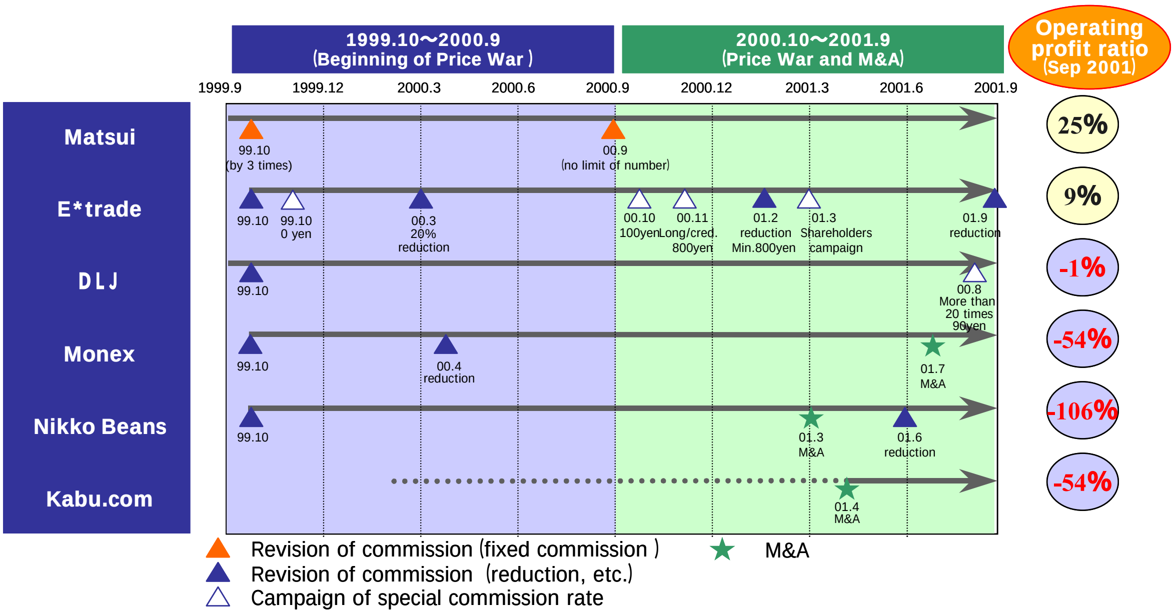
Following this, HIS Kyoritsu, which entered the market from the travel agency industry, attracted attention by proposing a minimum of 800 yen commission fee. In March 2000, when E*Trade lowered its commission fee by 20%, this was soon followed by Monex which lowered its commission fee for relatively high range transactions of more than two million yen. Also in October 2000, E*Trade started an extremely low-price 100 yen campaign for a limited time.

About a year and half after the price war started, a movement toward expanding scale began. Various attempts were made to increase the number of accounts through mergers and acquisitions. In November 2000, Kabu.com announced to be incorporated through a merger, followed by announcements of acquisitions by Nikko Beans and Monex respectively in December 2000.

Following these mergers' announcements, E*Trade, which had been increasing the accounts through its low commission fee strategy, changed its fee scheme again in February 2001, lowering its minimum commission to 800 yen. Subsequently, in June 2001, Nikko Beans, which had just acquired Internet Trade Securities in March 2001, announced its first commission fee change since deregulation. By this they lowered their minimum commission fee from 1,000 yen to 700 yen, an amont smaller than E*Trade. This fee was only applicable to customers whose accounts were worth more than ten million yen account deposit, but even for customers with lower deposit the commission fee was changed; for example it was lowered to 720 yen for contracts of up to 200,000 yen. Thus, the price revision was significant, offering an average of 16% discount.

DLJ, which initially had not been involved in the price competition but seeking to increase the number of accounts, in July 2001, announced that it would run a "90 yen per transaction" campaign

Figure 4. The Strategy for Increasing Number of Accounts



Source: Company annual reports, investor's reference guides, press release, and *Nihon Keizai Shinbun*.

beginning in August, although the campaign was limited to cases with more than 20 transactions per month.

Following DLJ's announcement, E*Trade instantly announced a further price reduction. In July 2001, it announced that it would lower its minimum commission to 700 yen, the same level as Nikko Beans, from September of that year.

As mentioned already, the companies that were engaged in the price war had started off at a price level that was below the profitable line. By the middle of 2001, the commission fees of the various companies had been lowered to such an extent that it could be said that the price competition had reached its limit, that is, a commission discount would no longer serve as an inducement for customers. Moreover, during this period there was the so called collapse of "IT Bubble," pulling down the Nikkei stock index to less than 10,000 yen for the first time in 17 years, and causing a downturn in stock trading as a whole. Thus, the online securities companies may have enjoyed an increased number of accounts, nevertheless, their revenue suffered severely due to the severe price cuts and downturn in stock trading (Figure 4).

7. Matsui Securities' Unique Moves

7-1. The Strategies of Matsui Securities

Contrary to its competitors, Matsui Securities held a completely different view regarding the market size and the projected growth trend based on their accumulated data. In September 2000 when many others were pursuing price competition, President Matsui expressed his opinion that new customers would not increase dramatically. President Matsui described his company's target customer as: "Most of our customers are around 50 years of age…ordinary investors. We do not intend to increase the number of our accounts in the first place. Our aim is to invoke a price revolution and expropriate customers from the large major competitors." Matsui Securities' targeted "stock investors" and ignored the "general customers" who were commonly believed to increase dramatically. Not only that, Matsui Securities openly announced its target of acquiring customers of large major companies——a "taboo" in the Japanese securities industry at that time.

The index Matsui Securities had been focusing from the very beginning was the "turnover rate" (i.e., the number of transactions per account). In the stock brokerage business, securities companies gain revenue by charging customers a certain commission fee for stock transactions. Therefore, to increase revenue either the customer base (number of accounts) or the number of transactions (turnover rate) must be increased. While its main competitors were eagerly trying to increase their customer bases, only Matsui Securities focused on increasing the number of transactions per account, that is the "turnover rate."

In detail, Matsui Securities established a system which allowed its customers (experienced investors) to engage in any transaction they liked——however small the amount may be and how many times they wished. Through this system, Matsui Securities offered services which took advantage of real time processing capability of online businesses. That is highly risky and requires specific knowledge, regarding margin trading and option trading, for instance. Moreover, Matsui Securities abandoned the commission per transaction system and established a fixed commission fee system that only charged a certain commission fee for multiple transactions as long as the total amount fell within a set range. These services and this price structure were established to target "active users" who would make a few transactions per day utilizing margin trading and option trading.

7-2. Others' Evaluation of Matsui Securities

The mass media paid much attention to Matsui Securities' unique strategies so that the other competitors must have had good knowledge of what Matsui Securities was doing. However in spite of this, the competitors appear to have underestimated Matsui Securities to some extent and did not attempt to imitate the company.

It was 1996, more than three years before deregulation, when Matsui Securities fully converted its business model to a call-center-only securities company. At the time, Matsui Securities faced the restriction of not being able to differentiate itself from its competitors in terms of commission fees, but it nevertheless attracted a lot of attention in the media for adopting a "no sales person" business model ahead of others. However, the major securities companies and other online securities companies did not think of Matsui Securities a threat, largely because Matsui Securities was still a small-scale company having only 20,000 accounts in October 1999. In short, competitors saw Matsui Securities as a niche company who provided broking service without sales persons to advanced customers who were highly experienced in stock trading and who were generally considered to be a limited segment of market——those "obsessed" with stock trading.

Also, Matsui Securities' commission fees remained relatively higher than the minimum commission fees of its competitors who were engaging in price decreases after the deregulation in October 1999. Therefore the majority of the industry thought that Matsui Securities' performance was not enough to constitute a threat. Opposing this view, however, President Matsui counter-argued by frequently saying "The media says Matsui Securities takes in 'day traders,' but this is not the case. In Japan, there are almost no 'day traders' like those in the United States. Our customers are ordinary investors." Nevertheless, other companies maintained their views that Matsui Securities' strategies were special and not a model to be imitated even in 2001. They were quoted as saying; "Matsui Securities is surely improving its revenue, but we only see them as a niche company." And, "Our competitors are not Internet specialized companies, but rather the large-scale, leading companies like Nomura, Daiwa, and Nikko. Matsui

Securities focuses on margin trading. It targets the limited and 'obsessed' segments of the market, in other words 'day traders' who trade stocks frequently every day. Ultimately, Matsui Securities will not be able to attract the general public."

7-3. The Actual Reactions of the Customers and Matsui Securities' Performance

The total number of accounts in the early stages of Japanese online securities industry increased at a remarkably rapid pace as is shown in Figure 1. At this stage, companies other than Matsui Securities interpreted this growth as "the customer base is increasing at a favorable pace," and announced comments such as "Many people are beginning to be interested in stock investment," and "there are many potential investors." Based on these beliefs, they continued to lower commission fees in order to increase accounts.

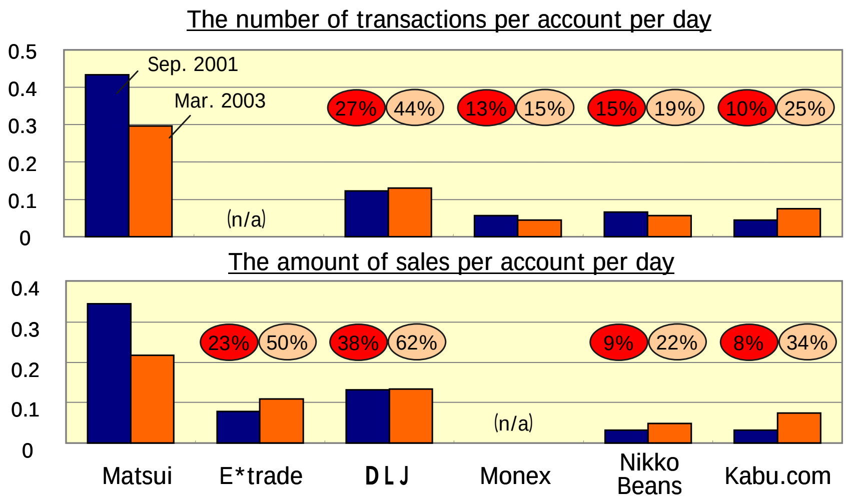
However, it gradually became apparent that in reality, it was normal for one customer to hold four to five accounts, or looking at the breakdown of the explosive increase in online accounts, it was discovered that the majority of these accounts were held by customers of the three leading brokerage companies which mainly provide retail services. As these facts became clear, a new recognition started to prevail: In Japan, the actual number of "customers" who engage in the actual stock trading largely deviate from, or rather, is significantly less than the total "number of accounts."

Comparing the number of accounts in September 2001, when Matsui Securities was still seen as "niche" or "day traders" company, Monex ranked on top with 178,000, followed by E*Trade's 168,000, DLJ's 111,000, Nikko Beans' 78,000, and Kabu.com's 76,000. Taking the second billing of the above latecomer companies, Matsui Securities' accounts were only 63,000.

When comparing the number of transactions per account per day or the amount of sales of transactions per day, there was an extreme difference between Matsui Securities and others, ranging from more than three to ten times of difference (Figure 5). The ratio of operating profit to operating revenue in the fiscal year ending March 2002 was 19%, 17%, and 1% for Matsui Securities, E*Trade and DLJ, respectively. On the other hand, for Kabu.com, Nikko Beans, Monex, it was -9%, -22%, and -44%, respectively, showing that these companies still suffered losses even three years after their market entry. In addition, E*Trade suffered loss in the stock brokerage business. This means in reality, only Matsui Securities was really making profits.

In summary, it can be concluded that companies except for Matsui Securities focused all their efforts on obtaining the customers who were expected to increase dramatically, according to the "dominant perception" in the industry. However, even two years later, the actual number of customers did not appear to have actually increased by much, although, the number of accounts seemed to have grown due to the price competition. Thus, as President Matsui had predicted earlier, "there was no explosive increase in

Figure 5. Number and Sales of Contract Per Account



Source: Company annual reports, investor's reference guides, and press releases.
Note 1: The data in this table is correct as of September 2001.
Note 2: The numbers inside of circles are ratio when set the number of Matsui Securities into 100%.

general stock investors in Japan during this period."

While other companies engaged in price competition based on the "dominant perception," Matsui Securities maintained its unique strategy which was completely different from the others. The result was that it steadily increased its number of accounts to a scale much larger than that of a niche company, and maintained top profit level in the industry, saying "several hundred customers a month switch from Nomura and Daiwa" (Matsui & Matsumoto, 2001).

8. Imitation of Matsui Securities' Strategies and Time Lag

From around the latter half of 2001, competitors started to imitate Matsui Securities' strategy. By this time, Matsui Securities' revenue was significantly higher than the others. In addition, as mentioned above, the industry became aware of the fact that in reality it was normal for one customer to hold four to five accounts, and looking at the breakdown of the explosive increase in online accounts, it was discovered that the majority of these accounts were owned by customers of the three leading companies which mainly provide face-to-face services. As these facts became clear, a new recognition started to prevail in the other online securities companies: In Japan, the actual "customers" who engage in the actual stock trading largely deviate from, or rather, is significantly less than the "number of accounts."

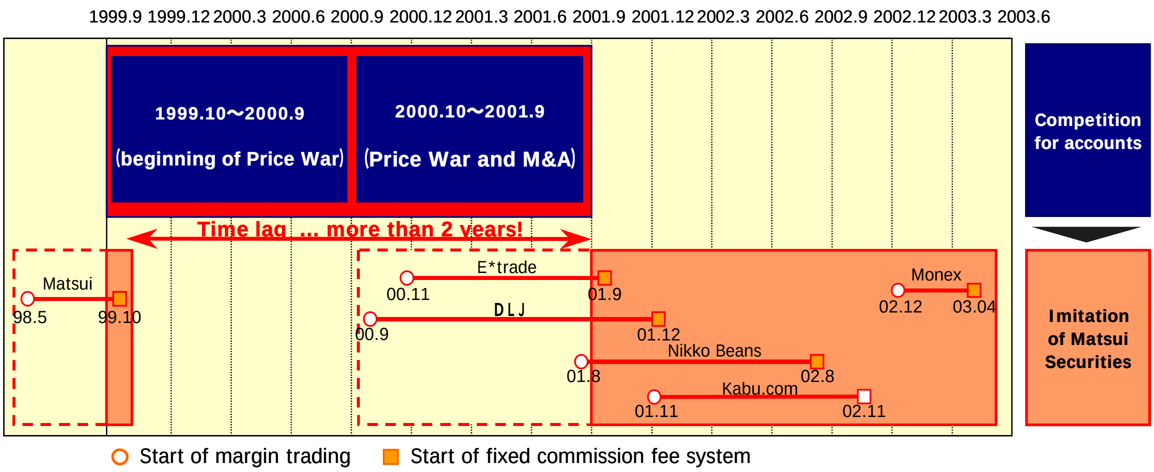
Until then, the industry players targeted the general investors which they envisioned would rapidly increase and insisted on attracting such new customers by lowering the commission fees. However around mid-to-late 2001, these other companies began to introduce margin trading for advanced users and also fixed commission fee systems, imitating Matsui Securities' strategy for attracting active users through margin trading and fixed commission fee system. By this time, however, two years had already passed since Matsui Securities first implemented these strategies.

Figure 6 summarizes the transition from competition focused on increasing the number of accounts to competition focused on increasing the number of active users. After the shift, the companies that had engaged in fierce price competition found their accounts stop to increase, but experienced a favorable turn in business by following Matsui Securities' strategy (Figure 7, 8).

At this point, E*Trade, which had been the price-cutting leader undertaking price competition most proactively, admitted as success the transition from the conventional strategies based on dominant perception to strategies that sought to meet the needs of active users. Monex also admitted that their failure had been caused by its delay in following the others to shift its strategies by more than a year.

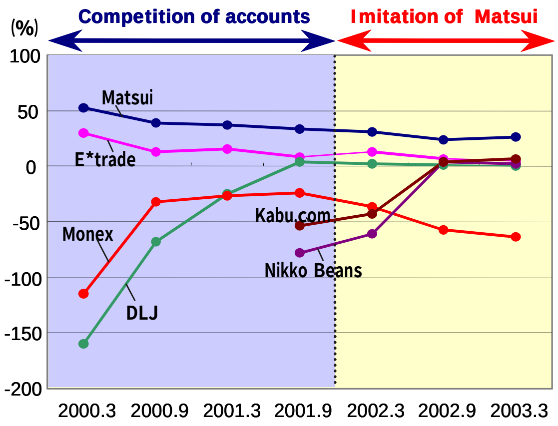
Today, various companies including E*Trade, DLJ, and Monex, have succeeded in attracting customers of Matsui Securities by imitating its strategy, and as a result they have succeeded in reducing the revenue difference (Figure 5). Regarding this, President Matsui was quoted as saying; "Looking at the industry as a whole, E*Trade, DLJ, Kabu.com has survived the competition just by imitating the Matsui Securities system…Having been imitated by others who have differentiated

Figure 6. Imitation of Matsui Securities



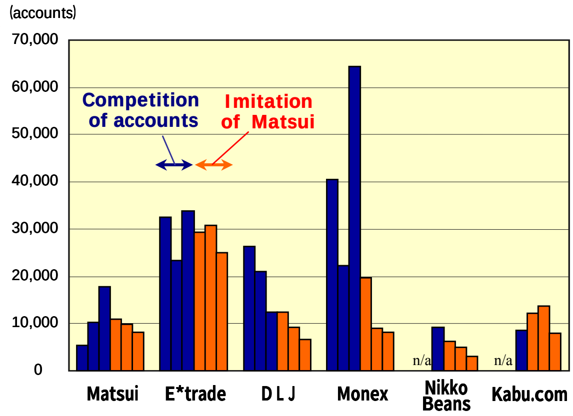
Source: Company annual reports, investor's reference guides, and press releases.

Figure 7. Ordinary Profit Ratio



Source: Company annual reports, investor's reference guides, and press releases.

Figure 8. The Growth of Accounts



Note: A bar graph shows the number of net increases of accounts for every half a year. From the left, 2000.9, 2001.3, 2001 9, 2002.3, 2002.9, 2003.3.

themselves from us by their lower commission fees, some of our customers have shifted to these other companies" (Matsui, 2003).

However, it is important to note that today Matsui Securities still remains as the leading company in the industry. Thus, we can see that Matsui Securities successfully built a solid position in the market, taking advantage of not being imitated by others for more than two years.

9. Discussion and Conclusion

In this paper, we made a case-based analysis to answer this research question: "How did the corporations differentiate themselves from others and how did they maintain these differences in the initial stages of the online securities industry when imitation by the others were easy?"

To the first half of the question, "how did the corporations differentiate themselves from others?," the following results became clear: In the early stages of the online securities industry in Japan, combined factors —— the U.S. case, IT bubble economy——created a "dominant perception" that "the customer base of the industry would dramatically increase." Based on this perception, companies other than Matsui Securities underestimated to some extent and did not attempt to imitate Matsui's Strategy. Contrary to its competitors, Matsui Securities held a completely different view about the market size and projected growth trend based on their "accumulated data." In September 2000, when many others were pursuing price competition, President Matsui expressed his opinion that new customers would not increase dramatically.

To the latter half of the question, “how did they maintain these differences in the initial stages of the online securities industry?,” we need more in depth description. As mentioned earlier, it is basically quite easy to imitate the strategies of competitors in the online securities industry because the products and services of the competing companies are shown on web site in real-time, and because many of the leading companies publicly disclose their performances. Nonetheless, Matsui Securities succeeded in establishing a predominant position in the initial stages of the industry. Therefore, a question arises as to why Matsui Securities’ strategy was not imitated for so long. Two points relating to the reason for the phenomenon are addressed below.

Firstly, Matsui Securities’ advantage of having unique know-how in advance enabled them to develop a unique information system, which others could not imitate immediately. Matsui Securities had professed and sought to build an original business model consisting of securities broking without sales persons from 1992. Through its efforts, the company have accumulated know-how and data and found out that the most important index is the turnover rate of transactions per account, since the number of core customer is limited and new customers were not increasing as much. President Matsui pointed out that: “Even big securities companies as well as new entry companies did not have the kind of firsthand information that we had.” So it may be said that the kind of information Matsui Securities possessed was difficult-to-follow and highly cohesive information (Dierickx & Cool, 1989). Besides, in order to implement what turned out to be the key factors to superior performance, (i.e., a combination of fixed commission fee system and margin trading), based on this kind of “difficult-to-follow and highly cohesive information,” it was essential that a custom-made information system were built. Matsui Securities built such information system, thereby creating the other key of competition. Most of the information systems used by other companies which have entered in the early stages of this industry were package products. Therefore, it was difficult for these companies to introduce significant services and products (i.e., fixed commission fee system and margin trading). Furthermore, even if the other companies had tried to imitate the Matsui Securities, it would have required new investment such as information system alteration. Any new investment would likely have been difficult for these companies as they had generally not yet finished paying back their initial investments. However, it can be said that this was not a fatal constraint. As seen before, the other companies were able to change their strategies in the latter half of 2001, so that they could finally overcome this constraint in several months at any rate.

Secondly, a more important factor as to why Matsui Securities was not imitated for so long is the fact that companies other than Matsui Securities did not seek to imitate Matsui Securities’ strategy since they remained committed to the “dominant perception." In short, because the companies other than Matsui Securities were committed to the "dominant perception" believing that the number of customers would increase dramatically, they misunderstood the significance of Matsui Securities and viewed the company as only a niche player.

In fact, however, in the early stages of the online securities industry, a strategy that could be called "increasing the number of active users" turned out to be one of the key factors of competition in accordance with the actual customer needs at that time. The effectiveness of this strategy should have been clear for all the other companies through published material and President Matsui's remarks. Nevertheless, the other companies continued to follow the "dominant perception," which said that "customers would increase dramatically," and the companies engaged in severe competition, repeatedly cutting the commission whenever others did.

As stated before, it took no less than two years from the real rise of the market for the reputation that "Matsui Securities grabs active users who are the core customers of this stage of the online securities market" to replace the view of Matsui Securities as a niche player that only attracts "day traders." This replacement was a kind of 'Copernican revolution' in the industry's view of the market. However, by the time the change occurred, the distance between Matsui Securities and the others was considerable. Evaluating the case afterwards, even though the service Matsui Securities had offered was the "dominant design" at the initial stages of the industry, because companies other than Matsui Securities were beholden to the "dominant perception," they would not follow Matsui Securities' strategy, even though they acknowledged the strategy and its intention quite well. As a result, Matsui Securities kept growing under the situation that appeared to be similar to the so-called "gap created by concentration of several companies" (Shimamoto, 2001).

There has been an increase in the number of studies that have focused on the social and political processes that surround the companies in the early, uncertain, and fluid stages of the industries (e.g., Numagami, 2000). For example, "the technical result frequently published in an academic community" (Fujii, 2002) or "the technical policy" (Shimamoto, 2001) specified "the axis of competition" through social interactions between the companies, then they had great influence on the process of an innovation or a competition. Under such situation, while a company that has accumulated know-how and deep information is able to judge information alternatively and actively (Itami, 2004), a company without know-how and information can only understand information passively, and it may be at high risk to follow the "dominant perception."

Usually, since the late-coming company does not have such know-how in many cases, it may be put in a disadvantageous position. What should such a company do? I think that to find out customers' true needs by repeating small "hypothetical-verification type experiments" (Kagono, 1988), and to deal with them quickly will be most important for latecomers without know-how and information.

For the purposes of this study, we only analyzed limited number of leading companies of the industry. However, we have already started preparation for a study that seeks to determine what kind of companies can survive severe competition, through survival analysis method using data from all companies in the industry. Of course, it must be noted that there are many important issues remaining that are left untouched by the present research. These include a comparison of the Japanese online securities industry with that of the United States where a precedent was set that helped drive the formation of the "dominant perception," and an investigation of the strategies and resulting performances of the large-scale securities companies that could not become the major players in online securities industry in Japan. We would like to analyze these issues in researches to follow.

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Appendix: Data Collection

Reports, journals, magazines and newspapers used as sources

Asahi Shinbun (daily newspaper)

Daiwa Research Institute (1996). *Handbook of securities industry.*

Diamond ZAI (monthly magazine)

DLJ financial corporation reports

DLJ press releases

E*Trade financial corporation reports

E*Trade press releases

Japan Securities Dealers Association (2003). *Research for internet trading.*

Kabu.com financial corporation reports

Kabu.com press releases

Matsui financial corporation reports

Matsui press releases

Ministry of Economy, Trade and Industry (2003). *Information economics outlook.*

Ministry of Public Management, Home Affairs, Posts and Telecommunications (2002). *Research for IT and people's live.*

Ministry of Public Management, Home Affairs, Posts and Telecommunications (2003). *White paper on telecommunications.*

Monex financial corporation reports

Monex press releases

Nihon Keizai Shinbun (daily newspaper)

Nikkei Kinyu Shinbun (daily newspaper)

Nikkei MJ (*Nikkei Ryutsu Shimbun*) (triweekly

newspaper)

Nikkei Money (monthly magazine)

Nikkei Sangyo Shinbun (daily newspaper)

Nikko Beans financial corporation reports

Nikko Beans press releases

Report of Gomez inc. (http://www.gomez.co.jp/)

Report of Stock research inc. http://www.stockresearch.co.jp/

Transcript of lecture of President Matsui

Weekly Toyo-Keizai (weekly magazine)

Yomiuri Shinbun (daily newspaper)

〔Received September 14; accepted September 30〕