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Success factors and their formation processes in early stage competition in the Japanese online securities industry

-Research based on statistical analysis and a case study of leading companies-

Graduate School of Economics, The University of Tokyo
Ayako Takai

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東京大学21世紀COE〔センター・オブ・エクセレンス〕
ものづくり経営研究センター

Abstract

In this paper, we analyze the online securities industry in Japan by looking at the market situation and the strategies of leading companies from the theoretical point of view of strategic management, in order to answer the question: “Which kind of company is showing high performance?” We make hypotheses and verify them with statistical analysis. At the same time, we analyze how such differentiation between companies, the source of high performance, has been created and maintained.

In the first half of this paper, we make a quantitative analysis of the success factors in the online securities industry. The result shows that “first-movers advantages” and “scale diseconomies” have certain effects in this industry. However, through this initial analysis a new question arose; “Why Matsui Securities differentiate itself from the others?” and “How can Matsui Securities maintain its differences in the early stages of this industry, where the imitation by other competitors is easy?” In latter half of this paper, we carry out a detailed case-based analysis to answer this new question.

In conclusion, in the early stages of the online securities industry in Japan, the combined factors of expectation based on the precedent in United States, backed up by the IT Bubble economy together with “media hype,” create a “dominant perception” that “the customer base of the industry will dramatically increase.” Based on this presumption, companies other than Matsui Securities continue to participate in endless and morass price competitions. These companies have sufficient understanding of Matsui Securities’ strategies, as well as Matsui Securities’ performance. However, at least for two years, they underestimate Matsui Securities as “a niche company” and don’t seek to follow Matsui Securities’ strategies. For these reasons, Matsui Securities can 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

first-mover advantage

diseconomy of scale

dominant perception

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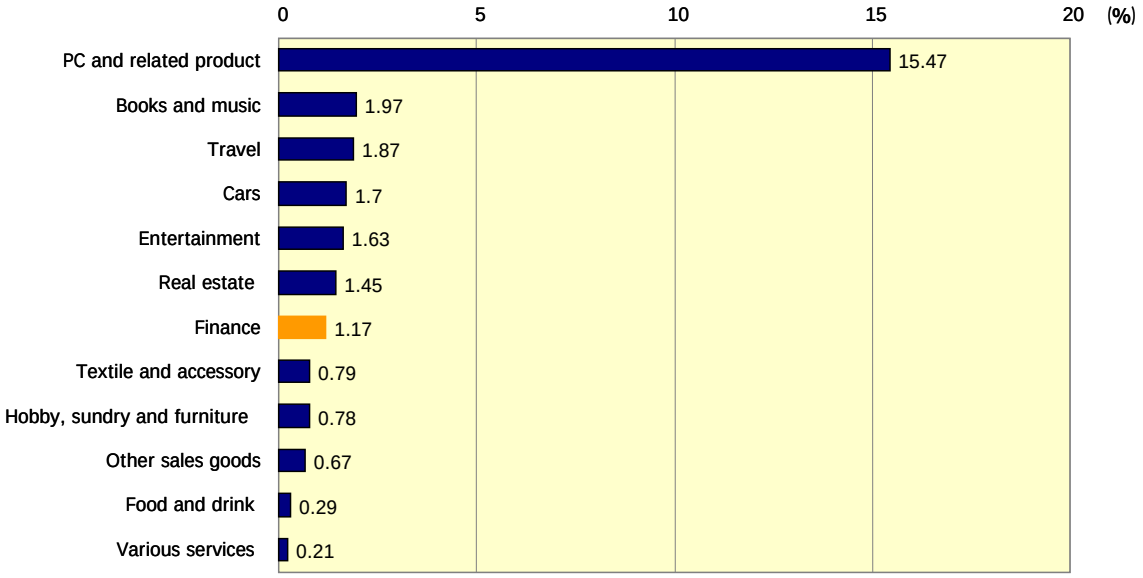
1. Introduction

In this paper, we will analyze the online securities industry in Japan by looking at the market situation and the strategies of leading companies from the theoretical point of view of strategic management, in order to answer the question: “Which kind of company is showing high performance?” We make hypotheses and verify them with statistical analysis. At the same time, we analyze how such differentiation between companies, the source of high performance, has been created and maintained.

During the past five years, the number of internet users has rapidly increased in Japan reaching fifty percent of the entire population by 2002.[1] With this increase in internet usage, the “internet market” is also showing rapid expansion. In fact, “internet purchases” already have risen to third place, next to the top two uses of the internet: “e-mail” and “information mining.” Furthermore a person who has made an online purchased a product or a service exceeded fifty percent of all internet users by 2001.[2]

The securities trading is the most progressive industry which can convert make use toof the online marketenvironment. The transition to an online market is still at only 1.17 % of the entire finance industry (Figure 1), however for securities trading alone, online transactions make up 22 % (Figure 2) of the total for the existing securities industry as of 2002. If only the private sector of securities trading is considered, online transactions make up more than fifty percent[3], so it already broadly encroaches the existing trading market.

Figure 1. The ratio of business shifted to electronic commerce (Japan) (B to C; 2002)



Source: Japan Ministry of Economy, Trade and Industry "Information Economy Outlook 2003 edition."

In fact, securities trading may be considered one of the most appropriate businesses that may be performed online. The provision of rapidly changing stock exchange information and real time settlements are the most important elements in stock transactions. However, transactions performed at a shop counter in retail establishments cannot fully meet these customer needs. Due to decreases in communication costs, rapid growth of telecommunication speed, and evolution of related businesses, there is a great possibility that other industries will shift their business to the online market. The movement of the online securities market may be a preceding reference to other industries.

As online business has expanded rapidly, the topic has begun to attract much academic interest and many researches are being conducted. However, these researches mainly present only case-based studies, or just discuss the topic of online business with various industries considered at the same time. There is very little research which focuses on specific industry or business and analyzes its success factors from a statistical and theoretical perspective.

The first half of this paper will clarify the success factors of the online securities industry through a statiscal analysis. The latter half of the paper will clarify the process by which differentiation between the companies came to exist and the source of different performance, through detailed

case-based analysis.

2. Outline of online securities industry

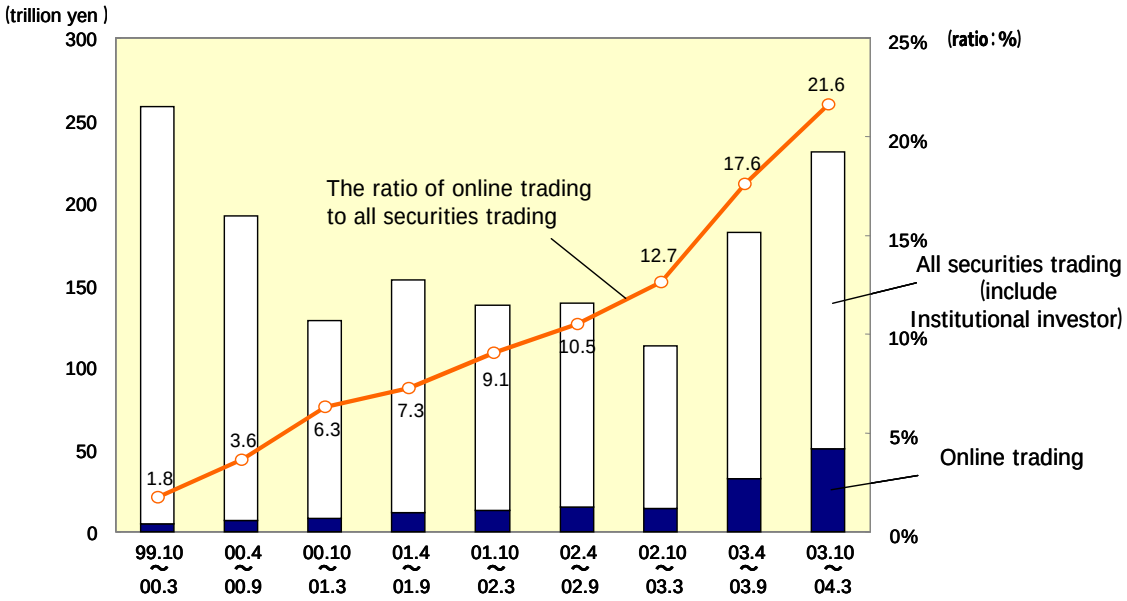
2-1. Beginnings of online securities industry

The history of the online securities industry in Japan dates back to April 1996 with to 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 twenty.

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 was occurred in October 1999. By such events, 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 seventy by March 2001 (Figure 3).

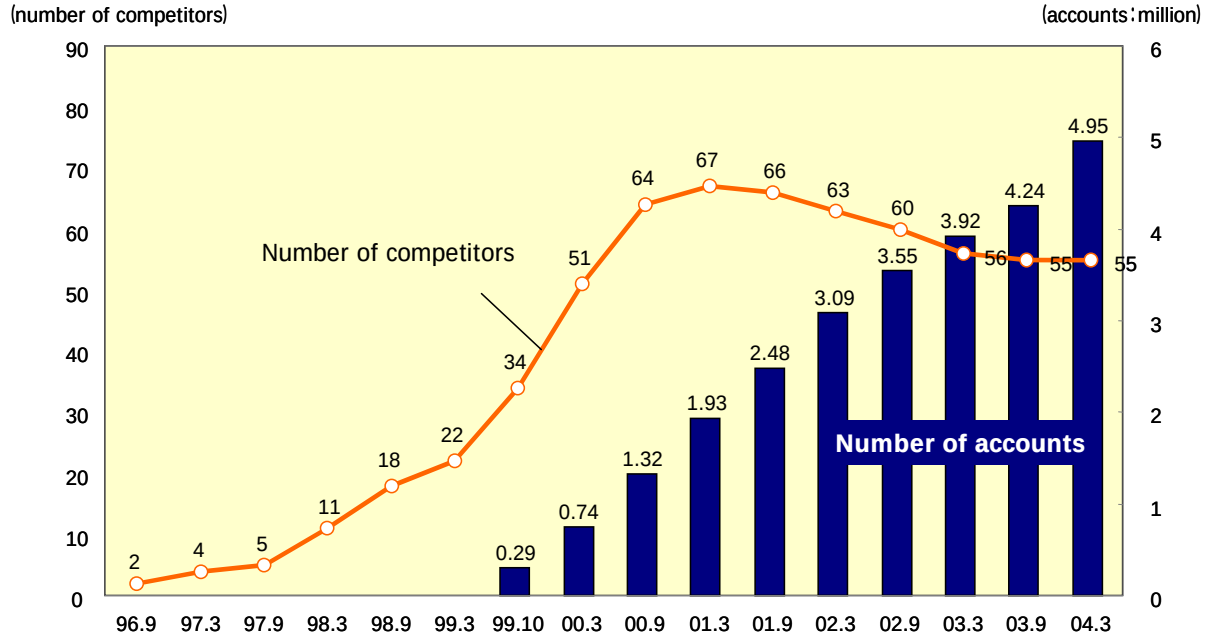
In the beggining, online securities companies only handled a limited numer of products. However,

Figure 2. Online trading and all securities trading



Source: Japan Securities Dealers Association “ Result of an investigation about Internet trading.”

Figure 3. Number of competitors and total number of accounts (online trading)



Source: Japan Securities Dealers Association " Result of an investigation about Internet trading ."
Nikkei newspaper.

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 grew to be as large as face-to-face retail sales (Takai 2001).

2-2. Extreme competition and exit

With such rapid market growth, companies faced severe competition on two aspects (Takai, 2003). The first aspect was competition on commissions. A commission is a fee paid by a customer when a securities company executes a stock transaction on behalf of the customer. However, commission rates had dropped 90 percent after deregulation and some companies had even started "commission-free" campaigns, making this competition into a war of attrition. The second aspect was competition on services provided. Companies competed on night and holiday transactions which are difficult to execute in retail stores and margin trading. They also competed on their

ranges of products, or on the quality and quantity of reference materials. Some companies provided references equivalent to the level presented to professional traders.

Under this severe competition, many companies including Schwab Tokyo-Marine which had been seen as one of the major competitors exited the market in 2001. By 2004 the number of companies in the market decreased by more than ten companies since the peak in 2001. Currently, the oligopolization of the industry is progressing where a few companies handle most of the stock transactions.

Thus, at a very early stage, online business in the securities industry was one of the rapidly growing online businesses where many companies enter, compete, and exit. In addition, this industry is very advanced in its level of information disclosure, especially among the leading companies, which permits quantitative analysis to be conducted. Therefore, the online securities industry is suitable as a research target, and it may be possible to draw implications that can be applied to other industries.

3. Theoretical background

3-1. Literature review on information technology, enterprise management and online business

With the rapid spread of internet use during the latter half of the 1990s, public interest started to focus on internet businesses which led to many researches on the subject. This section reviews these researches and categorizes them into three types.

The first type of research category consists of industry reports or extensions of such reports containing internet market analysis conducted on a specific industry (e.g., securities trading, book stores, etc.). Even for reports solely covering online securities trading, there are many examples of this type of research, including Nakagawa (1999), Nikami (2001), Nikami (2002) and Izu (2001). However, these researches tend to be only collections of data aimed at practitioners, without any efforts to theorize and argue what constitute success factors in the online securities industry.

The second type of research category consists of research which focuses on the success factors of new types of business (e.g., operating of a portal site, cooperate home page, net auction and online gaming, etc.) that have become possible with the advent of the internet. There have been many researches done from a theoretical point of view of marketing management (e.g., Nojima, 2000). However, because most of these researches do not overlap with the main thrust of this paper, explanations of these researches are omitted.

The third type of research category is research which focuses on the success factors of existing businesses (i.e., business having a “brick and mortar” market) when transactions are moved online. There have also been many researches conducted in this area, but the theory does not catch up with the newness of the phenomenon, limiting the research to just case-based studies.

An example of an exception which goes against such a trend would be Gulati and Garino (2000). Under the precondition that coordination between ‘mortar’ business and net business will allow e-business to succeed, Gulati and Garino compared three successful companies on the topic of “Should we integrate our internet business with our traditional business or should we keep the two separate? (pp.107)”. With the result of their analysis, Gulati and Garino argue that rather than taking “integration and separation” as a simple antinomy, the decision either to unite or separate “brand, management, operation and equity” that each company makes creates many possibilities. Moreover, under the hypothesis that the reason for the failure of most existing companies to execute well online business lies in organizational cultures which deny change, Kanter (2001) compared a “pacesetters” group made up of companies that had successfully changed their corporate culture, and “laggards” group which has not been very successful in changing company culture. As a result of such a comparison, Kanter concluded that resolving the human problem is more important than resolving the technical problem for existing companies to success in online business.

Although, these researches provide many insights as prior studies in this realm, they do not fully cover the characteristics of individual industries. Rather, they only look at several industries from the limited perspective of online business and their arguments about the “success factors” are also quite limited. Therefore, it can be said that the research in this field is still at a very primary stage.

As stated above, there are many researches done on online business, however, most of these researches are only the case-based studies, or single sided researches which only look at the online business of many industries as a whole. There is almost no research which looks at a specific industry or business and analyzes its success factors from both a quantitative and qualitative perspective.

Therefore, to address the gap in the literature, the remainder of this paper will look at the situation of the online securities industry and the strategies of leading companies. First, we address the question “which kinds of companies are showing high performance in the online securities industry”. Next, we draw hypotheses from our analysis and verify it with a quantitative data.

4. Hypotheses

In this section, we formulate some hypotheses on the success factors of online securities industry, referencing opinions that are circulating in the media and discussing about them from the theoretical point of view of strategic management.

4-1. First mover advantage

The popularly cited "reason for failure" for those companies which have exited the online securities industry is that "they entered the market too late." On the other hand, successful companies are said to be ones which entered the industry before the competition became severe and thus were the companies that were able to create a lucrative position in the market.[4]

A competitive advantage achieved by entering a market prior to others is called a "first-mover advantage." In the field of strategic management and innovation, there exist two arguments about the timing of market entrance. One states that earlier entrance into the market will create an advantage (Foster, 1986; Rosenbroom and Cusumano, 1987), and the other states that those who enter the market too early tend to fail and it is better to enter a market with a slight delay (Mitchell and Singh, 1993). Lieberman and Montgomery (1988) provide a useful framework to answer the question under which conditions a company would profit from early entrance into the market and under which conditions would a company profit from late entrance. In their thesis, Lieberman and Montgomery list four items as sources of first mover advantages: 1. Technological leadership (i.e., a company could monopolize profit for a certain period of time by taking leadership in technology, obtain patents, and acquiring experience); 2. Preemption of scarce assets (i.e., securing scarce resources prior to others); 3. Buyer switching costs (i.e., when a customer incurs cost in order to change the company from which a product is purchased, one could achieve advantage by acquiring a customer before others); 4. Network externalities (i.e., consumers gain utility not only from the physical consumption of a product but also from the number of other agents using the same product). The latter part of this section will look at whether a "first mover advantage" (as specified by Lieberman and Montgomery) should be present in the online securities industry.

Unlike many manufacturing industries, technical leadership and patents are largely irrelevant in the online securities industry. However, by means of acquiring operational experience and know-how, early entrance into the market may be considered advantageous (Hiruma and Kobayashi, 2002). As such, it can be argued that technological leadership is an important differentiating factor.

The overwhelmingly important resource in the online securities industry is a company's "information system." Of course, other resources (e.g., human resources, etc.) are needed to operate

an online securities company, however, the effect of these resources is extremely small compared to the case of face-to-face transaction based operations (i.e., a shop counter). In fact, when looking at the studies done by companies that evaluate online businesses, the primary interests of users, excluding cost and products, concentrates on elements like convenience and data-security that relate directly to a company's information system.[5] In this industry, most of the companies have implemented package products produced by two major securities companies.[6] So it seems that information systems might not be a source of competitive advantage. However, in order to provide services such as a "fixed commission rate" and "margin trading" which have had large effects on competition in the industry, a companies have had to customize or add on a functions to their information systems. Of course, companies have to spend time and effort in order to do so, and whether they have succeeded or not has dramatically affected their services, therefore it may be said that advantage from preemption of scarce assets is large.

Next, we turn to network externalities (i.e., the characteristic of a network service where increase in the number of consumers of a particular service, leads to an increase in the convenience that a consumer experiences). Looking again at online business surveys, the elements that are difficult to evaluate prior to actual use and which involve the quality of service, such as "functionality and usefulness," "detailed service," (Gomez Inc.) and "the variety of services and their well-balanced choice" (Stock Research Inc.) are generally chosen as key points of evaluation. Due to such an evaluatory trend, it may be said that "network externalities" (broadly defined), such as "because others use this service, I will use it too" (Asaba, 2000) tends to work in this industry.

Finally, "switching costs" are considered. Until 1999, with the notable exceptions of Matsui Securities and Daiichi Securities, most of the online securities companies charged a few thousand yen per year as an account maintenance fee, and users had to pay about ten thousand yen to begin using a service, making it difficult for users to open new accounts. However, by 2000 many securities companies, excluding the three major securities companies stopped charging account maintenance fees and commissions if a person had made a transaction in the proceeding year. Thus, switching cost decreased. However, there are still some elements that make switching costs quite high even now.

The first element which increases switching cost high is the fact that regulation require a customer to send an application by mail in order to open an account, rather than just by clicking online. The second element that makes switching costs higher is the effect created by the initiation and diffusion of margin trading services. Margin trading is the transaction where a person may borrow money to

buy stock, or borrow stock to be sold, by paying a certain amount of deposit. By using margin trading, an investor can buy stocks that are beyond the capacity of his liquid assets or sell stocks that he does not own, thus expanding his trading level. The popularization of margin trading should deepen the relationship between a securities company and a user, because it would be burdensome for a user to transfer his deposit to another company account every time he wants to make a trade. The third element which increases the switching costs is the high complexity of the typical investor's portfolio due to the abundance of products provided by securities companies. With this complication, it may be said that the cost of switching securities companies is high, since an investor must go though a lot of trouble transferring their portfolio to another securities company.

Thus, in online securities industry, technological leadership by accumulation of experience and preemption of scarce assets tend to be very effective, "network externalities (broadly defined)" should exist, and switching costs are high. From such analysis, it is safe to say that a first mover advantage will likely be present in this industry. Therefore, the hypothesis may be drawn that the longer a company has been in the market, the better their performance will be.

4-2 Competition to acquire more accounts

In the online securities industry, increasing the number of accounts was believed to be one of the key success factors and one of the most important indicators to be considered. This is because the securities companies believed that with the new online market for securities, those who have not been actively trading would quickly enter the stock market and contribute to a profit increase. With this belief, most of the securities company struggled to increase the number of accounts around 1999-2001.[7]

On the other hand, most of the experts pointed out that there are no indications of massive amounts of new customers coming into this industry, and those who actually conduct stock transactions are a limited number of "core customers." Whether a company has successfully acquired the accounts of these "core customers" differentiated the winners and losers.[8]

In order to conduct online trading, one must have opened an account. It is natural to think that the number of accounts equals the number of customers. However, there are many customers who just open an account but do not make any trades. Newspapers and other sources have said that such "no-trading" customers will continue increasing. As can be seen from Figure 2, the number of accounts has steadily increased, but such an increase includes the number of customers who open accounts in multiple securities companies. Therefore, we can draw the conclusion that "the

expansion of the market due to the expansion of the range of customers has not happened as much as expected."

If most trading is only being done by a limited number of core customers ("active traders"), the online securities companies could be in a situation where an increase of the number of accounts makes variable costs rise and make it difficult even to collect fixed costs.

As argued above, because there may only be a limited number of core customers, "scale diseconomy" (Uekusa, 1982) may occur. In summary, it can be hypothesized that company performance will decline as the number of accounts increase.

5. Analysis

5-1. Sample

We will test our two hypotheses using data of seven companies that are specialized in online securities trading. As of March 2003, there are about forty companies that handle stocks online. Out of the forty, this research focuses on those companies that disclose their operatiog revenue and operating profit specifically for the online marlket for at least three fiscal years. There are almost no publicly listed companies that disclose the breakdown of data distinguishing between existing shop floor trading and online trading. It is also exceedingly difficult to collect financial data for non-public companies. Even when the data could be obtained, it had to be for more than three years,

Table 1. Basic information of sample companies (million yen)

Company name	Online business entry	Business grouping	Number of accounts	Operating revenue (Sales)	Operating Profit	Period of adopted sample
Matsui Securities	May-98	Middle-ranking securities firm	92,087	13,425	3,527	5
E*trade Securities	October-99	Foreign company (USA:E*Trade Japan:Softbank)	257,616	7,774	477	4
DLJ direct SFG Secrities	June-99	Foreign company (USA:DLJ Direct Japan:Mitsui-Sumitomo Bank	139,350	6,014	-73	4
Monex Securities	October-99	Independent company (stakeholder: SONY etc.)	215,366	2,766	-1,765	4
Nikko beans Securities	October-99	Leading Securities firm (Nikko group)	92,885	2,780	66	4
Kabu.com Securities	February-00	Independent company (stakeholder: UFJ Bank etc.)	110,326	2,944	203	3
Jet Securities	March-00	Independent company (stakeholder: Nichimen etc.)	36,072	372	-271	3

Source: company annual reports, investor's reference guides, and press releases.
Note: The data in this table is correct as of March 2003.

meaning that those companies that had not entered the market by April 2000 had to be omitted. As a result of these limiting factors, we have had to settle for sample size of only seven companies. However, these seven companies account for 70%[9] of all the online securities trading and handle more than half of the stock market trading executed by private customers (including non-online traders), so it may be concluded that analyzing these seven sample companies is sufficient to verify the above hypotheses. Table 1 presents the basic information of the sample companies.

5-2. Dependent variables

As the dependent variable representing company performance, we used the "operating profit" of each of the seven companies specialized in online business.

"Operating profit" and "operating revenue" are two of the most important performance indices of securities companies, whether or not they operate online. Operating revenue is equivalent to "sales" at an ordinary company and mainly consists of commissions received for a stock transaction, but it also includes profits and losses from trading and revenue from financial transactions. On the other hand, the "operating profit" is defined by accounting standards, which were unified in September 2001 in securities industry, as operating revenue minus interest expense(i.e., pure operating revenue), minus sales expenditure and normal administrative costs. Thus, operating profit implies the profit made on actual operations. Therefore, "operating profit" is a suitable variable to represent the performance of an online securities company.

5-3. Independent variables

As for the independent variables, we used "months elapsed since entrance" and "number of accounts." "Months elapsed since entrance" includes the month in which a company began online trading to which the number of months that passed until the end of the each fiscal year. "Number of accounts" is the total number of accounts at each year of seven companies specialized in online securities at the end of the fiscal year.

From the argument made in 4-1, it is possible to conclude that "the longer the company has been in the market, the better their performance will be." Therefore, the below operational hypothesis may be drawn.

(Hypothesis 1) "Months elapsed since entrance" has a positive effect on "operating profit."

From the argument made in 4-2 that in the online securities industry, since it is likely that there are

only limited number of "core customers," even if the number of accounts increased, most of the accounts will be non-operational (non-active), and thus will not contribute to a improvement of operating revenue. On the other hand, as the number of accounts increase, variable costs will definitely increase. With this increase in variable costs, there is a high possibility that operating profit will decrease. Therefore, the below operational hypothesis may be drawn.

(Hypothesis 2) "The number of accounts" has a negative effect on "operating profit."

5-4. Control variables

In order to test the above working hypotheses, we used a "company dummy" variable and an "annual average trading volume of the stock market" variable as control variables.

We controlled for strategic differences, resource endowment differences, and capability differences among the companies that cannot be easily covered by independent variables using the "company dummy" variable. This variable is set for each of the companies other than Jet Securities. Since company performance greatly depends on the average trading volume of the stock market throughout the year, we controlled for annual differences by "annual average trading volume" variable.

6. Result

Table 2 shows the descriptive statistics and correlation matrix for the variables included in the analysis. Table 3 shows the results of our multi-regression analysis. Model 1 is the base model, which includes only the control variables, and Model 2 provides the alternative tests for Hypothesis 1 and 2 respectively, which includes the two independent variables "months elapsed since entrance" and "number of accounts."

As Table 3 indicates, the explanatory power of Model 2 regression is stronger than that of Model 1 (i.e., the adjusted R^2 shows an increase). This result suggests that the two independent variables "months elapsed since entrance" and "number of accounts" have explanatory power for "operating profit".

In Model 2, "months elapsed since entrance" has a positive effect and is significant at 1%. Therefore, Hypothesis 1 is supported. Additionally, "number of accounts" has a negative effect and is significant at 1%. Therefore, Hypothesis 2 is supported.

Also in Model 2, two company dummies, E*Trade and Matsui Securities, have positive and stronger effects than the other company dummies. These two company dummies are also significant at 1%. This result suggests that E*Trade and Matsui Securities are the best performing

companies in the market, even after controlling for "months elapsed since entrance" and "number of accounts." Companies other than these two show about the same performance, but Nikko Beans is shown having the worst result.

Some additional consideration is needed to interpret the above statistical results. This is because the top management of E*Trade has commented in 2003 that "our online securities trading operation is in deficit" and it is thus hard to believe that this company has a real strength in online securities

Table 2. Correlation matrix

	Variable	average	S.D.	1	2	3	4	5	6	7	8	9	10
1	Operating Profit	13.185	1,853.183	1.000									
2	Month elapsed since entrance	26.444	14.276	0.466*	1.000								
3	Number of account	96,086.500	63,779.085	-0.135	0.448*	1.000							
4	Annual average trading volume	810,543.889	108,390.266	-0.157	-0.378	-0.064	1.000						
5	E*trade (dummy)	0.148	0.362	0.171	-0.073	0.487*	0.090	1.000					
6	Kabu.com (dummy)	0.111	0.320	-0.169	-0.062	-0.041	-0.027	-0.147	1.000				
7	Monex (dummy)	0.148	0.362	-0.258	-0.073	0.325	0.090	-0.174	-0.147	1.000			
8	DLJ (dummy)	0.148	0.362	-0.143	0.046	0.049	0.090	-0.174*	-0.147	-0.174	1.000		
9	Nikko beans (dummy)	0.148	0.362	-0.424**	-0.073	-0.079	0.090	-0.174	-0.147	-0.199	-0.174*	1.000	
10	Matsui (dummy)	0.185	0.396	0.786**	0.257	-0.368	-0.286	-0.199	-0.169	0.070	-0.19881	-0.19881	1.000

** p<0.01 n=27
* p<0.05
+ p<0.10

Table 3. Result of regression <dependent variable: operating profit>

	Model 1		Model 2	
	β	t	β	t
Month elapsed since entrance			87.391**	4.725
Number of account			-0.017**	-2.872
annual average trading volume	-0.001	0.770	0.003*	2.184
E*trade (dummy)	1030.36	1.354	3372.94**	3.513
Kabu.com (dummy)	-544.33	-0.671	507.723	0.824
Monex (dummy)	-840.64	-1.105	1098.33+	1.307
DLJ (dummy)	-339.65	-0.446	561.321+	0.916
Nikko Beans (dummy)	-1562.4*	-2.054	-683.07	-1.242
Matsui (dummy)	3398.78**	4.638	2976.280**	6.524
Constant	-1374.8	-0.848	-4169.8**	-3.674
Adjusted R2	0.713		0.884	
F values	10.218**		22.149**	

** p<0.01 n=27
* p<0.05
+ p<0.10

trading business. (It is said that E*Trade has made up for the losses by profits earned from financial transactions).[10] With this in mind, there is a high probability that Matsui Securities has the highest performance.

The result that Nikko Beans had the worst performance also needs a comment. If we consider the fact that Nikko Beans made an operational profit for the third quarter of 2003 for the first time after four years of operation and note that the company is showing a steady increase in operating revenue and number of accounts, it may seem that Nikko Beans is in better condition than the other companies which are still in deficit. However, the number of accounts for Nikko Beans is less than hundred thousand, meaning that it is still one of the smallest (third from the smallest) company in this analysis. Moreover, Nikko Beans entered the industry as early as E*Trade and Monex. Therefore, taking into consideration that the number of accounts will give a negative effect and entrance timing will give a positive effect on the operating profit, it may be said that Nikko is actually in a worse condition than it seems. Therefore, if Nikko Beans continues increasing the number of accounts, the structural problem will prevent the company from increasing its profit.[11]

7. Discussion (1)

The results of the multiple regression analysis confirm, in spite of various limitations, that latecomers to this new and expanding market have a disadvantage. For example, Schwab Tokyo-Marine was not far behind, compared with E*Trade and DLJ, at least in terms of its performance in U.S, make-up of its alliance member companies, and commission system and services. The results of our analysis suggest that the major reason for the failure of Schwab Tokyo-Marine may be that it had entered the industry more than three years behind the others.

The second point we can suggest by our analysis is that, in order to be successful in this industry it is important not only to emphasize increasing the absolute number of accounts but also acquire active users (to increase the turnover rate of transactions per account). Above all, capturing the active users should be the most important factor to increase company profit.

In the period of 1999 to 2000 when many companies had entered the industry, Monex, Nikko Beans, and DLJ were competing on lowering commission rates in order to increase the number of accounts. On the other hand, Matsui Securities pursued a strategy of increasing the turnover rate (number of active users), and it enjoyed surprisingly good profitability.[12]

For example, Nikko Beans set 300,000 accounts as its break even point in 1999 (the company has 92,000 accounts as of March 2003) which when seen today seems to be a very unrealistic target.

Because excessive investment in its information system aimed to achieve such a high target became a large burden and the so-called “IT depression” caused the stock market to become sluggish, suppressing commission income, the profit of Nikko Beans remained negative. In contrast, Matsui Securities anticipated that this industry was one in which “scale diseconomies” would work, because of the limited number of core customers, so it pursued a better strategy at this time. As a result, Matsui Securities established an advantage in the initial stage of the industry.

This study also presents some suggestions to some other online businesses, such as ASP (Application Service Providers). Though ASP is a B-to-B business, the following lesson derived from our analysis may be given to managers: “You must enter the market as early as possible, and when you seek to increase customers, you must emphasize on ‘how to improve the turnover rate of your customer’ or ‘how to create a business model which will increase the number of active users’”.

8. New Questions and Issues: Differentiation between Players

The above discussion leads us to one major question.

As shown in Table 1, 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.

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 and Shuen, 1997). The resulting minimization of differences between competitors works toward reducing a company’s competitive advantage (Noda, 2001; Noda and Collis, 2001).

In fact 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 leading companies publicly disclose performance results. 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. This is a question spurred by the analysis in the first part of this paper.

Thus, in the latter half of this paper, we will take a closer look at actual cases in the online

Table 5. 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 Securitie	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.

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?"

9. Case Analysis: Online securities industry and six specialized companies

Of the seven companies that are specialized in the online securities business and were analyzed in the first half of this paper, the following section analyzes in particular the six leading companies (Table 5). Jet Securities is excluded from the analysis, largely due to its low market share and its extremely weak influence on the overall industry. The mass media generally focus on these six companies excluding Jet Securities, and it is presumed that for the purpose of this research, it is sufficient to analyze these six companies. 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.[13] 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.

In the case analysis that follows, we will clarify what sort of competition existed in the initial stage

of the online securities industry by tracing the market entry of each company and taking a close look at their strategies and resulting performances.

１０. Matsui Securities: Making the early moves

Matsui Securities made its entry into the Japanese online securities market in May 1998, making it the 13th company to enter the market.[14] Thus, it is clear that the company was not necessarily ahead of others in terms of the timing of its market entry. However, the company's quest 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 Matsui Securities' conviction, based on his firsthand experience in Nippon Yusen (a shipping company)[15], where he worked prior to joining Matsui Securities, and where he witnessed the post-deregulation competition. He firmly believed that the cost of sales persons would not be accepted by customers when a market is deregulated. Based on this conviction, Matsui Securities spent four years completely eliminating its sales persons and transitioning itself into a call-center specialized securities company.[16] Adding a new line of "internet business" to this "call center business", Matsui Securities dropped from the call center business about only half a year of after adding internet business, became the first company to specialize in online securities in Japan.[17]

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.[18] Thus, Matsui Securities entered the as-yet-unknown market with the know-how and data accumulated during the period when it was a securities brokerage operating as a call center under the anticipation of eminent deregulation.[19]

１１. 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 stage of the Japanese online securities industry.

The roots of this dominant perception can be traced to what occurred in the United States after deregulation of securities commissions in 1975, more than 20 years before such deregulation happened 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 4), largely because for a long time the securities companies 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 their good customers as long as possible, by providing valuable investment information and advise tailored to the needs of each customer under a relatively high and uniform commission fee structure, which was not viewed as particularly onerous to the affluent, middle-aged consumer groups, with their surplus assets, to which most of the securities companies’ customers belonged.[20]

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 would 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.

Figure 4. The ratio of individual assets made up by stock investments (1999)

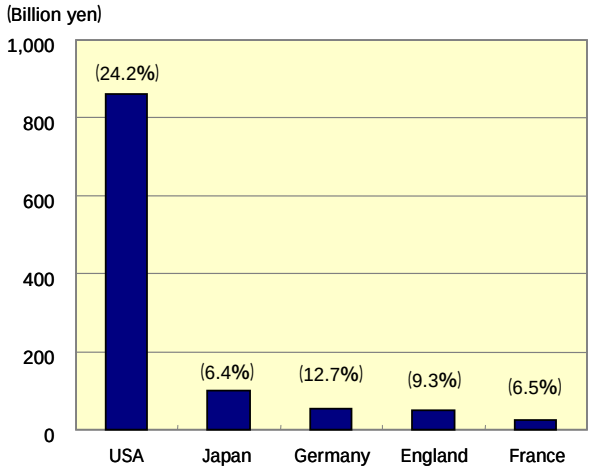
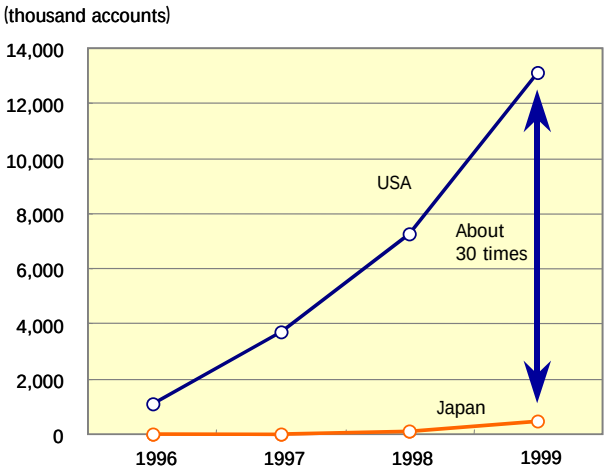


Figure 5. Increase of online securities accounts in USA & Japan



Source: Japan Securities Research Institute.

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 Figure5) where commissions had already been deregulated in 1975 and where the transition to online businesses was ahead of Japan. By comparison, in September 1999, just before deregulation in Japan, there were only 130,000[21] online securities accounts in Japan whereas the figure in the U.S. was 13 million.[22] Thus the Japanese market was much smaller than that of the U.S. even 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 of the United States.

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".[23]

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 explosive market growth, as seen in the United States case, and with a push from the IT bubble economy[24], the dominant perception that "customers would vigorously increase" was formed.

12. Reactions of Major 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.

Even 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 the deregulation, it was still below 15%. It has been pointed out that the reason behind this slow increase is because many customers highly value the investment information and advise that sales persons of full service securities companies provide (Osaki, 1999).

This data was very encouraging for major Japanese securities companies since they also provided full service. Based on such data, the major securities companies that 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 advise 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 for online and face-to-face transactions, therefore they announced their policies to minimize commission discounts after deregulation in October 1999. [25]

As a result, it was difficult for major securities companies to take proactive actions for expanding 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 their online securities divisions, were also faced with the same situation to a greater or lesser extent. 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 from the younger generations who had no securities transactions experience, or from the large pool of businesspersons who were too busy to visit retail shops.[26] Each company tried to be first to obtain in such customers in bulk, and a severely competition environment ensued.

13. 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 was alone in announcing a "fixed commission fee system" for 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 said its fee system was "unprecedented in Japan or overseas"[27] 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.[28] Although there was a common understanding at the time that "3,000 yen was the profitable line,"[29] 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 at below the "profitable line," as is shown in their comments:[30] "we are prepared to suffer loss for three years (Nikko Beans)"[31] and "the fee will not cover fixed costs (DLJ)"[32], or "we do not intend to get involved in price war (DLJ)".[33]

Despite the fact that companies were already incurring losses, a fierce price war soon started. The first company to decrease its commission fee was the E*Trade, which was also the company that was first to trigger “price destruction” in the United States. Initially, E*Trade in October 1999 began a “free commission fee” campaign for a limited period without changing its revised price scheme that had just been set up.[34]

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 then two million yen. Also in October 2000, E*Trade started a extremely low-price 100 yen campaign for a limited time.[35]

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

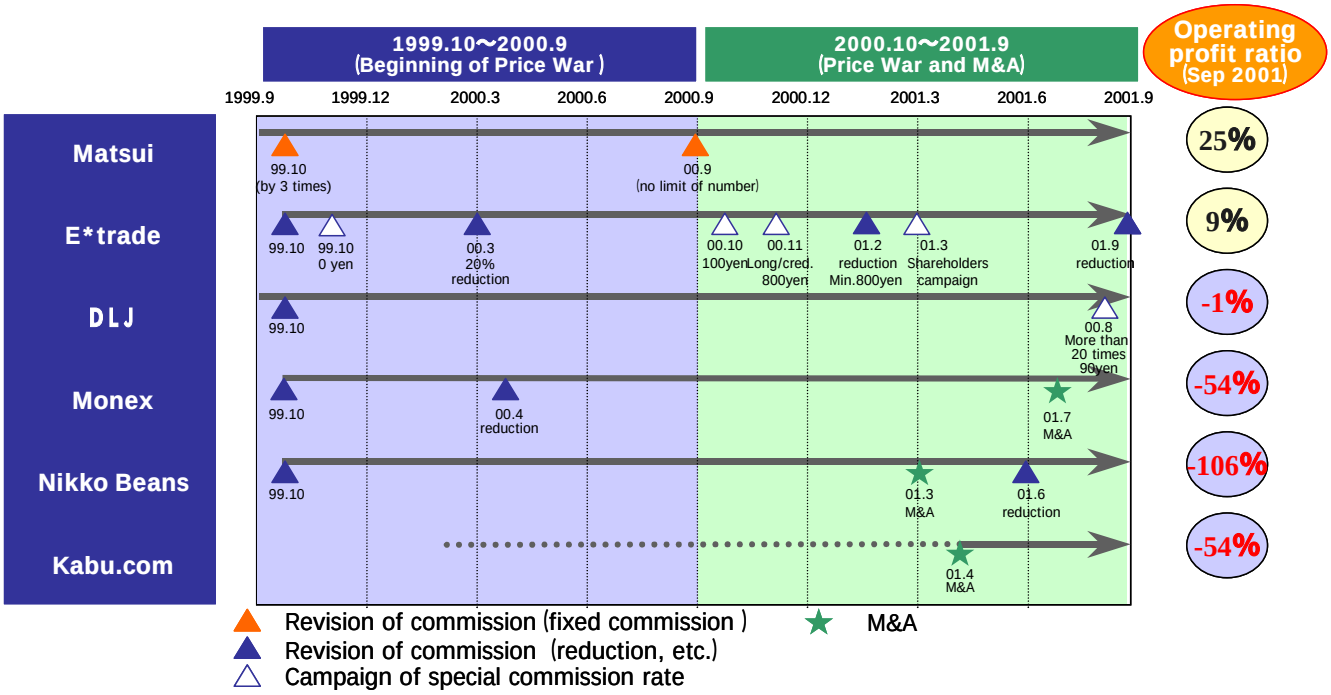
Following these mergers’ announcement, E*Trade, which had been increasing the accounts through its low commission fee strategy, changed its fee scheme again in February 2001, lowering its minimum commission to 800 yen.[36] Subsequently, in June 2001, Nikko Beans, which had only just acquired Internet Trade Securities in March 2001, announced its first commission fee change since deregulation.[37] By this, they lowered the minimum commission fee from 1,000 yen to 700 yen, a level lower 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 it announced that it would run a “90 yen per transaction” campaign beginning in August, although the campaign was limited to cases with more than 20 transactions per month.[38]

Following DLJ’s announcement, E*Trade instantly announced a further price decrease. 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.[39]

As mentioned already, the companies that were engaged in the price war had started off at a price

Figure 6. The strategy for increasing number of accounts



Source: company annual reports, investor's reference guides, press release, and Nikkei news paper.

level that was below the profitable line.[40] 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 anymore. 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, but their revenue suffered severely due to the severe price cuts and downturn in stock trading (Figure 6).

14. Matsui Securities' Unique Moves

14-1. The Strategies of Matsui Securities

Contrary to its competitors, Matsui Securities held a completely different view about the market size and the projected growth trend based on its accumulated data. In September 2000 when many others were pursuing price competition, President Matsui expressed his opinion that new customers would not increase dramatically.[41] 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".[42] 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 transactions per account, that is the "turnover rate".

In detail, Matsui Securities established a system that allowed its customer (experienced investors) to engage in any transaction he liked ——however small the amount may be and however many times he wanted.[43] Through this system, Matsui Securities offered services that take advantage of real time processing capability of online businesses, and that are highly risky and requires specific knowledge, such as regarding margin trading and option trading. 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" that make a few transactions per day utilizing margin trading and option trading.

14-2. Others' Evaluation of Matsui Securities

The mass media paid much attention to Matsui Securities' unique strategies, and so the other competitors must have had good knowledge of what Matsui Securities was doing. However in spite 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 was faced with the restriction of not being able to differentiate itself from its competitors in terms of commission fees, but it nevertheless attract 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, that provided a 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.[44]

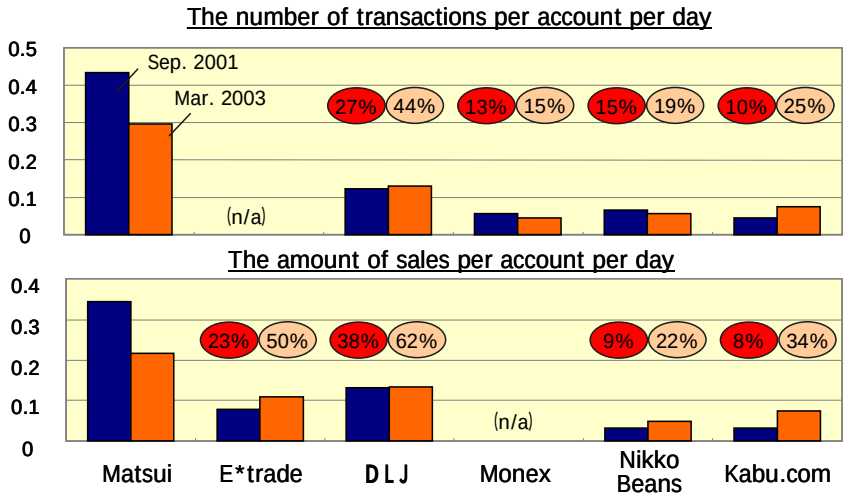
Also, Matsui Securities' commission fees remained relatively higher than the minimum commission fees of its competitors who were engaging in price decreases after the deregulation in October 1999. Therefore the majority of the industry thought that Matsui Securities' performance was not enough to constitute a threat.[45] 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."[46] Nevertheless, other companies maintained their views that Matsui Securities' strategies were special and not a model to be imitated answer even into 2001. They were quoted as saying; "Matsui Securities is surely improving its revenue, but we only see it as a niche company."[47] 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".[48]

14-3. 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 3. 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," [49] and "there are many potential investors."[50] 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[51], or looking at the breakdown of the explosive increased in online accounts, it was discovered that the majority of these accounts were hold by customers of the three leading brokerage companies which mainly provide retail services.[52] As these facts became clear, a new recognition

Figure 7. 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%.

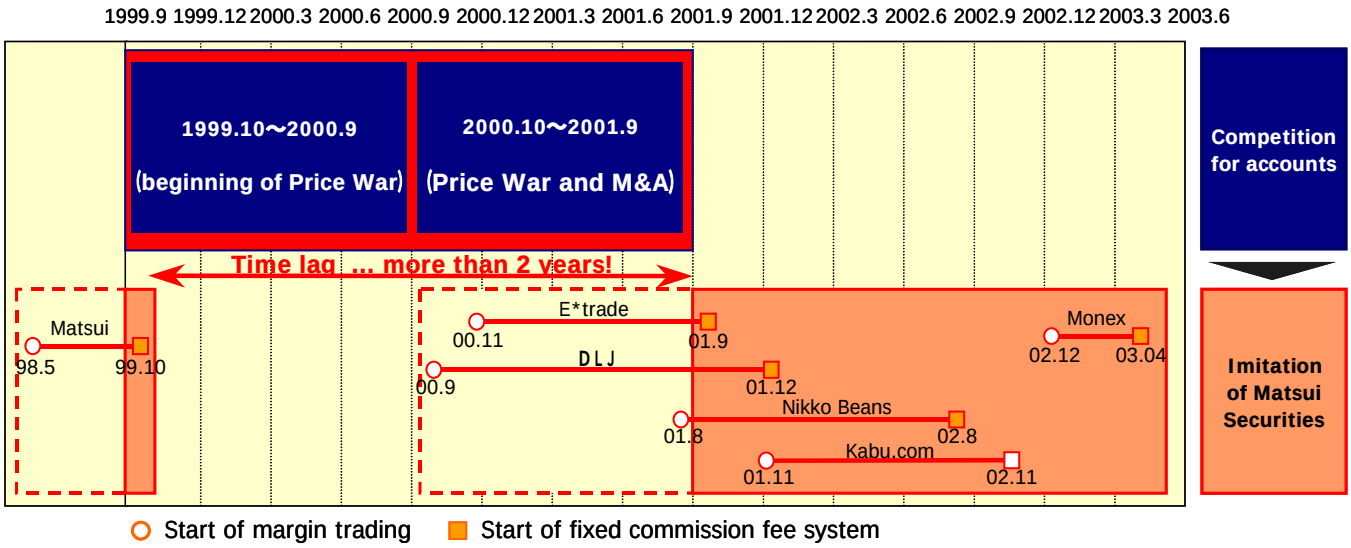
started to prevail: In Japan, the actual number of "customers" who engage in the actual stock trading is largely deviated from, or rather, significantly less than the total "number of accounts."

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 difference (Figure 7). The ratio of operating profit to operating revenue in the fiscal year ending March 2002 was 19%, 17%, 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, as mentioned in the first half of this paper, E*Trade suffered loss in the stock brokerage business.[53] 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. So, as President Matsui had predicted earlier,

Figure 8. Imitation of Matsui Securities



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

"there was no explosive increase in general stock investors in Japan during this period".

While other companies were engaged in price competition based on the "dominant perception", Matsui Securities maintained its unique strategy that 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 the top profit level in the industry, saying "several hundred customers a month switch from Nomura and Daiwa".[54]

15. 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, and 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[55], and looking at the breakdown of the explosively increased 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 is largely deviated from, or rather, significantly less than the "number of accounts".

Until then, the industry players targeted the general investors which they envisioned would rapidly

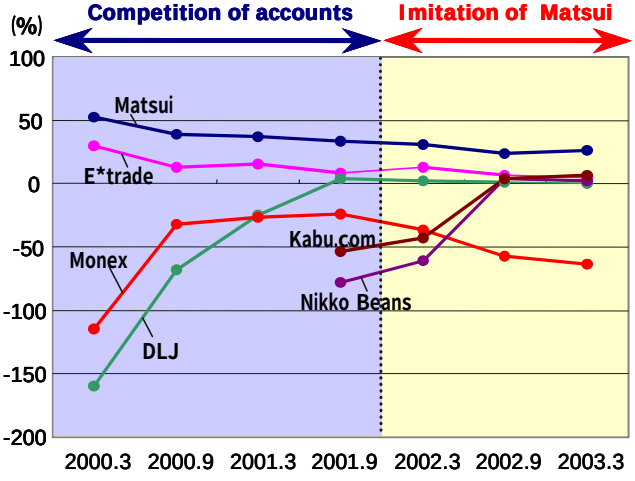
increase and insisted on attracting such new customers by lowering their commission fee. However around mid-to-late 2001, these other companies began to introduce margin trading for advanced users and also fixed commission fee systems, imitating Matsui Securities' strategy for attracting active users through margin trading and a fixed commission fee system. By this time, however, two years had already passed since Matsui Securities first implemented these strategies.

Figure 8 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 account increases ended, but they experienced a favorable turn in business by following Matsui Securities' strategy (Figure 9, 10).

At this point, E*Trade, which had been as the price-cutting leader undertaking the price competition the most proactively, admitted the success of the transition from the conventional strategies based on dominant perception to strategies that sought to meet the needs of active users.[56] Monex also admitted that their failure had been caused by its delay in following the others to shift it strategies by more than a year.[57]。

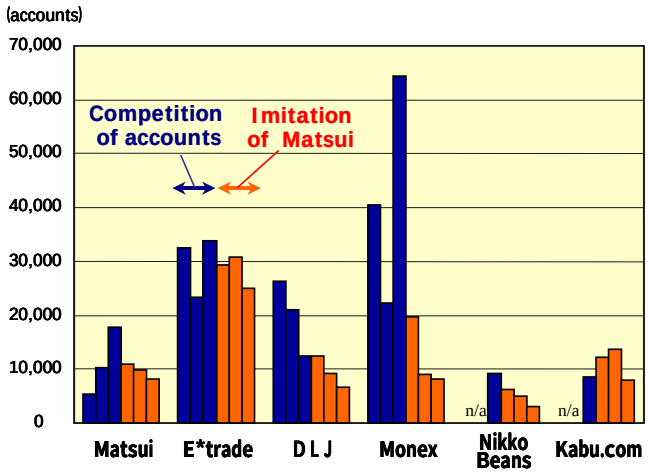
Today, various companies including E*Trade, DLJ, and Monex, have succeeded in attracting the customers of Matsui Securities by imitating its strategy, and as a result they have succeeded in reducing the revenue difference. (Figure 7). Regarding this, President Matsui was quoted as saying; "Looking at 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 9. Ordinary profit ratio



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

Figure 10. 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". [58]

However, it is important to note that today Matsui Securities still remains 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.

16. Discussion(2)

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. Despite this, Matsui Securities succeeded in establishing a predominant position in the initial stages of this 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 it 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 had kept accumulating 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 customer were not increasing very much. President Matsui pointed out that: "Even big securities companies as well as new entry companies did not have the kind of firsthand information as we had." So it may be said that the kind of information Matsui Securities possessed was difficult-to-follow and highly cohesive information (Dierickx and Cool, 1989). Besides, in order to implement what turned out to be the key factors to superior performance, (i.e., a combination of the 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 to be built. Matsui Securities built such an information system, thereby creating the other key of competition. Most of the information systems used by other companies that had entered in the early stage of this industry used were package products. Therefore, it was difficult for these companies to introduce the 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 in 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 they could finally overcome this constraint in several months at any rate.[59]

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 early stage 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 though the published data 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 stage of this industry, because companies other than Matsui Securities were beholden to the "dominant perception", they would not follow Matsui Securities' strategy, even though they knew the strategy and its intention quite well. As a result, Matsui Securities kept growing in the situation that appeared to be similar to the so-called "gap created by concentration of several companies" (Shimamoto, 2001).

17. Conclusion

In the first half of this paper, we made a quantitative analysis of the success factors in the online securities industry. The result showed that "first-movers advantages" and "scale diseconomies" had

certain effects in this industry. However, through this initial analysis a new question arose; “Why Matsui Securities differentiate itself from the others?” and “How could Matsui Securities maintain its differences in the early stages of this industry, where the imitation by other competitors was easy?” In latter half of this paper, we carried out a detailed case-based analysis to answer this new question.

In conclusion, in the early stages of the online securities industry in Japan, the combined factors of expectation based on the precedent in United States, backed up by the IT Bubble economy together with “media hype,” created a “dominant perception” that “the customer base of the industry would dramatically increase.” Based on this presumption, companies other than Matsui Securities continued to participate in endless and morass price competitions. These companies had sufficient understanding of 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 follow Matsui Securities’ strategies. For these reasons, Matsui Securities could enjoy overwhelming performance, and establish a solid position in the initial stages of the industry without being imitated by others.

This paper summarizes the success factors in the early stages of the online securities industry in Japan. It also describes a mechanism that explains why competitors did not imitate Matsui Securities’ successful strategies. Statistical analysis was used for the former part and case-based analysis for the latter.

For the purposes of this study, we only analyzed the 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 includes 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.

Notes

[1] See Ministry of Public Management, Home Affairs, Posts and Telecommunications (2003).
[2] See Ministry of Public Management, Home Affairs, Information Economy Outlook (2002).
[3] See Matsui Securities Investor's reference guides (2003).
[4] See Nikkei kinyu shimbun (2001, Dec.14),or Nikkei sangyo shimbun (2001, Dec. 11).
[5] For an argument along these line, see researches of Gomez Inc. (http://www.gomez.co.jp/) and those of stockresearch Inc. (http://www.stockresearch.co.jp/).
[6] See Nikkei kinyu shimbun (2002, May.15).
[7] See Nihon keizai shimbun (1999, Nov. 2), Nikkei kinyu shimbun (1999, Jan. 20) and Nihon keizai shimbun (1999, Sep. 27).
[8] See Nikkei MJ (2001, Sep. 25).
[9] See Matsui Securities Investor's reference guides (2003).
[10] President Kitao of E*trade mentioned, 'Brokerage business is in the red', see Nikkei kinyu shimbun (2003, Apr. 24).
[11] Nikko beans had agreed to merge with Monex in Aug. 2004, see Nikko beans press release and Monex press release (2004, Mar. 19).
[12] See Nikkei kinyu shimbun (1999, Sep. 27), Nikkei ryutsu shimbun (2000, Feb. 12) and Nikkei sangyo shimbun (2000, Jan. 21).
[13] See Matsui Securities Investor's reference guides (2003).
[14] See Osaki (1999).
[15] For further discription on the issue, see Matsui (2001, 2003).
[16] See Weekly Toyo-keizai (2002, Jul. 27).
[17] See Weekly Toyo-keizai (2002, Jul. 27).
[18] Based on interview with President Matsui, see Nikkei BP real interview (2002, May 31).
[19] See Nikkei BP real interview (2002, May 31).
[20] See Saga (2000).
[21] See Nikkei kinyu shimbun (1999, Oct. 21).
[22] See Saga (2000).
[23] See Nikkei kinyu shimbun (1999, Jan. 20).
[24] Based on my interview with Mr. Amemiya, executive officer of Kabu.com securities. (2004, Mar. 25).
[25] See Nihon keizai shimbun (1999, Aug. 4).
[26] See Nihon keizai shimbun (1999, Nov. 2).
[27] See Matsui press release (1999, Aug. 26).
[28] Based on my interview with Mr. Amemiya, executive officer of Kabu.com securities. (2004, Mar. 25).
[29] Based on interview with Mr. Osaki, researcher of Nomura research institute, see Nihon keizai shimbun (1999, Sep. 27).
[30] See Nikkei kinyu shimbun (1999, Sep. 27) and Nikkei kinyu shimbun (1999, Aug. 10).
[31] See Nikkei kinyu shimbun (1999, Sep. 27)
[32] See Nikkei kinyu shimbun (1999, Aug. 10).
[33] Based on interview with President Kunishige, DLJ, see Nikkei kinyu shimbun (1999, Aug. 10).
[34] See E*trade press release (1999, Jul. 8).
[35] See E*trade press release (2000, Sep.2).
[36] See E*trade press release (2001, Jan. 18).
[37] See Nikko beans press release (2001, Mar. 22).
[38] See DLJ press release (2001, Jul. 3).
[39] See E*trade press release (2001, Jul. 19).
[40] See Nikkei ryutsu shimbun MJ (2001, Sep. 25).
[41] Based on interview with President Matsui, see transcript of lecture of President Matsui (2000, Sep. 22).
[42] Based on interview with President Matsui, see transcript of lecture of President Matsui (2000, Jul. 6).
[43] See Yomiuri shimbun (2004, Mar. 15).
[44] See Nikkei sangyo shimbun (2001, Aug. 10) and Nikkei sangyo shimbun (2001, Aug. 14).
[45] See Nikkei kinyu shimbun (1999, Aug. 10).
[46] See transcript of lecture of President Matsui (2000, Jul. 6).
[47] See Nikkei sangyo shimbun (2001, Aug. 10)
[48] Based on interview with President Kitao, E*trade, see Nikkei Sanyo shimbun (2001, Aug. 9).
[49] See Nikkei sangyo shimbun (2001, Aug. 9).

[50] See Nikkei sangyo shimbun (2001, Aug. 8).
[51] Based on interview with President Matsui, see transcript of lecture of President Matsui (2000, Sep. 22).
[52] In Sep.2001, three leading brokerage companies (i.e., Nomura, Nikko,cordial and Daiwa) hold 55% of total online accounts.(source: Companu annual reports, Japan Securities Dealers Associaton's reports.)
[53] President Kitao of E*trade mentioned, 'Brokerage business is in the red', see Nikkei kinyu shimbun (2003, Apr. 24).
[54] See Matsui and Matsumoto (2001).
[55] Based on interview with President Matsui, see transcript of lecture of President Matsui (2000, Sep. 22).
[56] See Nikkei kinyu shimbun (2003, Apr. 24).
[57] See Nikkei kinyu shimbun (2003, Apr. 24).
[58] See Matsui (2003).
[59] Based on my interview with Mr. Numba, chief information officer of Monex securities. (2004, Jun. 12).

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Appendix Data Collection

Reports, journals, magazines and newspaper used as sources

Asahi shimbun (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 shimbun (daily newspaper)
Nikkei kinyu shimbun (daily newspaper)
Nikkei MJ (Nikkei ryutsu shimbun) (triweekly newspaper)
Nikkei money (monthly magazine)
Nikkei sangyo shimbun (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 shimbun (daily newspaper)