GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

KOBE UNIVERSITY

ROKKO KOBE JAPAN

Discussion Paper Series

Emerging competitive value in use with materiality: Competitive transformation of business system about online securities market in Japan

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1. Introduction

This study examines transformation of business system in the Japanese securities industry and the initial stage of new markets created by aggressive individual investors. With the launch of deregulation in 1997, Japan's financial industry is still in a transitional stage to a full-fledged phase. Coupled with the rapid development of the internet, emerging online securities firms have been rapidly growing and are now competitive with traditional securities firms.

This trend has already been seen in the United States and many other countries. However, different developments are taking place in the Japanese financial industry. Japanese online securities market has attained the largest amount of trades worldwide, and the number of individual investors, which showed almost no presence at one time, has grown. Traditional securities firms that run over-the-counter services have also started to demonstrate their unique operations, which are noticeably different from those of American firms.

As we examine this situation, these striking differences should be attributed to competitive strategies based on business systems representative of each country, not to the factor derived from macroeconomic policy, i.e. deregulation. In order to gain a solid understanding of these industrial innovations, this paper examines the concept of competitive value in use, which is a subject of much debate among Japanese marketing studies. We will both examine the concept and expand upon it.

2. Emerging competitive value in use

It is true that any product or service has some inherent value. However, attempting to define its exact value is exceedingly difficult. A typical example is the paradox between value in exchange and value in use. Take water as an example. Its value in exchange is low (it is cheap); its value in use is high (it is essential to human beings). People, especially in Japan, did not consider the idea of buying water until recent years, and they did not have a mineral water market. In contrast, jewelry is high in value in exchange, but low in value in use.

This paradox can be viewed from the perspective of how to relate the relativity of

value in exchange with the universality of value in use based on human desires. Economics regards the universality of value in use as a "black box" when utility of resources is considered. So the only scarcity of the resources determines the value in exchange to achieve Pareto optimum. Jewelry is high in value in exchange because of its scarcity as a resource. Water could have, especially in Japan, much utility but less scarcity, which results in a relatively low value in exchange. In the current mature market, however, the scarcity of resources can be strategically created just like production adjustments of cultivated pearls. In consumer society today, utility also cannot be adjusted in accordance with circumstances. Water's marginal utility may be reduced but not in the case with jewelry as some people want as much jewelry as possible. In contrast, some sociologists have often argued that a symbolic value exists. These sociologists focus on meaning that customers find within products, and they are skeptical of the universality of value in use itself (according to Jean Baudrillard's book in 1972)[1].

Japanese marketing researchers have advocated the concept of "competitive value in use" in the context of these value assessments (Ishihara 1982).[2] The focus of this idea converges on the following two points. First, customers' value in use emerges through the process of competition. Second, the materiality of products is considered in this process.

In regard to the first point, value in use for customers emerges from the competition process of differentiated business efforts among competitors.[3,4] This means that value in use is not rooted in specific substantial need but is rather evoked as a result of competition.[5] For example, Japan's water market was quite small at first. Only small

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1 In Marketing Studies, It has been argued in particular in 1980's. Show Sahlins,1976, Holbrook&Hirschman,1982, Solomon,1988, McCracken,1988.

2 Originally, competitive value in use can be approached with a positive reinterpretation of Marxism. You should not address value in exchange by formulating the value of labor as the principle, but should base competitive value in use on the value extracted from exchangeability. In Marxism, these arguments are examined as the ones related to especially reification.

3 In strategic management theory, the differentiation is defined as the strategy that enables companies to get ahead of their competitors by providing customers with products and services whose value exceeds the prices. However, the differentiation in the process of emerging competitive value in use not only includes corporate differentiation strategy on value for customers, but also goes beyond it from a broader perspective. Value for customers is supposed to be judged by the customers themselves who get completed products and services provided as a result of corporate differentiation strategy. Customers' judgments are necessary for differentiation strategy to succeed in order to create great value for them.

4 Polanyi(1966) termed as "Emergence" the creation of traits that could not be found at such subordinate levels as the boundary between non-organisms and forms of life. What is important about this fact is that this process of creation that Polanyi showed was not based on a specific scientific and objective truth but was the process that would establish comprehensible matters observed by researchers. By the same logical thread, competitive value in use is not automatically created by competition among companies but is judged and produced by customers that get products and services.

5 This kind of argument is close to the concept of "dependent effect" that Galbraith (1976) explained. He points out that people's wants today are not intrinsic but are controlled and contrived by corporate advertising. The argument

amounts of water products were imported from Europe and America. However, in 1982, it started to import Perrier publicly, and in 1983, House Foods Corp., a domestic food company, launched its Rokkô No Oishî Mizu (delicious water from Rokkô). These new developments gradually shaped the mineral water market in Japan. In the beginning, mineral water was considered a product for special usage, such as for business use for diluting whiskey. However, it became more popular as a daily drink as more and more companies entered the new market and competed against each other in their development of new products.[6] In 1986, people consumed about 80,000 kiloliters (17.6 million gallons) of mineral water annually. As of 2005, consumption increased to 1.42 million kiloliters (312.4 million gallons), about twenty times greater than water consumption in 1986 and even reached 140 billion yen in domestic market sales.

During the same period, green tea products also appeared in Japan. Green tea had also been treated as something free of charge like water, with the exception of rare luxury green tea products. But in 1985, Ito En, Ltd., a domestic beverage company, launched its Kan Sen-Cha, a canned green tea. Major companies gradually entered the new market, and competition intensified. As of 2005, domestic sales of green tea amounted to almost 500 billion yen. Those numbers not only exceeded sales of mineral water but also formed the largest share in the overall beverage market. One important aspect about this phenomenon is that not only did water's value in exchange change but also customers' attitude (value in use) toward water in the process of competition.

The second point is consideration of product materiality. This point underlines the fact that emerging products' value in use emerges and also gives limited potential to its relativity. Again, take water as an example. Water also has materiality. Products that use water as materials, including mineral water and green tea, create a variety of value in use. This fact does not mean that water's value increases infinitely. That is because the value in use that customers can find within those products is an imperative element of water, a substance that actually exists in the world. It is unthinkable that products made from water will enter the jewelry market.

This recognition of products' materiality has been reexamined from the viewpoint of robust design in the marketing studies in recent years. In marketing theory, there was a

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about competitive value in use also looks at issues from Galbraith's perspective, but it also gets an insight into competitive relations among companies. Companies' manipulation of customers' wants is impossible because only when some results are produced will companies know whether their efforts have successfully evoked customers' desires. In addition, Professor Junzô Ishii made public in Japanese his theory incorporating this viewpoint into marketing study in 1993(translation in English forthcoming). He argued that it was just a "Myth of Marketing" to follow the determinism that product development in line with market needs would definitely lead to good results for companies. In regard to competitive value in use, there is no determinism to corporate marketing activities, but there are specific different heuristics for different situations.

[5] Refer to the research by Rosa, et. al. (1999) on the analyses of these creation processes of new product markets.

greater tendency to stress the importance of advertising strategy excessively by looking at the value in use from an overly comparative perspective and simultaneously, pay less attention to the materiality of products. In comparison with that tendency, arguments in robust design have started to take up the inclusion of the materiality of products in marketing strategy, while paying attention to the return of technological determinism (Swan et al. 2005, Kuriki 2006).

What has been mentioned above is the outline of competitive value in use. To repeat the definition, products' value in use is revealed through competition and is found by customers. At the same time, value in use is also affected by the materiality of products and services. The paradox between value in use and value in exchange discussed earlier no longer makes sense in this context. Each value is formed relative situation.

This paper draws on this concept of competitive value in use in marketing and seeks to extend the materiality of products to the whole business systems. Because in creating competitive value in use, the materiality is involved with not only completed products but also competition among companies. Human resources working for companies bear materiality, as well as typical material resources such as manufacturing technologies used in business systems. The whole business system comprised of these various kinds of materiality construct companies differentiate and establish the core of their competitive strategies.

As long as we examine the competitive process of emerging value across the whole business system, we should consider a new paradigm that adopts more comprehensive elements of business system in response to the marketing research results on creating value through the customers' use (or exchange) of completed products.[7] That is, through the examination of the competitive process of a wider variety of business systems, competitive value in use in marketing can be a good viewpoint to deliberate on the emerging process of competitive value in use beyond services and products as cross sections.

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[7] Of course, it is necessary to keep in mind that this generalization might undermine the idea that commercial exchange is the core of value creation. There are already similar concepts in the argument within and among companies. What is remarkably characteristic of competitive value in use is that customers' judgments are involved even within and among companies.

3. Negotiated transformation of business system and online securities market[8]

By focusing on competitive value in use, this paper seeks to examine the competitive transformation of the business system that has been restructured amid the rapid reorganization of Japan's securities industry since the 1990s. This section first examines the business system that shaped the conventional securities industry. We hope that our readers will pay primary attention to such materialistic factors as salespeople and management methods for themselves and their customers, which comprise the business system under regulations (See section 3.1). These factors were able to shape the business system because they contributed to online securities firms differentiating themselves from one another (See section 3.2). In the online securities market that developed due to deregulation and the development of the internet, value in use emerges from customers that eventually attain services through differentiation efforts based on the materiality of these business systems (See section 3.3). The establishment of new markets and business systems induced further differentiations and led to the competitive transformation of another business system.

3.1 Conventional business system in the securities industry

The Japanese securities sector was once a perfect symbol of regulated industries. The Ministry of Finance (MOF) took the initiative in leading Nomura, Daiwa, and Nikkô, the "big three" securities firms in Japan. Smaller securities companies followed the decisions made among the three companies. The Institute for Securities Education and Public Relations, the Japan Securities Dealers Association (JSDA), the Tôkyô Stock Exchange, the Tokyo Stock Exchange Membership Association, and other stock exchanges were no exceptions as they played roles as coordinators between the securities industry and the MOF. These securities firms also hired retired MOF bureaucrats in a practice known as *Amakudari*.

Naturally, regulations left those securities firms with no choice other than to provide uniform products and services at uniform prices. They were denied any leeway when making decisions concerning organizational management, stockholder dividends, presidents' salaries, and the kinds of company-owned cars for their presidents' use. They earned uniformed commissions as was stipulated by law. Because they belonged to a regulated industry, they were more conscious of not destroying the established framework of regulations than of meeting the needs of their customers. Securities companies had a stronger sense of consolidation with one another and put great

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[8] Data citation refer from Matsushima and Mizukoshi(2005; 2006).They argue the process of Matsui Securities Strategy and Joinvest Securities Strategy.

importance on taking concerted actions with each other. In those days, their circumstances made differentiating their products from those of their competitors completely impossible.

In this situation, salespeople had empowerment. In the case of medium and smaller securities firms, their registered representatives who received performance-based pay were in the most advantageous positions.[9] They were not fulltime employees of those securities firms. Salespeople had their own customers and worked semi-independently. In the performance-oriented system, they gave back 60% of their revenues to securities companies and kept the remaining 40%. In short, they worked in a typical person-oriented system where they profited from their efforts. This commission system was beneficial not only for the registered representatives but also for securities companies that were under contract with these representatives. The registered representatives were highly motivated because they could earn salaries commensurate with their efforts and performance. In addition, the system enabled securities firms to handle personnel costs as variable ones and avoid suffering considerable losses due to fixed expenses, even in an economic slump where employees' salaries decreased accordingly.

The situation did not allow companies to differentiate their products from those of their competitors, which inevitably induced salespeople to develop strong connections, both good and bad, with their customers. In those days, most customers were institutional investors and affluent investors. They possessed large assets and exerted much influence over securities firms. Securities companies put just as much energy into doing what their competitors did. Consequently, those institutional investors and affluent investors took advantage of their influence over securities companies and posed unreasonable demands. For example, they requested that the securities firms buy their stocks at the day's high of 310 yen, in spite of the 300 yen closing price. In the short run, declining the unreasonable offers was the better choice for the securities firms. The companies were afraid that their refusals would eventually carry adverse consequences on their relationships with those major customers. Securities firms had no other choice but to absorb the 10-yen loss per stock.

Those securities firms had to compensate for their losses in some way or other. In some cases, they played a creative maneuver called a scenario market. This maneuver is a kind of market manipulation to ensure that specific investors will gain profits while

[9] This kind of salesforce is probably more popular in overseas countries. Outsourcing salespeople is very similar to the method mentioned in this paper. In many Japanese companies, however, it was long customary to keep salespeople and have them play a pivotal role in developing strong relations with customers. This style is quite different from that abroad and illustrates perfectly the peculiarity of the Japanese *eigyô* as compared with sales promotion activities in English.

others suffer losses by speculating about stock fluctuations with specific intent. Using this trick, securities firms had their favored customers buy particular stocks. Next, salespeople aggressively encouraged many other investors to buy those stocks. As a result, the prices of those stocks rose. Taking advantage of the climax in price, securities firms had their major, or favored, customers sell these stocks so that they would realize gains. In the meantime, minor investors, who had been encouraged to buy those stocks at the end stage at the day's high, bore the brunt of the trick and suffered huge losses. At this moment, the securities companies also had to depend on their salespeople' strong connections with big customers. These connections enabled the salespeople' positions to grow more lucrative.

Ultimately, customers and sales know-how, not the securities firms' resources, were the true assets of registered representatives and fulltime salespeople. The higher positions that the salespeople and registered representatives earned and the riskier dealings they employed, the more the securities companies had to supervise salespeople' activities. Fundamentally, the securities sector was strictly regulated and completely noncompetitive, and in such a situation corporate management meant just monitoring employee work. There was no room for presidents to take the initiative in performing drastic reforms. Securities firms were unable to innovate themselves, and as a result, they were left with no other option but to rely heavily on the Ministry of Finance. Government control eventually grew stronger and stronger.

This section is not intended to examine whether these industrial regulations were good or bad. Instead, it focuses on the fact that the conventional business system of the securities industry was not an abstract model but under the auspices of the authorities. It was established based on various kinds of materiality, including strong connections between salespeople and their customers. In fact, this relationship was later responsible for the introduction of other business system that could encourage differentiation efforts.

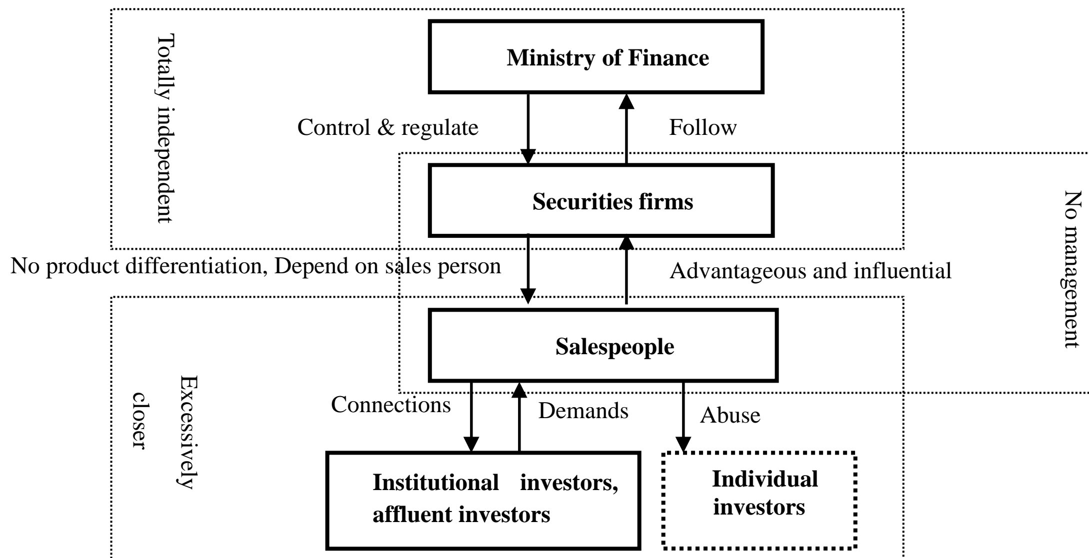


Figure 1: The conventional system of the securities industry

3.2 The differentiation of the business system and the evoking of individual investors

In the beginning of this paper, we have written that the restructuring of Japan's securities industry was spurred by the launch of deregulation in 1997. However, the transformation of the business system had already happened before deregulation was initiated. The collapse of the bubble economy in the early 1990s caused Japan to plunge into a prolonged economic slump. In that situation, many securities firms experienced difficulties finding suitable solutions to their problems. Matsui Securities, which was then overlooked by the securities circles, was the pioneer in the innovation of the business system. This section describes the path that the securities forerunner took in pursuing its unique business system by differentiating it from conventional formulae.

Michio Matsui, who took over the securities company as a son-in-law of his predecessor, triggered the transformation of its business system. Before starting the securities business, he had witnessed deregulation in the maritime transportation industry, and he strongly felt that conventional business systems should be revised. However, the viewpoint was not enough to reform those obsolete systems. An important note here is the competitive process where Matsui sought to learn how to differentiate his idea from the concepts behind the established business system of the securities industry and succeed in building a new one.

Through trial-and-error, Matsui Securities carried out its reform agenda. For example, in 1990, just after the collapse of the economic bubble, the company opened a gorgeous

branch office in Akebonobashi, Tokyo, so that employees could talk with customers about investment while relaxing over coffee. Matsui also deliberated on how to structure a new business system that would enable his company to break away from the old method of dependence upon salespeople. He declared a commitment to abolish operations using salespeople once and for all and strived to launch a new system focusing on telephone sales. His novel idea was based on a large-scale strategy featuring an all-out restructuring measure that eliminated salespeople' operations and created new markets nationwide by setting up call centers. Inevitably, many people in the company voiced their objections to the transition to telephone sales. In the end, five important people left the firm, including a sales manager, a deputy manager, and the section chief. Matsui Securities lost one third of its customers, many of whom had had a close and lengthy relationship with the firm.

These efforts did not produce immediate results. Because Matsui Securities still had little publicity, its launch of telephone sales attracted little attention from customers and required a large amount of advertising costs. At one time, Matsui thought of giving up on telephone trading because it did not generate sales in spite of its huge promotional costs. But the trading gradually increased its sales. In the meantime, the Akebonobashi office did not produce remarkable results, though it was profitable. The company decided to close the office in 1994.

A significant factor for the telephone sales getting on the right track was the emergence of value by customers. The company's initial target was affluent investors in rural areas. They were thought to be unwilling to go to their local securities firms as stories about stock dealings quickly traveled around a small town. Considering these circumstances, the company speculated that those people scattered around the country would be prospective customers. However, small individual investors, who had born the brunt of unfair treatments in the conventional business system, found Matsui Securities' telephone trading attractive. The new formula greatly fascinated them because it enabled them to make deals at their disposal without being bothered by unfair salespeople. In addition, these individual investors lived throughout the country and overwhelmingly outnumbered affluent investors. The securities firm anticipated that the collection of those minor investors would comprise a big share of their total customers.

Soon afterward, Matsui Securities implemented a barrage of reforms that broke down various taboos in securities circles. Among the reforms were the selling of discount bank debentures to individual investors at the market price and the lowering of commissions that safeguarded these securities. In the first example, the conventional business system forced individuals to buy discount bank debentures at a

disadvantageous rate compared with the market price. However, the revision by the securities firm enabled the individuals to buy those debentures at the market price. Second, the company reviewed fees charged in the name of account maintenance costs and eventually decided to no longer charge them. Both revisions produced fierce opposition from the securities industry. In the beginning, the Japan Securities Dealers Association took a hard line against the second revision and argued that it would not accept the company's stance of abandoning the fees. The two reforms were intended to provide further value to small investors who found the telephone sales strategy valuable.

While Matsui Securities was on the way to establishing its new telephone trading system, the Japanese government aspired to reform the financial market drastically in the post-bubble period and began to consider the liberalization of commissions as part of the "financial big bang." The "big three" securities firms in Japan voiced opposition to the government's stance, fearing that it would reduce their profits. Medium and small securities firms were reluctant to be involved in a competition. These firms were also against the government's attitude because commissions were their essential source of revenue. Matsui Securities was the only company in favor of the liberalization of commissions.

The securities companies that were unwilling to accept the government's idea based their negative stance on U.S. cases. U.S. carried out reforms related to the liberalization of commissions in the 1970s, much earlier than Japan. These reforms resulted in discount brokers, some of whom just used low prices as the selling point and neglected the quality of their products. The attitude of these discount brokers often offended their customers, but in the end, commissions rose.

Matsui Securities, however, was confident in its strategy. The company had already eliminated the conventional sales method using salespeople so it did not need to set high commissions to motivate salespeople. Instead, the company needed to lower commissions to attract as many small individual investors as possible. Attracting individual investors,the company paid initial attention to over-the-counter stocks. Commissions on over-the-counter stocks, unlike listed ones, were not regulated. The company halved the commission charges on the trading of those over-the-counter stocks before the commissions had been almost uniform. This company's insightful approach garnered much attention from the press, as well as the securities world. Naturally, securities circles, which were against the liberalization of commissions, voiced opposition. However, the Ministry of Finance had sought to move toward the liberalization of commissions and did not complain about Matsui's action. Consequently, other securities firms followed suit.

In 1999, all the commissions on securities were finally liberalized. By then Matsui Securities had lowered all commissions to the greatest extent possible within the scope of existing regulations. The securities company had made thorough preparations for eliminating account maintenance fees, halving counter stocks, reducing the commissions on trading investment trusts (known as “mutual funds” in U.S.), and reducing the commissions on option trading and other securities transactions by half.

3.3 The Establishment of the online securities market

In the previous section, we examined how Matsui Securities sought a new securities business system prior to the launch of drastic deregulation in the financial industry. In the new market, Matsui drew up a new formula for a securities business system that differentiated from the conventional system where salespeople played a pivotal role in building long-term connections with customers. Customers found emerging value in use within the new system.

This business system heralded by Matsui Securities was the model for online securities trading in today’s Japan. The internet began to be popular among PC home users just around the time when Matsui Securities launched a drastic reduction of commission charges on telephone trading. In the U.S., online securities trading had been initiated in 1996 was growing rapidly. The web-based trading was also expected to become the mainstream method of securities dealing in Japan, but people thought that some time would pass before it happened.

In those days, Matsui Securities had been preparing to increase its telephone sales operators to the one thousand levels. In 1998, the company withdrew its plan to enhance its telephone sales services and shifted its focus to internet sales. Many of its employees were concerned about the future of Net-based trading, because they knew that online trading through the Value Added Network (VAN) and telecommunication functions of home video games had already failed in the 1980s. People had not yet realized the potential of the internet. Inevitably, Matsui Securities’ employees were uncomfortable with the sudden change in plans, and the managing director, the company’s right-hand man, left as a result.

The securities company, however, understood that asset flow was more important than asset stock in the securities system that targets individual investors. The repetition of short-term trading of small assets will result in the same large profits that are produced by the long-term management of large assets. This way of thinking is very common in the current online securities market in Japan.

In 1998, Matsui Securities launched its Netstock, a full-scale online trading service.

In those days, major securities firms, such as Nomura Securities and Daiwa Securities, had started their own Net-based services. In response to this situation, Matsui asked their contract developer to build a similar system for his company. However, this system was based on a conventional sales force and branch offices where basic securities transactions were conducted by people, not based on Matsui's idea of placing a strong focus on online trading. These differences in core attitude are easy to understand. Nomura Securities and Matsui Securities targeted different customers and used different sales methods. It was quite natural that the two companies with different business systems had different evaluation criteria and different methodologies for obtaining customer satisfaction, even though both provided Net-based services. Major securities companies with big sales teams cannot eliminate their current methods entirely and shift to online trading.

In this way, Matsui Securities launched a barrage of new services that challenged various conventional practices in the securities industry. Listed below are the main services that this innovative firm offered. Obviously, many of these services were impossible to carry out because of materialistic restrictions in the conventional securities world.[10] In addition, the internet and deregulation were not the only factors that produced these differentiated services. What is important is that their differentiations stemmed from the business system of traditional security firms. Some of these changes were realized before the emergence of the internet and would have been possible even without deregulation.

[10] Whether all these differentiations based on materiality were elaborately planned or just accidentally worked well is not completely clear. An interview has confirmed that they were strategically deliberated, but it is conceivable that the backstory of the plan was plausibly described just after it had been performed. An important point is that whether intentional or accidental, many of the differentiated services from those of conventional securities firms were based on sheer materiality.

Table 1: Competitive transformation of business system

	New services	Differentiation based on materiality
1996.4	Eliminating stock custodian fee	The services were impossible in the old system where salespeople charged major customers for commissions through strong connections.
1997.2	Halving commissions on counter stocks	
1998.5	Launching the Netstock, full-scale online trading service	(Nomura and Daiwa had already introduced a system for internet trading.)
1998.5	Initiating online margin trading	—
1999.10	Starting the Box Rate commission service	The price setting was impossible in the old system where salespeople promoted products through direct business negotiations.
1999.12	Introducing the Account Protection system	Salesperson misconduct was key in the evaluation of insurance premiums for asset protection. The services were unrealizable in the conventional securities business system where salespeople played a pivotal role.
2001.3	Applying the Account Protection system on final profits of margin trades as well	
2001.4	Introducing Net FX, an online foreign exchange margin trading service	—
2001.4	Starting the Moon Trade nighttime service	The service enabled individual investors to make after-hours trading.
2003.7	Starting unlimited Margin trading	Legally speaking, the conventional method for margin trading is supposed to be used. Traditional securities firms relied on the system to implement settlements for a particular period of time. They intended to supervise salespeople handling customers' money.
2006.9	Eliminating commissions on unlimited margin Trading	

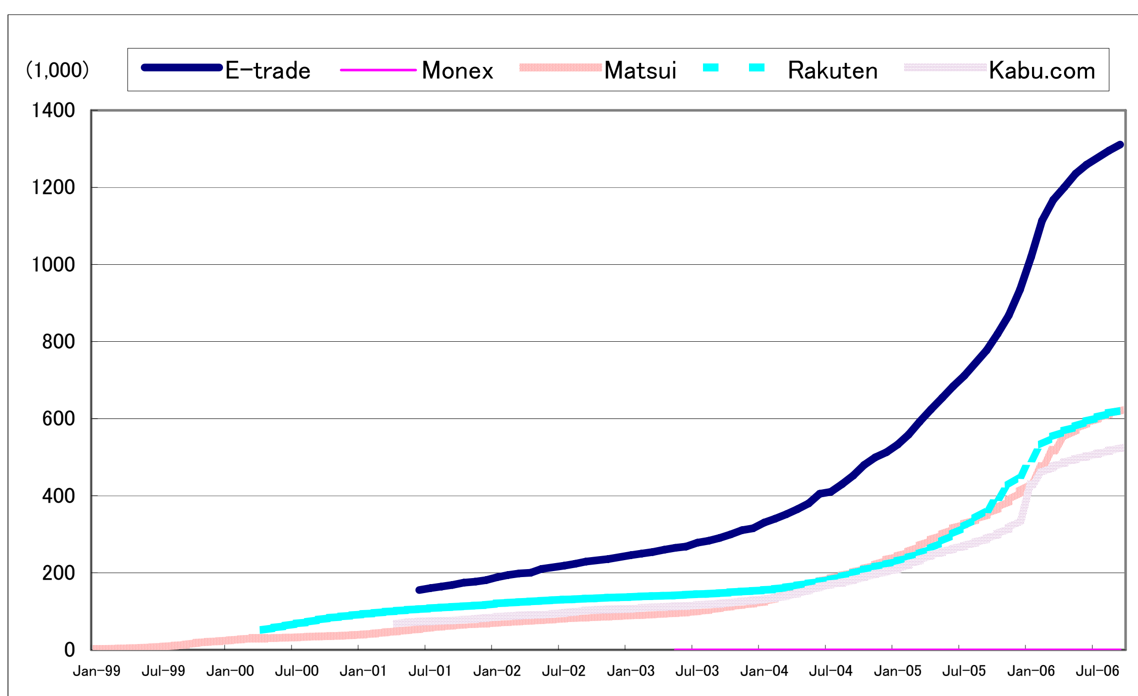
As a result, much of Matsui Securities' reforms on business systems were based on differentiating its strategy from those that shaped the conventional securities system. As the innovative company speculated, existing major securities firms could not imitate Matsui's practices because of their materialistic restrictions.

Companies in different categories, however, could easily enter the online securities

business. Matsui's system needed no salesperson; it just required a web-based system to coordinate securities trades. In December of that year, when Matsui Securities launched its Netstock, the securities world saw a conventional licensing system replaced with a registration system. This system induced many internet-based companies to imitate Matsui's business methods and services and enter the online trading sector.

From the beginning, Matsui Securities did not complain about other companies' entry into the online business. The company believed that their entry was essential to attract potential individual investors into the Net-based securities world. For that purpose, collective efforts with other firms would be more helpful than efforts to exploit a new market on its own. In fact, the online securities business was powerful enough to change individual investors. In 1998, when internet trading started, annual transactions amounted to at most 4.5 trillion yen. In 2005, however, the amount of transactions increased to 180 trillion yen levels, and now Japan's online securities market grew the largest amount of trades worldwide. Animated competition among new online securities companies generated new value for customers.

Table2.



3.4 Further competitive differentiation efforts

The online securities market was so powerful that it could not be overlooked any longer. The market enabled individual investors to gain huge profits by transferring their stock to flow. Internet companies that followed Matsui's practices, and were not considered to be serious competitors by Matsui, eventually surpassed Matsui Securities in sales and earned the largest amount of trade worldwide.

In the meantime, the online securities system caused excessive competition in commission reduction. Some companies not only provided a free service for account fees but also reduced their brokerage commissions for stocks to almost free of charge. Of course, no matter how low these charges were, companies could earn profits as long as individual investors repeated trades many times. Around that time, Japanese economy showed signs of recovery from the collapsed bubble, and the securities market became animated. More and more individual investors entered the market in response to a string of reductions in online securities commissions.

Under these circumstances, the pioneering Matsui Securities was standing at a crossroads. The company had drastically cut costs, but the cuts were not enough to be competitive with the entry of internet companies employing basic information systems. Sales were growing but the company gradually fell behind in the market rankings.

In response to this situation, Matsui Securities sought for further differentiation. Its competitors were no longer major securities firms but other online securities companies. Matsui had already taken various steps against other online newcomers when it was preparing its products for the Netstock. These steps included managing underwriting services for the Initial Public Offering (IPO) and margin trades. To offer these services required the track records of stock trading, which made undertaking Matsui Securities impossible for emerging internet companies. However this comparative advantage could be overcome through growing experience in securities trading amid the rapid development of the online market.It was not effective enough to materialistic restrictions against other online companies from keeping up with Matsui Securities.

In 2005, Matsui began to build up its telephone operations again, even though it had once abandoned the plan to set up call centers nationwide because its focus on Netstock. Behind this change lay the emerging new value in use for customers evoked by the rapid development of the internet market, contrary to Matsui's expectations. The business system for Matsui and other online securities companies was based on the elimination of salespeople and the principle of stock trading based primarily on individual investors' decisions. Therefore, these companies solely provided information requisite for trades on the internet. They did not send out any information that might

induce investors to make particular decisions. This practice caused many Japanese individual investors to become speculative-oriented, meaning that they often made repeated short-term trades based on simple market information. This kind of event was exactly what online securities companies had expected. However, not all individual investors wanted the online securities market to get that speculative. Making deals by simply clicking online did not become popular with, among others, older generations with huge assets that included their retirement bonuses. (The baby-boom generation that will be retiring around 2007 is estimated to receive a total of 80 trillion-yen in retirement bonuses.) In response to this situation, Matsui Securities decided to resume enhancing telephone sales operations that target this older generation.

On the other hand, the online securities market, which had grown dramatically, was also what existing big securities firms intended to seize. But these firms were working out strategies to put themselves in advantageous positions against materialistic restrictions in the online securities market and were considering going beyond just entering the market. In the online market where stock trades took on a tone of speculative game, there were marginalized customers other than the older generation. In 2002, limits on deposit insurance were introduced as part of the large-scale financial deregulation. This deregulation meant that blanket government protection of deposits of more than 10 million yen was eradicated. In response to the change, financial circles paid sharp attention to the high probability that bank deposits would be redistributed to other financial institutions. Many of those bank depositors were stable investors and sensitive to risks in the face of this new situation. As such, they were reluctant to participate in unpredictable, speculative games.

In response to these events, Nomura Securities, which had not been very active in the online market, made a move[11]. It founded the Joinvest Securities Co., Ltd., a full-scale online securities firm. Like other online firms, this new company, financed by the Nomura Holdings, Inc, lowered its commissions to attract customers. The company even offered lower fees than those of other online securities firms. Now, did the company intend to target the individual investors' market just because it had become so big?

The answer is "No." It drew up a differentiated business system plan based on the Nomura Group's perspective that its competitors are existing online securities firms. The plan first focused on the differentiated advantage of a latecomer to the online

[11] Nomura Securities initially had been concerned for analysis of the trend of market, because they had become not be able to predict the movement of financial market that is affected by active individual investors. Joinvest Securities, therefore, started by the stuffs of analyst from the Nomura Research Institute Ltd.

securities field. According to Carr (2004), a latecomer in online investing should formulate an all-out cost-cutting strategy, because information systems and software have themselves become commodities and are no longer significant enough to put an online trading company in an advantageous position, whether the company is a predecessor or latecomer to online investing does not matter. Based on this recognition, latecomers can enjoy valuable cost competitiveness due to the prevalence of information systems. Today, Joinvest Securities can build its system at only about one tenth of the cost that preceding online firms paid.

In addition, online securities firms did not have their own automated systems for all transactions on stock trading. They depended partially on major securities companies that coordinated trades in the conventional system. The Tôkyô Stock Exchange (TSE) operated special systems: the system for facilitating the buying and selling of stocks; the system for providing market trading information; and the settlement system with batch processing for exchanging data on executed trades with securities companies and the Bank of Japan. Internet-based companies could themselves build, at a relatively low cost, the online system for receiving trading orders from customers and the system for maintaining customer information and calculating commissions, just as they could develop web servers on their own. However, in regard to the settlement system with batch processing, the conventional system worked well and the TSE outsourced the system development and management to the Nomura Group and Daiwa Group. Joinvest Securities could make use of the system managed by the Nomura Research Institute, Ltd.

Joinvest Securities envisioned a different strategic outlook from online securities firms by looking beyond the system cost efficiency. The focal point was shifting its mindset back "to stock from flow." Matsui and other online securities companies reduced commissions in an effort boost turnover rates of trades made by individual investors. Joinvest Securities of Nomura Group put a strong focus on different points from its reliance on the speculative aspect of individual investors. Specifically, one example was investment trusts. In offering investment trusts, the securities firm could get financial products from the Nomura Group companies. Nomura Securities had the largest share of investment trusts in Japan and the rate was growing year by year. As of September 2006, trusts accounted for 22% of the total sales of the Nomura Group.[12] In

[12] Nomura Securities also made active efforts to outsource its sales of investment trusts. The company had reorganized its sales divisions and started to educate employees two months before the decision was made that in August 2005, the Japan Post would launch a service to sell investment trusts at 575 post offices nationwide. As of September 2006, investment trusts provided by the post offices accounted for 68.1% of all the trusts provided by financial institutions.

addition, investment trusts allowed the group to gain larger profits by the dealing of customers' assets in custody rather than with commissions on trading. In fact, Major Securities produced almost 40% of its total profits from the dealing of customers' assets in custody.

This reasoning is why Joinvest Securities adopted different approaches with its customers. Online securities firms were committed to leaving individual investors on their own while they made investment decisions. This attitude greatly distinguished them from major securities companies. In contrast, Joinvest Securities took its group's continual growth into consideration and put greater importance on helping people deepen their understanding of the stock market, rather than spurring individual investors to go speculative. Based on this philosophy, Joinvest Securities launched sites that provided clear-cut explanations about how the stock market was established and detailed descriptions about the activities of many companies, instead of just trading information with charts. The securities company believed these websites would make a new impression on individual investors joining the current online market. More than anything else, these sites would evoke new value for potential customers vigilant against an excessively speculative-oriented stock market.

4. Conclusion

In the earlier sections, this paper has drawn on the concept of competitive value in use, which is debated by marketing studies in Japan. This paper has also examined in great detail the competitive process with a focus on the materiality of the whole business system. To review briefly, competitive value in use emerges in the framework where differentiation evokes value for customers. It is worth much attention that such a value emergence process is involved with materiality. Fundamentally, marketing theory defines materiality as a characteristic of products provided to customers. This paper has shown the necessity of focusing on the whole materiality of business system among companies while also focusing on customers that ultimately allow value to emerge. Companies have to go through numerous processes before receiving final evaluations from customers.

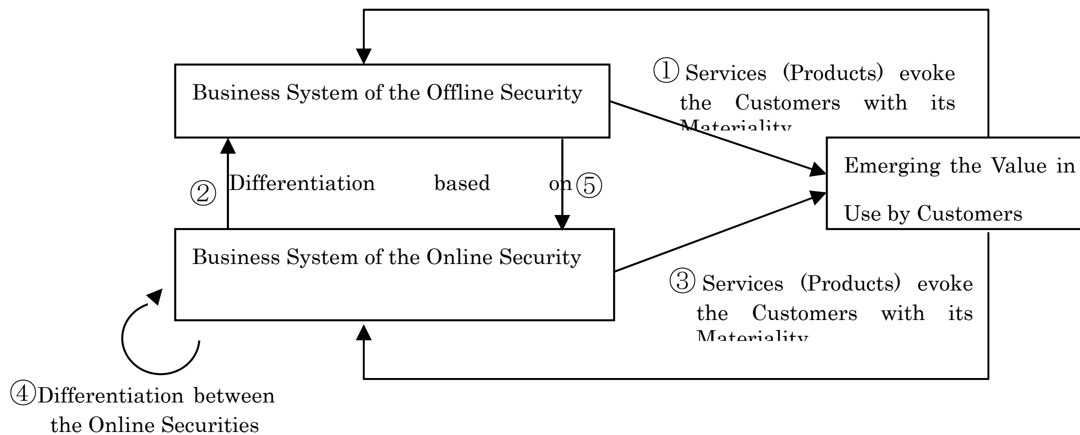


Figure.2 The process of emerging competitive value in use in Japanese security market

The following is the summary of this paper. First, the conventional business system for Japan's securities firms was involved with materiality, and it enabled value to emerge for customers in its own unique way. It took the form of promoting sales based on the strong connections between salespeople and their customers. Securities companies targeted primarily institutional investors and affluent investors and abused individual investors as their outlet for their frustration concerning impossible demands from major customers.

Second, the system for the online securities business was built on the differentiation from the materiality of such conventional business system. Matsui Securities pioneered the innovation that resulted in a new type of business system before deregulation was launched. The materials for web-based trading were also introduced around that time. The differentiation focusing on materiality prevented existing major securities firms from entering the online trading market.

Third, the business system for the online securities business gained value in use from customers. The formula was based on the principle of shifting the company's mindset from stock to flow at individual investors' disposal, along with the reduction of commissions. It eventually created a situation where speculators such as day traders ran rampant. This market earned the largest amount of trades worldwide, and excessive competition in cost reduction undermined the profitability of the online trading business.

Fourth, as the marketplace became bigger, online securities companies began to make

differentiation efforts that distinguished themselves from their competitors within their market.

Fifth, the online market subsequently became the target of major securities companies. These companies cleverly used the online investing system to secure their differentiation from Net-based companies. Joinvest Securities, which was founded by Japan's largest securities company Nomura Group, took advantage of its position as a latecomer and the cost efficiency produced as such. It created completely different product line-ups from those of other online securities companies by putting the group's resources to the utmost use. Their business system was intended to earn profits for the whole group with the retransformation of the online market from flow to stock through the differentiation of business systems based on materiality.

To summarize, we were not completely sure whether Joinvest's competitive strategy would work successfully. Japanese business magazines are critical of Joinvest Securities because of Nomura's late entry into the online market and the smaller than expected number of customers. Much of the criticism, however, looks only at the securities firm from the perspective of the existing value in use. Its business system created through competition among companies was intended to produce a value in use different from that of the existing online market. Only its customers can make the final judgments about its success[13].

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[13] After 6month Joinvest Securities started, It already be seen the different trend in Joinvest's customers from other online securities's. .Customers of Joinvest Securities tend to use margin trading much more than the other online customers..

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