

**A TIME-SERIES DESCRIPTIVE MODEL OF
COMPETITIVE ADVANTAGE TRAJECTORY
-Building Intermittent Competitive Advantage in Hyper-moving Market-**

M. WAKABAYASHI & T. NEGORO
Research Institute of Information Technology and Management
WASEDA University, Tokyo Japan

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ISSS, Tokyo Japan

Agenda

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 - Hyper-competition (D'Aveni, 1994)
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Introduction –Environmental changes

- ◆ The **conventional RBV** (resourced based view) approach e.g. the VRIO analysis (Barney, 1997) presents the condition for the resources that bring about sustainable competitive advantage in a rather **stable market conditions**, which are difficult to imitate.
arguing that the aim for businesses is to find a way in which to **construct a sustainable competitive advantage on a long-term basis**.

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Environmental changes

- ◆ From the 1990s, businesses are experiencing unknown **speediness in the competitive environment** in which the conditions for the competitions are constantly changing, engendering the imminent birth of **a new environment where market share and profitability fluctuate dramatically** e.g. digital products and the online business markets.
Life cycle of products and services rotate at hyper-speeds, in which a severe competition commences from the creation phase of the market, and quickly reaches maturation phase.

Is conventional RBV fit for competition in rapidly changing environments?

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Objective

- ◆ Develop a theory of RBV that is fit for competition in such rapidly changing environments.
- Propose a descriptive model for a competitive advantage trajectory
1. focus on the **change in competitive advantage of resource** based on time-series,
 2. Identify the difference between the sustainable competitive advantage pattern that the conventional resource based view approach implicitly aims to attain and the competitive advantage pattern that is considered to be effective under rapidly changing competitive circumstances (**Intermittent Competitive Advantage**).

Competitive Advantage

- ✓ possessing more competitive value (in a market) and higher profitability in relation to other businesses by construction of a system that is isolated from them.

assume the source of advantage of a business (the result of aggregate of resources and activities) lies in its business system.

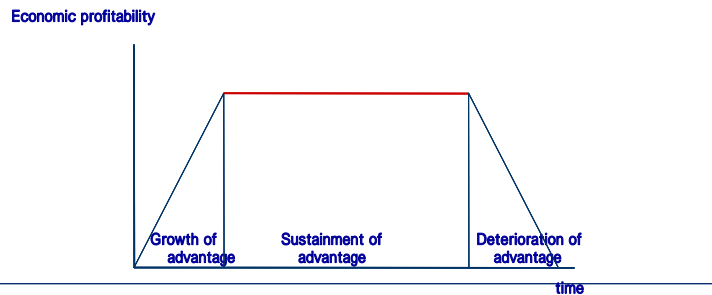
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Previous Literature 1) –VRIO, Barney (1997)

- ◆ VRIO analysis cannot accommodate the Schumpeter-type changes e.g. rapid development of new technologies or unexpected shifts in demand.

VRIO assumes the Ricardian rent theory:
 Profit generated from resource differential where relative advantage does not shift with time.

Image of conventional RBV approach, represented by the VRIO analysis (Barney, 1997)
 –building competitive advantage in a rather stable market conditions.



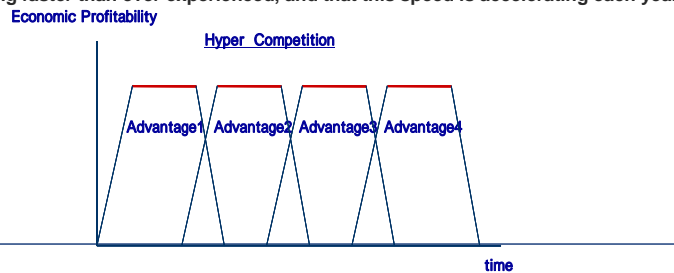
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Previous Literature 2) – Hyper competition, D’Aveni (1994)

- ◆ The sustainable period of competitive advantage is shrinking in many markets. In such environments, businesses have to perpetually develop sources for competitive advantage in order to sustain economic benefit (rent).

- ✓ Hyper-competition bears completely different characteristics to former competitive environments.
- ✓ Shift the strategic focus from “how to sustain competitive advantage on a long term basis (aim of conventional theory), to “**how to build a stream of new competitive advantages consecutively**”

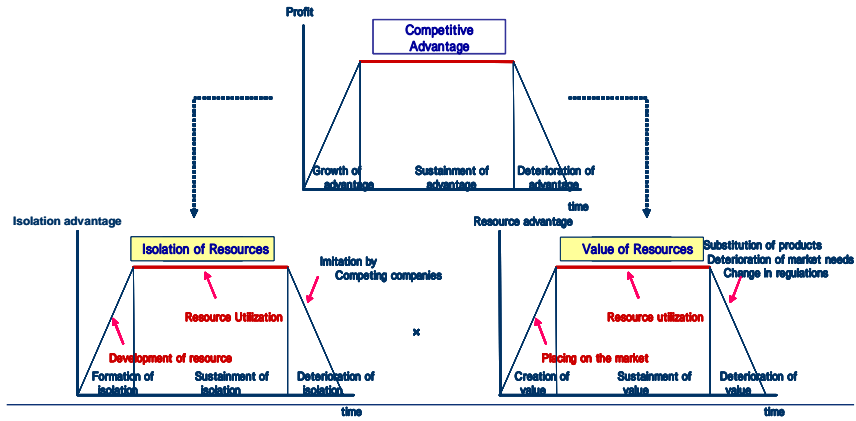
Image of Hyper-competition(D’Aveni,1997)
 -theorize that the process of progress and decline of competitive advantage is occurring faster than ever experienced, and that this speed is accelerating each year.



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A Time-series Descriptive Model for Competitive Advantage Trajectory
1) Breakdown of competitive advantage

- ◆ The source for competitive advantage can be broken down into “**isolation of resources**” and “**value of resources**” (Negoro, 2006).
 1. *Isolation of resource*: established by the inimitability of the resources
 2. *Value of resource*: determined by customer satisfaction/market needs i.e. value in competition (competitive value)

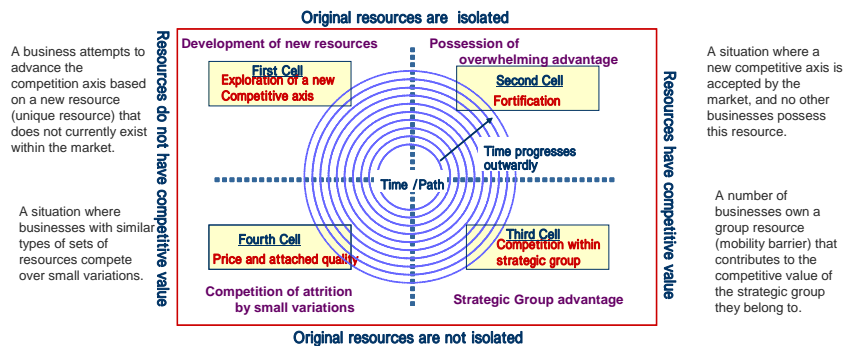


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A Time-series Descriptive Model for Competitive Advantage Trajectory

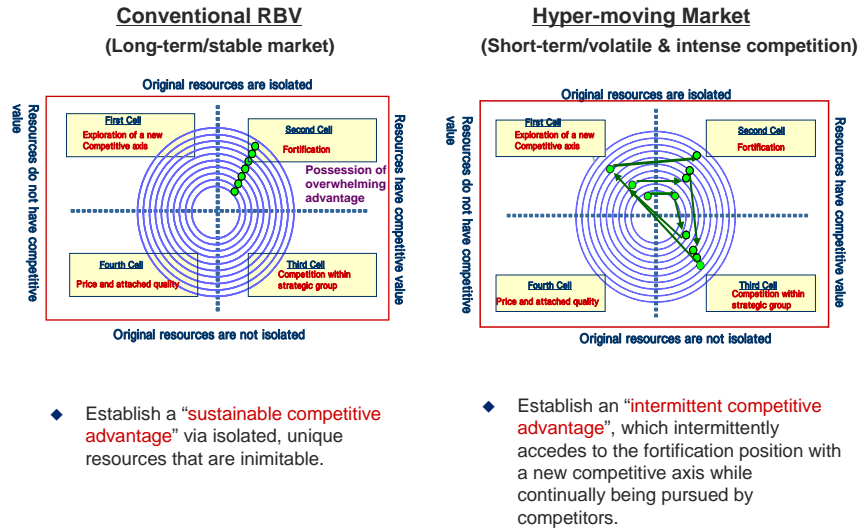
- ◆ Take in the conventional perspective of “inimitability” in the RBV approach into the theoretical structure of “**isolation of resources**”, while simultaneously include the shift in competitive advantage in a market as a change in “**value of resources**”.
- ◆ The model sets a fixed time period, and describes the shift in competitive advantage during that period.

Structure of Descriptive Model



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Target Images on Building Competitive Advantage
-Conventional RBV and Hyper-moving market



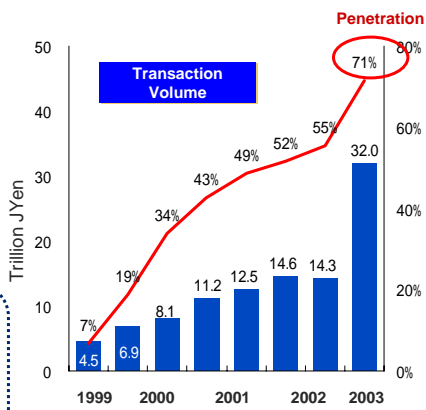
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Case Study
-Japan Online Securities Market

1. Competitive structure of the market itself has changed dramatically by the spread of internet (1999-).
2. Fierce competition from the formation stages of the market.
3. Comprehensive information of the businesses necessary to trace the route of the changes of competitive advantages for the sample case study are available via publicized sources.

- Active Online Traders:**
- ✓ Hold multiple accounts
 - ✓ Opt for the providers that provides the best services and lowest transaction fee.
 - ✓ Seek variety of product/service lineup
- Information System development**

Equity Trading Online Penetration

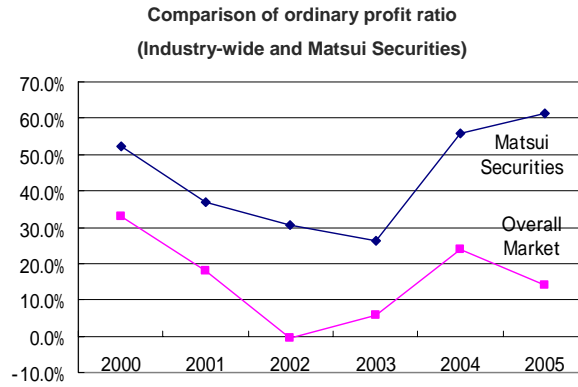


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Case Study –Matsui Securities

–Changes in profit ratio

- ◆ Change of ordinary profit of Matsui shows significant higher figures than industry-wide.



Source: Account Settlement of Securities Companies and Stock Market Trends (Japan Securities Dealers Association Sept, 2005)

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Case Study –Matsui Securities

–Competitive Actions (1990-2004)

1990-1998	1999-2000	2001-2002	2003-2004
Preparation for financial Big Bang	Beginning of online Equity trading market	Stagnation	Expansion
<ul style="list-style-type: none"> ◆ Alter traditional business system (face to face sales in stores by salespersons). ◆ Switch all transactions to call center operation. (1996) ◆ Restructure operation system, conducting exhaustive cost-cutting. ◆ Shut down call center, switch all transaction to web (Net Stock - 1998). ◆ Launch online margin trading. 	<ul style="list-style-type: none"> ◆ Full deregulation of transaction fee (big bang -1999). ◆ Launch flat-rate low fee transactional fee system (Box rate). ◆ Enthusiastic support from highly active investors. ◆ Go public in the first section of the Tokyo Stock Exchange. 	<ul style="list-style-type: none"> ◆ Fierce competition for transaction fee in the market. ◆ Employed strategy to avoid the price cutting race and to pursue good profit ratio. ◆ Etrade, equipped the lowest transaction fee surpassed Matsui in market share (2002). 	<ul style="list-style-type: none"> ◆ Launch of no time limit margin trading (2003). ◆ Make spot trading (less Jyen100K) free of charge (2004). ◆ Succeeded in a large expansion in customer base. ◆ Dominate in margin trading, establishing solid profitable position.

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Case Study –Matsui Securities
–Competitive Resources

1. **Information Technology**
 Enable to focus on launch of differentiated services e.g. margin trading arena in contrast to the competing companies which remained focus on spot trading during the rising period of online equity market.
2. **Active Investors**
 Exclusively target active investors while competitors employ a strategy of widening the customer base, results in significantly higher turnover rate and in holding high loyalty investors (which can be regarded as a type of resources).
3. **Accumulated know-how on securities services**
 The experience of call-center sales allows to accumulate knowledge on investor needs, which led to the introduction of a differentiated service (e.g. margin trading) from the initial stages of the market activity.
4. **Financial Power**
 Establish the high-profit structure since the nascent day of the market. The gained rent (profit) is invested in new, differentiated services, which in turn would attain further rent to form a cycle of higher profitability.
 Financial power is an isolated resource that is difficult to imitate.

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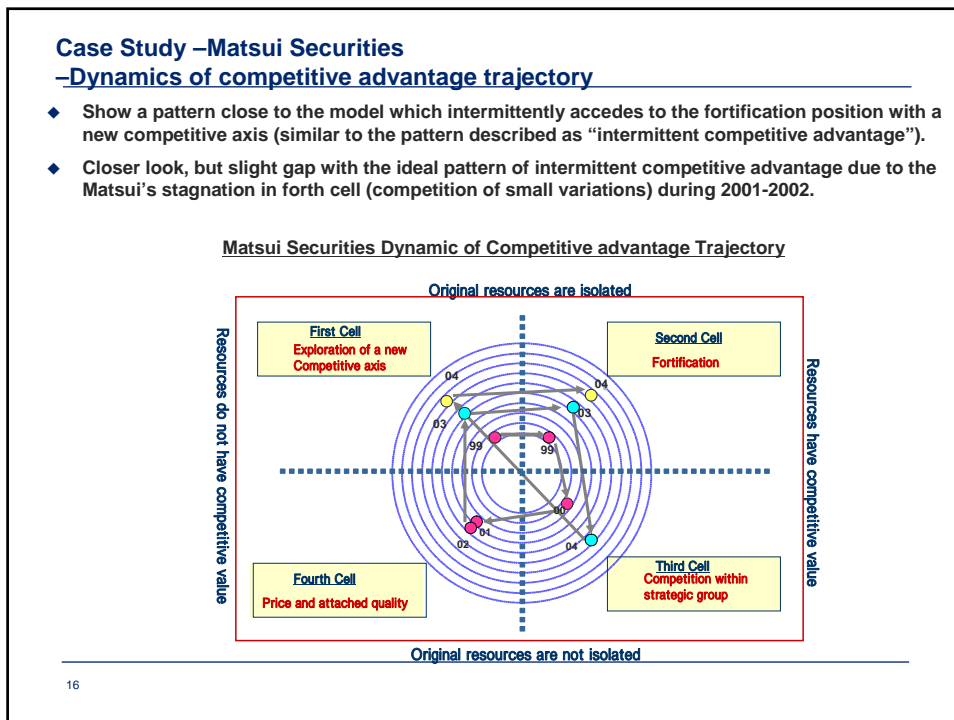
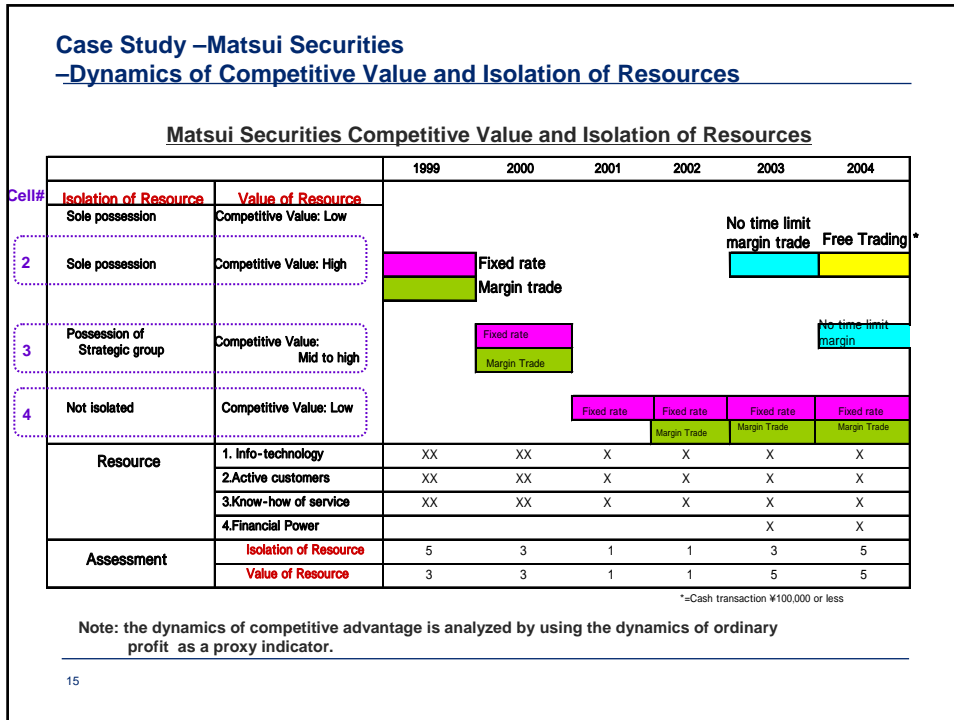
Case Study –Matsui Securities
–Position as Innovator

- ◆ The high profit ratio of Matsui stems from the retaining of active investors as a resource, by being a constant innovator in the industry.
- ◆ Those active investors accept the value of differentiated services supported by inimitable IT, and remain steadily loyal, in turn conferring Matsui to gain further rent (profit).

Matsui Securities as innovator

	Innovative measure	First in Japan	First in online
April 1996	Free safe deposit fee of stocks		
Feb 1997	Half price of commission for over-the-counter shares and convertible bonds		
May 1998	Launching of Internet trade "Net Stock"		
Oct 1999	Introduction of fixed rate transaction fee system "Box Rate"		
Dec 1999	Deposit assets protection system "Account Protection" Introduced		
Aug 2001	Listed on the first section of Tokyo Stock Exchange		
Sep 2002	Introduction of "Stock Deposit" system		
July 2003	No time limit margin trading system launched		
March 2004	Free transaction fees if less than 100,000 yen/day		

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Conclusion/Implication

- ◆ Propose a descriptive model, where the source of competitive advantage is separated into “**isolation of resources**” and “**value of resources**” which are combined to form four cells to display the dynamics of competitive advantage.
- ◆ Matsui securities, used as the case study has shown to a competitive advantage trajectory akin to the establishment of **intermittent fortification** that has been introduced as an ideal pattern in the rapidly changing market.
**It is not clear whether this is the result of a conscious pursuit of such pattern or whether it is the consequence of reactions to environment.*

The case study implies:

1. the validity of a strategy which specifically aims to **attain intermittent establishment of competitive advantage, instead of sustainable competitive advantage** in the rapidly changing market environment.
2. This strategy is possible when **isolated resources are constantly explored** and the **existent resources** that are the foundation of the competitive advantage **are continually replaced by them**.

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Further studies

1. **Further objectification of the method of measurement** on isolation and value of resources.
2. In this study, the “resources” cover [tangible] and [intangible] resource sets, however not cover the area of activity system, which influences isolation and value of a business system.
3. Require analysis on organizational capability to respond to the rapidly changing environments.



How do we build these factors into the proposed descriptive model?

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Thank you!!

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