

Business Model Development in a Foreign Market : Case Analyses by the Expanded Dynamic Capabilities Framework

Tsuyoshi KIMURA

Abstract

This study attempted to analyze two Japanese companies that were able to obtain and sustain competitive advantage in an overseas market by developing a business model (BM) that is a fit to the local market. An analytical framework expanding the dynamic capabilities (DC) framework of Teece (2007, 2014a) particularly on how DC had influenced BM in the introduction and growth stages, which was proposed by Kimura and Chitose (2021), was used to examine the two companies, Ito-Yokado and Shiseido. This paper identified how each BM was developed and adjusted to the changing environment, and how DC was deployed to realize BM, thus demonstrating the validity of the expanded DC framework for analyzing such company cases.

Key Words

Dynamic Capabilities, Business Model, International Business Strategy, Analytical Framework, Market Entry

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1. Introduction

The business environment has become more globalized in recent decades and Japanese companies joined in the fray. Realizing the domestic market's saturation and for them to survive and continue growing, Japanese companies need to enter the international market. Obtaining competitive advantage in a foreign market, though, is never easy. As the Chinese and other Asian markets were experiencing robust economic growth, Japanese companies had to pivot from manufacturing to the consumption market to remain sustainable, thus creating the need to expand sales and generate profits from these emerging markets in the region. There are some cases of Japanese companies that were able to enter such markets and even successfully obtained sustainable competitive advantage.

Teece, Pisano and Shuen (1997) have suggested that "building a dynamic view of the business enterprise enhances the probability of establishing an acceptable descriptive theory of strategy that can assist practitioners in the building of long-run advantage and competitive flexibility" (1997:513), and

that “strategic theory” endeavors to explain “firm-level success and failure” (1997:509). Teece proposed “dynamic capabilities framework” (2007, 2014a) in his discussions of survival and growth of multi-national enterprises (hereafter MNEs). The framework, however, has a high level of abstraction to be used practically for analyzing real-world businesses. It is essential to develop a DC framework that requires deductive and inductive reasoning based on introspection and observation and possibly a theory of value creation and appropriation by firms (Teece, 2014b: 335). Kimura and Chitose (2021) proposed the expansion of the DC framework, analyzing the case of the entry of Ito-Yokado Co., Ltd. (hereafter IY) in China¹. The purpose of this paper is to verify the validity of the extended DC framework by analyzing and comparing the two cases based on the framework. Shiseido Co., Ltd. (hereafter Shiseido) in China was used as the other company in addition to IY.

Currently, research studies on the global strategies of Japanese companies from the DC perspective are scarce. From these case analyses, we could learn common success factors for Japanese companies that envision entering a foreign market on how to develop business models and obtain competitive advantages.

2. Review of Previous Studies

While the resource-based approach focuses on a company’s own resources, the competence-based approach pays more attention to organizational capabilities, i.e., processes that use company resources. The latter approach is based on the argument that solely “owning” resources does not guarantee competitive advantages for the company. Grant (1991) defined organizational capability as the “capacity for a team of resources to perform some task or activity.” However, at the same time, there is a negative side to such process or routine which is referred to by terms such as “competency trap” (Levitt & March, 1988) or “core rigidity” (Leonard-Barton, 1992), which are considered threats to flexibility and innovation. This argument led to discussions that companies need to own their capabilities to reconfigure organizational capabilities (meta capability) in order to adapt to changing environments from a dynamic perspective - which brings us to the concept of dynamic capabilities (hereafter DC). DC was initially proposed by Teece et al. (1997) as a new perspective aiming to deal with dynamic or uncertain environments. DC was defined as “the firm’s ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments” (Teece et al., 1997:516). Their definition of DC was soon followed by other versions (e.g., Eisenhardt & Martin, 2000; Helfat et al., 2007; Wang & Ahmed, 2007; Winter, 2003; Zahra, Sapienza, & Davidson, 2006). One influential definition of DC, as offered by Helfat et al. (2007) and Ambrosini and Bowman (2009), is “intentional resource-based conversions of corporations.” Nevertheless, it was Teece (2007) who has first proposed a DC framework which recognizes three classes of capabilities (sensing, seizing, and transforming) to explain the sources of enterprise-level competitive advantage over time. According to this concept, once a new opportunity, whether a technological or market opportunity, is sensed, this must be promptly addressed through new products, processes, or services. Thus, a key to sustained profitable growth is the ability to recombine and to reconfigure assets and organizational structures. A business model, then, is a plan for the organizational and financial ‘architecture’ of a business (Teece, 2007:1329), and the capacity of an enterprise to create, adjust, hone, and, if necessary, replace business models is fundamental to DC (Teece, 2007:1330).

The concept of a business model (hereafter BM) has been defined by many researchers (e.g., Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002; Johnson, Christensen & Kagermann, 2008; Magretta, 2002; Morris, Schindehutte & Allen, 2005; Teece, 2010; Timmers, 1998). Most of their works addressed BM components, a shared commonality among them. Schön (2012) suggested three components: value proposition, revenue model, and cost model. Companies need to assess carefully how important a specific module is for differentiation before they endeavor to make it available internally or, especially, externally. Furthermore, partner networks need to be managed more carefully to ensure protection of competitive advantage (Schön, 2012: 77).

Teece (2014a: 29) suggested that the growth and survival of an MNE is not just about adapting to market failures; it is also about creating and deploying VRIN² resources as well as signature processes and distinct business models to enable excellence in meeting (or possibly even modifying) market demand in ways that are hard for competitors to imitate. This, in turn, may lead the MNE to engage in technology and capability transfer, and possibly even to the strengthening of complementors and suppliers. Developing distinct business models, therefore, is the key to entering and penetrating a new market. Teece (2014a: 334) suggested that the DC framework must be coupled with effective strategizing to bring about competitive advantage as dynamic capabilities do not operate alone. Furthermore, strategy, capabilities, and the business environment are co-evolving (Teece, 2014b: 341). Teece, however, failed to specify the components of strategy, the definition of which he simply quoted from Rumelt (2011: 6); therefore, there is a need for supplementation.

Teece (2014a) made efforts to incorporate to the theory of the MNE some of the recent developments in the field of strategic management, particularly those relating to enterprise capabilities. However, more studies are still needed to supplement current literature in international business and the theory of the MNE. Hymer (1976) focused on the process of companies' foreign market entries but did not discuss those firms' strategies after entry.

Likewise, even while Prahalad and Doz (1987) have categorized global businesses as global integration and local responsiveness, they did not explore the strategies of firms and the resource base that enables actualization. A case analysis utilizing DC perspectives has the potential to complement multinational business theories.

Kimura and Chitose (2021) have proposed to expand the DC framework by supplementing the strategy component and to demonstrate the validity of the analytical framework through a case study of IY's China business, as current case analyses of Japanese companies from DC perspectives are currently limited.

3. Research Method

This is case study research of two Japanese companies, Ito-Yokado Co. Ltd. (IY) and Shiseido Co. Ltd. (Shiseido) that gained entry into the Chinese market and obtained sustained competitive advantages. The next chapter analyzed how each company was able to obtain and sustain competitive advantage in a foreign market based on the expanded DC framework (Figure 1), which was proposed by Kimura and Chitose (2021). Then, similarities between the cases and the validity of the extended DC framework are presented in the "Discussion" chapter.

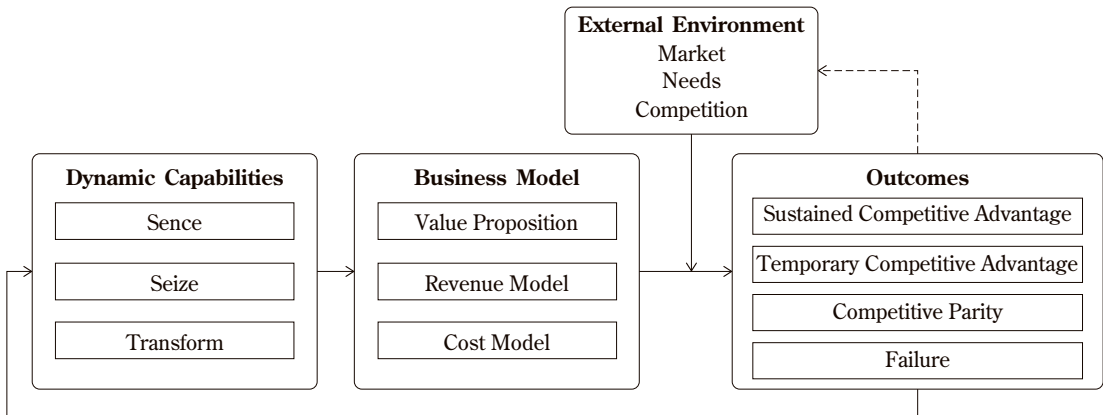


Figure 1. Expanded DC Framework

From "Expanding the Dynamic Capabilities Framework: A Case Study of Chengdu Ito-Yokado." by Kimura and Chitose, 2021, *The Association of Japanese Business Studies 2021 Proceedings*

As depicted in the framework, "Business Model" is a direct factor affecting the "Outcomes"; "Dynamic Capabilities" are the abilities to create and re-create the "Business Model"; and "External Environment" influences both the "Business Model" and "Outcomes" as a moderating variable. "Outcomes" are either one of the following: Sustained Competitive Advantage, Temporary Competitive Advantage, Competitive Parity, or Failure (Ambrosini & Bowman, 2009:43). "Business Model" has three components: Value Proposition, Revenue Model, and Cost Model (Schön, 2012:75), while "Dynamic Capabilities" is divided into three sub-capabilities: Sense, Seize, and Transform (Teece, 2007:1342). Schön (2012:75) further specified components of 'Value Proposition' as: Product & Service, Customer Needs, and Geography; those of 'Revenue Model' as: Pricing Logic, Channels, and Customer Interaction; and those of 'Cost Model' as: Core Assets & Capabilities, Core Activities, and Partner Network. The two cases were analyzed by each component level.

In addition, the framework also takes account of chronological changes, specifically referring to changes occurring from the "Introduction Stage" to the "Growth Stage." Companies must modify or reconstruct their "Business Model" based on the "Outcomes" to survive in the market (as expressed by the solid line from "Outcomes" to "Dynamic Capabilities" in Figure 1 implying that "Outcomes" influence "Dynamic Capabilities"). The company's "Business Model" is modified or reconstructed by its "Dynamic Capabilities." On the other hand, a company's "Outcomes" sometimes influence its "External Environment," the relationship of which is expressed by the dashed line from "Outcomes" to "External Environment." The dashed line shows that while there are cases that a company's "Outcomes" influence its "External Environment," it is not always so. These two feedback lines allow chronological analysis of the case.

In assessing DC, this study used the concepts of "technical fitness" and "evolutionary fitness," as proposed by Helfat et al. (2007). The latter refers to how well a dynamic capability enables an organization to make a living by creating, extending, or modifying its resource base. This study followed the criteria suggested by Helfat et al., (2007), survival and growth, in evaluating "Outcomes."

4. Case Analyses

This chapter analyses how IY and Shiseido obtained and sustained competitive advantage based on the extended DC framework.

Ito-Yokado

The first case is Ito-Yokado Co., Ltd. (IY), which established its first overseas outlet in Chengdu in China in 1997 (hence, Chengdu Ito-Yokado; hereafter CIY). In analyzing CIY, we first defined the scope of the “Introduction Stage” as the period from 1997 to 1999 (3 years), and the “Growth Stage” from 2000 to 2006 (7 years)³.

Outcomes

“Survival” is assessed by whether positive profits were earned, while that for “growth” is whether positive CAGR⁴ was earned. The “Introduction Stage” resulted in ‘competitive parity’ because it earned negative profit while enjoying positive CAGR. CIY’s sales revenue in 1997, its first operating year, was 18 million RMB, with a net loss of 8 million RMB recorded. Its CAGR till 1999 was 354%; however, its accumulated loss was 117 million RMB for the same period. The “Growth Stage” resulted in ‘sustained competitive advantage’ because it earned positive profit and positive CAGR as well. CIY’s sales revenue in 2000 was 513 million RMB, and it recorded a net profit of 5 million RMB. It was the first profit for the company and it has continued making net profit since then (e.g., net profit rate in 2006 was 7%)⁵.

Business model

BM analysis of CIY based on the expanded DC framework (Figure 1) is summarized in Table 1. IY’s outlet in Chengdu (or CIY) was characterized as a combination of a general merchandise store (GMS) and department store to fit the Chinese market, with categorized products displayed on each floor and with some floors having shop-in-shops (SISs). IY introduced a high level of customer service to differentiate CIY from the others by starting from training local staff members to bow (a sign of greeting and respect) and to verbally greet customers properly as the socialist distribution mentality still pervaded in the local Chinese people. It was not customary for staff manning the shops to thank customers (Yutani, 2011). IY transferred operational knowhow developed in Japan such as unit control system, open displays, and newspaper inserts to CIY. CIY’s sales method (how-to-sell), therefore, was summarized as ‘I (Global Integration) ’ oriented⁶. CIY, however, initially struggled to attract local customers as they were confused by the difference of business practices, e.g., the Chinese customers were used to haggling and they tried doing so at CIY but this was not acceptable practice. Its sales item (what-to-sell), in contrast, was rather characterized as ‘R (Local Responsiveness) ’ oriented. In order to meet the local demand, “slow-moving items were replaced in the food section resulting in a total revamp of merchandise in half a year” (Yutani, 2011). IY had no track record and was unknown in China thus, at first, they were not trusted by the local suppliers. IY had to develop supply networks over time. IY sought the best solutions between responding to local needs and differentiation to develop the initial BM in the “Intro-

Table 1

Business Model Analysis (Ito Yokado)

	Introduction Stage (1997~1999)	Growth Stage (2000~2006)
Value Proposition		
Product & Service	GMS + Department Store style (introduction of SIS) Abundant product range Packed perishables (J-style) Replace slow-moving products	Further developed: more attractive product range due to local buyers and relationships developed with suppliers Propose products with better quality, e.g. Organic vegetables Propose more Japanese cuisine, e.g. onigiri, natto
Customer Needs	Affordable items & something new	Value for money (based on improved living standards)
Geography	One outlet in Chengdu City	Additional outlet in the area in 2003 - transfer operational knowhow - dominant strategy (J-style)
Revenue Model		
Pricing Logic	Equivalent with other shops in the same area	Pursue "value-for-money," proposing better quality of products
Channels	Open display (J-style) Leaflet ads (J-style) Self-service at food section and consultative sales at SISs Clean and organized retail environment (J-style)	Further improved: higher quality through employee trainings Introduction of apparel Private Brand (PB) Introduction of demonstration sales Enhance Japanese makers' products
Customer Interaction	High-level customer service (J-style) No discount offers on haggling (J-style) Frequent sales events Conversation meetings with customers (J-style) Opinion box (J-style)	Further improved: higher quality through employee trainings
Cost Model		
Core Assets & Capabilities	Retail operation developed in Japan, e.g. unit control system	Further improved: higher quality through employee trainings Transfer operational knowhow to the second outlet/branch
Core Activities	Introduction of foreign culture through sales events Japanese-level of customer service and employee trainings to accomplish it	Further improved: higher quality through employee trainings and empowerment
Partner Network	Through Ito-Yokado Company's network Non-consignment deal (J-style)	Further improved: expand partner network based on the reputation in the market Develop local buyers Charge SISs education fees

Note. From "Expanding the Dynamic Capabilities Framework: A Case Study of Chengdu Ito-Yokado." by Kimura and Chitose, 2021, *The Association of Japanese Business Studies 2021 Proceedings*

duction Stage.”

In the “Growth Stage,” CIY eventually started offering more attractive products because local business partners (suppliers) came to trust CIY as it strictly followed contract terms such as payments. CIY started providing products with better quality such as organic vegetables. It also introduced private apparel brands and enhanced Japanese makers’ products utilizing its group resources as well as locally developed supply networks. CIY’s sales item (what-to-sell), therefore, shifted towards the I-direction (Global Integration) partially to adopt to the maturity of the market demand. IY consistently went to great lengths to ensure that the Japanese way of business practice took root in China. e.g., staff members stand at the store entrance and bow to the customers twice a day, chant “6 important words to welcome customers” at the daily morning meetings. CIY continued holding sales events to introduce foreign culture such as Christmas and Valentine’s Day as well as to increase store traffic, which gradually correlated with sales results. It also introduced demonstration sales as seen at the Japanese outlets. Through trial-and-error processes, CIY’s sales method (how-to-sell) had also deepened toward the I-direction ; IY made adjustments to CIY’s BM fully utilizing its resources to fit the changing market conditions. When CIY opened its second outlet in 2003, it successfully transferred operational knowhow developed in the first outlet and hence, overachieved its first year’s sales targets.

Dynamic capabilities

DC analysis of CIY based on the expanded DC framework (Figure 1) was summarized in Table 2. IY created a BM designed to transfer operational capabilities developed in the Japanese market in the “Introduction Stage” to meet the Chinese government’s expectations of modernizing the country’s domestic distribution system. However, this had limitations as market conditions were totally different and there were so many uncertainties. The processes undertaken by CIY consisted of gathering information from customers through home visits⁷ and opinion boxes as well as from employees through informal meetings (“Sense”). CIY developed the capability to offer products by nurturing local supplier networks and by replacing slow-moving items, and through the process, local buyers’ ability had improved (“Seize”).

In the “Growth Stage,” buyers would spend one hour at the selling floors every day listening to customers to feel the demand changes in the market (“Sense”). The company not only enriched its product range by expanding and reinforcing local supplier networks but also introduced private-brand items and Japanese products by fully utilizing IY’s group resources (“Seize”). CIY’s management team spent considerable time and efforts at educating local employees and gradually empowering them. Operations continued to improve by scaffolding day-to-day knowhow through the Plan-Do-Check-Action (PDCA) cycle which facilitated organizational learning (“Transform”). IY modified CIY’s BM and localize the business operations to adopt to the changing environment. Hanawa (2012:61), the person in charge of IY’s China business for the first 13 years, said, “We would like to make a company by the Chinese people, for the Chinese people, and of the Chinese people.”

External environment

The “Outcomes” had influenced the “External Environment” with positive effects to the company’s

business operations. In the “Growth Stage,” CIY showed strong performance in Chengdu despite competitors’ new entry in the area. Due to CIY’s success, competitors also entered the market in Chengdu. The increase in consumer traffic, however, only reinforced the fact that CIY’s merchandise and services stood out as shown by CIY’s persistent success in terms of customer patronage. As a result, CIY continued to be in the number one spot when it comes to sales per square meter even while the area had become very competitive.

Shiseido⁸

The second case is Shiseido Co., Ltd (Shiseido), which entered the Chinese market in 1981 full of uncertainties. Shiseido was selling its products at a shop in Beijing Hotel and some department stores. Shiseido Liyuan Cosmetics Co., Ltd. (SLC) was established as a joint venture company in 1991 to start a full-scale business. The scope of the “Introduction Stage” was defined as the period from 1991 to 1996 (6 years), and the “Growth Stage” from 1997 to 2010 (14 years). The length of each stage was doubled from the case of IY since Shiseido is a manufacturer, and it requires much longer time to develop products as well as distribution channels.

Outcomes

“Survival” and “growth” were assessed by Shiseido’s sales revenue and profit development in China.

Table 2

DC Analysis (Ito Yokado)

	Introduction Stage (1997~1999)	Growth Stage (2000~2006)
Sense	Capability to utilize suppliers - Develop relationship with suppliers - Reconciling product-range with SISs Capability to receive feedback from customers (e.g. visit local houses) and from employees (e.g. conversation meetings, opinion boxes)	Capability to receive feedback from customers and from employees (e.g. buyers’ direct communication with customers)
Seize	Capability to propose products - Develop supply chain and promote products Leadership by the Japanese management team and continuous training to local employees	Leadership by the Japanese management team and continuous training to local employees Capability to expand and enhance business networks to enrich product range - Utilize IY’s group resources and introduce Private Brands (PB) and Japanese products. Decentralized decision making - Develop local employees and empower them Capability to integrate the collective knowledge and learning - Accumulate the operating knowhow with the daily P-D-C-A cycle
Transform		

Note. From “Expanding the Dynamic Capabilities Framework: A Case Study of Chengdu Ito-Yokado.” by Kimura and Chitose, 2021, *The Association of Japanese Business Studies 2021 Proceedings*

After the establishment of SLC in 1991, its sales had been growing faster than the market growth rate⁹. In the “Growth Stage,” it showed healthy figures in sales revenue: 16 billion yen (2002), 21 billion yen (2005), and 60 billion yen (2008). The Chinese business has continued developing, and the sales revenue from China in 2020 was 235.8 billion yen, which was more than 10 times as much as 15 years ago. The sales have become the second largest within Shiseido, Japan 32.9% and China 25.6%. The operating profit from China in 2020 was 18.4 billion yen, which was even larger than Japan’s 10.5 billion yen. From the comparative data, Shiseido’s China business has obtained ‘sustained competitive advantage.’ Driven by the Chinese business, Shiseido’s overseas sales has been continuously increasing in the last decades; it was less than 10% until 1995 but it increased as high as 67% in 2020¹⁰.

Table 3

Business Model Analysis (Shiseido)

	Introduction Stage (1991~1996)	Growth Stage (1997~2010)
Value Proposition		
Product & Service	<i>Aupres</i> , the locally-developed and manufactured product line	Continue promoting <i>Aupres</i> to grow to a national brand “Out of Shiseido” product lines such as <i>Za</i> , <i>Whitia</i> , and <i>Pure Mild China (PMC)</i> Launched <i>Urara</i> exclusively through cosmetics specialty (CS) store channel
Customer Needs	Know about skincare and makeup in prestigious (or upper-class) segment	Affordable products in middle-class segment
Geography	Large cities in coast area	Expanded to inland farming area
Revenue Model		
Pricing Logic	Premium products for upper-class customers	Expanded product lines to more affordable ones for middle-class customers
Channels	Department store to educate the customers about skin care and makeup	Department store to further promote counseling services Sales Channel diversified to supermarkets, drugstores, and CS stores Developed the “Pure & Mild Excellent Stores” format which was limited to selling middle to low price-ranged skin care products
Customer Interaction	Counseling services (J-style)	Counseling services (J-style)
Cost Model		
Core Assets & Capabilities	Shiseido Beauty Center in Beijing to support customer education activities	Second Shiseido Beauty Center in Shanghai to reinforce counseling-sales system R&D center (Shiseido China Research Center Co., Ltd. or SCRC) in Beijing to do research on traditional Chinese medicines
Core Activities	Counseling services (J-style)	Counseling services (J-style) Established a training center in Shanghai
Partner Network	Joint venture company: Shiseido Liyuan Cosmetics Co., Ltd. (SLC)	Joint venture company: Shanghai Zotos Citic Cosmetics Co., Ltd. (SZC)

Business model

BM analysis of Shiseido based on the expanded DC framework (Figure 1) was summarized in Table 3.

Shiseido saw the market potential and developed the exclusive-in-China brand, “Aupres,” after conducting a thorough market research considering local people’s skin conditions, the custom of daily care, as well as climate conditions. “Aupres” was well accepted by the Chinese market. Its in-store share was at the top in 90% of department stores¹¹, and its sun care product lines were selected as official cosmetic products for the Chinese team participating in the 2000 Sydney Olympics¹². “Aupres” was reasonably priced for the premium brand by making the rate of procurement on the spot reached more than 80%¹³. The company established the local production structure in China to manufacture “Aupres” products. Shiseido’s product development process (what-to-sell) in the “Introduction Stage” was characterized as ‘R (Local Responsiveness)’ oriented. In contrast, its sales and distribution process (how-to-sell) was summarized as ‘I (Global Integration)’ oriented. Shiseido’s target was the upper-class segment. Since consumers had limited knowledge at the time, it was important for Shiseido to educate people on skincare and makeup by providing counseling services at the frontlines. So-called “beauty consultants” played an important role in the process and the Shiseido Beauty Center supported the services. This operational system was developed in Japan and transplanted to the Chinese market. Shiseido sought the best solutions between responding to local needs by what-to-sell and differentiation from competitors by how-to-sell in the “Introduction Stage.”

Shiseido’s BM evolved to other directions in the “Growth Stage,” which was summarized in Figure 2. The market expanded to the middle-class segment and to inland farming areas geographically. The company established the R&D Center in 2001 and, through its intensive research, it found out that the local market needs were products for skin whitening and dry skin. The findings from the marketing research as well as from customers’ voices gathered at the sales front led to the development of another China-exclusive product line called “Urara,” which offered a lower pricing range than the “Aupres” brand, with distribution made through the cosmetic specialty (CS) store networks. Shiseido then developed the “Pure & Mild” product line, which was also exclusively distributed in China. They are examples of what-to-sell’s evolvement towards Local Responsiveness, the R-direction (as shown by the “P-I” shift to “P-G” in Figure 2). In contrast, its how-to-sell evolved towards Global Integration, the I-direction (as shown by the “S-I” shift to “S-G” in Figure 2). Shiseido established another Shiseido Beauty Center in Shanghai in 1998 and reinforced the counseling-sales system in department stores. In 2003, it opened a directly-managed store in Shanghai to serve as a model for the CS store network. In addition to the CS store format that could handle multiple product lines centering on “Urara,” Shiseido established another store format which was called “Pure & Mild Excellent Stores.” “Pure & Mild” was developed with the aim of targeting rural areas, and selected stores were provided with a POS system free of charge from Shiseido, as well as a variety of sales support. Shiseido’s sales counseling, which started at department stores, expanded to CS stores in 2004 and then to the pharmacy channels. Other cosmetic companies followed in the footsteps of Shiseido by also offering counseling services at department stores; however, it was only Shiseido that aggressively expanded the service to specialty stores and pharmacies (Itami, et al., 2013). Shiseido had evolved its BM to other distinctive directions, Local Responsiveness (R-direction) in what-to-sell and Global Integration (I-direction) in how-to-sell, to further fit the

I: Global Integration

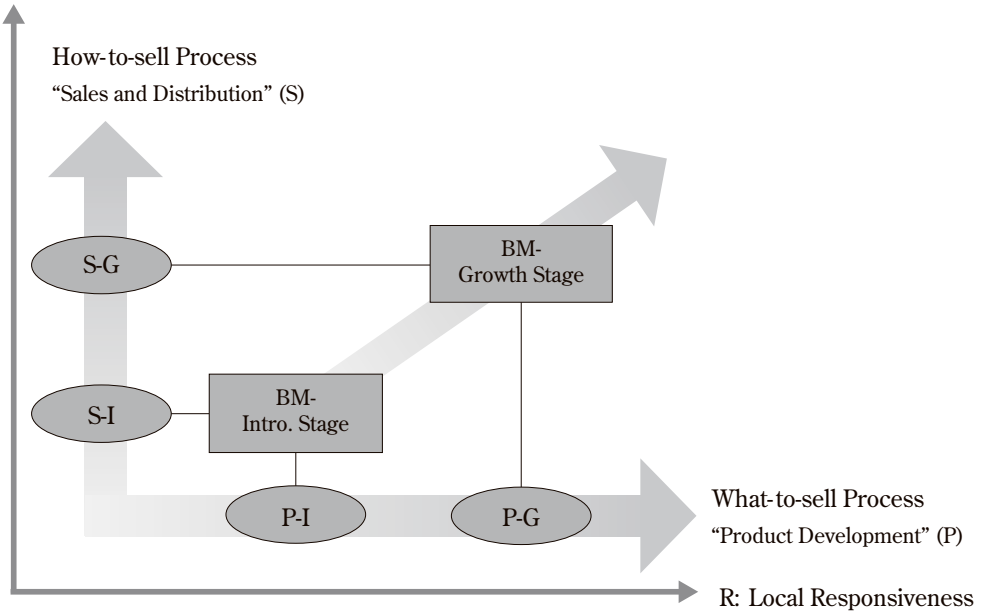


Figure2. Shiseido's Business Model Development in China

growing market and to maintain the competitive advantage in the “Growth Stage.”

Dynamic capabilities

A DC analysis of Shiseido based on the expanded DC framework (Figure 1) is summarized in Table 4. Shiseido created a BM to sell its cosmetic products in markets where makeup culture had not yet been penetrated. In the “Introduction Stage,” through its careful marketing research, Shiseido found its market potential (“Sense”). The activity resulted in the development of the local product, “Aupres,” as well as the counseling service system, which was transplanted from the home market to China to transfer makeup and skincare knowhow (“Seize”).

In the “Growth Stage,” Shiseido’s BM evolved when the company established its R&D Center in 2001 to further improve its research ability (“Sense”). As a result, Shiseido’s product development capability further improved and this contributed to expanding its product lines at a lower pricing range. Moreover, its distribution channels were expanded to meet more diversified needs (“Seize”). Shiseido introduced the voluntary chain store system in 2004 in which they transferred knowhow of cosmetic sales and supported the stores by introducing the POS system, and also provided consultation support services. The company continued efforts to educate local retail staff by the well-trained Japanese beauty consultants, forming FTTs (Field Training Teams)¹⁴. Shiseido established a product development process together with local staff in charge of the whole process - from market research to prototype development - as translating sensory words into the Japanese language changes the nuance and makes it difficult to develop products customers really want¹⁵ (“Transform”).

Table 4

DC Analysis (Shiseido)

	Introduction Stage (1991~1996)	Growth Stage (1997~2010)
Sense	Capability to research market to identify the local needs	Capability to research even in deeper level through its newly established R&D Center
Seize	Capability to manufactured locally-developed product line (value-chain design) Capability to transplant the counseling service from Japan to transfer makeup & skincare culture to the local market	Capability to offer wider range of products - Expansion to lower pricing range Capability to expand distribution channels to meet more diversified needs - CS store channel distribution - "Pure & Mild Excellent Stores" format Capability to introduce voluntary chain store system from Japan
Transform	Capability to train and develop local beauty consultants for its counselling service	Capability to transplant Japanese operating know-how to the Chinese distribution - support stores by POS system and providing consultation support Capability to establish product development process with local staff in charge of the whole process from market research to prototype development FTT (Field Training Team) to educate local retail staff (knowledge transfer)

External environment

The "Outcomes" had influenced the "External Environment" with positive effects to the company's business operations. Shiseido was the first foreign cosmetic company to enter the Chinese market. Through careful market research, the company developed China-exclusive products, which were well accepted by the Chinese market. Shiseido took a lead at penetrating the makeup culture and at expanding its market in China, and the counseling style of sales activities played an important role in educating the market. The "Shiseido" brand was well established and when the market was expanded, it had a positive impact on the company's performance.

5. Discussion

Through the case analyses, this paper probed how IY and Shiseido were able to obtain and sustain competitive advantage in a foreign market. Similarities between the cases and validity of the extended DC framework are now going to be considered in this part.

Both companies entered the Chinese market full of uncertainty and where conditions were totally different from that of Japan. Each company created a BM to fit the local business environment, by using "I (Global Integration)" and "R (Local Responsiveness)" appropriately and balancing them. DC was deployed to realize the BM, in which the sub-capabilities of "Sense" and "Seize" were key in the "Introduction Stage." In Shiseido's case, BM was developed with a combination of the I-direction of sales and distribution process (how-to-sell) and the R-direction of product development process (what-to-sell).

In developing the sales and distribution process, Shiseido transplanted the capabilities developed in the Japanese market, which was similar to IY's case. Both companies established sales methods, which had been developed in Japan, that focused on the high level of customer service. In establishing the product development process, Shiseido learned the market needs through careful market research and decided to go with localization of product offerings. This was also similar to IY which renewed its merchandise by replacing slow-moving items.

The Chinese market showed strong growth during the two companies' "Growth Stage." The sub-capabilities of "Seize" and "Transform" of DC were key to enjoying the benefits of market growth. In Shiseido's case, BM evolved to each distinctive direction ; Global Integration, the I-direction of the sales and distribution process (how-to-sell) to further differentiate from competitors, and Local Responsiveness, the R-direction of the product development process (what-to-sell) to fit the diversified local demand. IY also evolved CIY's BM to differentiate itself from competitors as well as to fit the changing environment. Knowledge management is one of the important factors in "Transform," according to Teece (2007), and it was notable that both companies spent enormous amounts of time and effort in educating local staff and empowering them. The development of the local employees and the accumulation of operating knowhow among them effectively worked at the establishment of the second outlet (IY's case) and the development of new products (Shiseido's case).

The expanded DC framework allowed systematic analysis for it defined the relationship among factors in "DC - BM - (External Environment) - Outcomes." The analysis was sequential from entry into the new market to growth of the business, and it identified the relationship of key success factors. While Teece (2014b: 341) stated that strategy, capabilities, and the business environment co-evolve, he failed to specify contents of strategy. The expanded DC framework supplemented Teece's DC framework by (1) introducing BM, which includes strategy, (2) introducing the influence of the external environment, and (3) considering each factor of DC and BM¹⁶. As a result, this study has demonstrated that the expanded DC framework, which is based on Teece's DC framework (2007), is valid for case analysis.

6. Conclusion

This paper offered three main contributions in developing the DC theory. While Teece (2014) did not specify the contents of strategy in his DC framework, BM was added and the relationship among the factors was considered in the expanded DC framework which was used in this study. Second, it introduced measurement scales such as evolutionary fitness and technical fitness (Helfat et al., 2007) to assess company performance. Third, although this paper is considered an empirical study to support the expanded DC framework as proposed by Kimura and Chitose (2021), it also offers practical contributions. When a company tries to enter a new market or start a new business, it needs to consider many factors. While the existing theories are narrow in scope, the expanded DC framework allows systematic analysis by extracting important factors.

This paper attempted to analyze the capability development of two Japanese companies in an overseas market. Current experimental studies on DC emphasized that there is a need to investigate processes of creation and evolution over long periods of time and to conduct more focused studies of

dynamic capabilities (Easterby-Smith, et al., 2009). This study has partly contributed to solve such issues.

On the limitations of this study and suggestions for future research, first of all, this paper only considered the factors included in the analytical framework and excluded other factors such as regional and industrial characteristics. Second, there was a limit to collecting internal information due to privacy policies. Third, more cases are needed for analysis to be able to firmly verify the validity of the expanded DC framework and improve it where necessary. More case studies on the entry of other Japanese companies in the international market are planned in the future to clearly establish methods and perspectives for analyzing the relationship between DC and BM and to contribute to the development of DC theories.

Footnotes

- 1 This paper is an extension of a paper submitted to AJBS (The Association of Japanese Business Studies), "Expanding the Dynamic Capabilities Framework: A Case Study of Chengdu Ito-Yokado," and presented at its 2021 annual conference.
- 2 VRIN is the key criteria defined by Barney (1991) for resources that can support durable competitive advantage: Valuable, Rare, Imperfectly imitable, and Non-substitutable.
- 3 The reason for using 3 years in the "Introduction Stage" is that it is the set period for mid-term business plans in most companies. To have a total analysis period of 10 years, the "Growth Stage" period is set as 7 years.
- 4 Compound Average Growth Rate
- 5 Ito-Yokado Co., Ltd., Sustainability Report 2002, Corporate Social Responsibility Annual Report 2003–2005, and Seven & i Holdings Co., Ltd. Corporate Outline 2006, 2007
- 6 It partially adopted 'local responsiveness (R)' as the store outlet was a combination of a general merchandise store (GMS) and a department store to fit the Chinese market.
- 7 The Japanese team visited ordinary Chinese households to see how they live and they took many pictures to analyze later. They also went to residential areas early in the morning and looked at the garbage thrown away to find out what the residents were buying and eating (Hanawa, 2012: 86).
- 8 For the analysis of Shiseido, this study referred to the case analysis conducted in Kimura (2015)
- 9 The Magazine for Cosmetic, Toiletry, Drug & Allied Industries, August 2003
- 10 Shiseido Co., Ltd., Integrated Report 2020 & Annual Report 2014–2019
- 11 Weekly Diamond, 2004.04.24 Issue
- 12 "Aupres" was selected as the official cosmetic product for the Chinese team participating in the 2004 Athens Olympics as well.
- 13 Weekly Diamond, 2001.11.03 Issue
- 14 Nikkei Business, 2005.02.14 Issue
- 15 Nikkei Business, 2009.08.24 Issue
- 16 While the dynamic capabilities framework of Teece (2014a) included (generic) resources and (ordinary) capabilities, the expanded DC framework included (generic) resources and (ordinary) capabilities as factors of the business model.

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