

Chapter 23

A Case Study of Progressive Formation of Accounting Cloud Services in Japan

Yutaka Mizuno

Nagoya Institute of Technology, Japan

Nobutaka Odake

Nagoya Institute of Technology, Japan

ABSTRACT

The purpose of this study is to clarify the best practice of an accounting cloud service in Japan which has two-sided markets and freemium structure and how to formulate its service. The authors studied one specific accounting cloud service, as a case study. As results, the authors obtained the following three findings. First, the best accounting cloud service adopted Open & Close strategy. The Company specializes in accounting operations area and make open connections with other cloud services in non-accounting operations area. Second, the best accounting cloud service has a specific service formation along its market strategy. Third, the best accounting cloud service has an effective boarding strategy of its users' group onto its cloud service platform. Therefore, cloud service providers not only adopt Open & Close strategy, but also build up the coherent market strategy to formulate self-reinforcing mechanism before building up their business ecosystem in the two-sided markets and freemium structure.

INTRODUCTION

A cloud service is an information processing platform. It consists of end-users, players to supply resources complementary, and players to intermediate its services in a platform. Thus, a cloud service builds a business ecosystem and one of important social infrastructures.

In the past few years, new accounting cloud services for both of individuals and small companies are growing rapidly in Japan. An accounting cloud service is defined as a cloud service providing for a financial management service. Because the taxation system was revised, individuals and small companies have an obligation to create and keep an accounting book. The new accounting

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service help their customers to create and keep accounting books cheaply. Users can register daily cash transactions and manages daily income and expenditure on the accounting cloud service. In addition, the accounting cloud service associates with the other cloud services such as, including Internet-Banking, E-commerce Sites. Therefore, customers can get their transaction records from other cloud services and keep accounting books automatically. Thus, customers can save their resources and concentrate upon their business.

The new accounting cloud services are provided by Start-up Companies. It has two-sided markets and freemium structure with both free and paid customers on its service platform. Two-sided (or more generally multi-sided) markets structure is defined as markets in which one or several platforms enable interactions between end-users, and tries to get the two (or multiple) sides “on board” by appropriately charging each side (Rochet and Tirole 2003). Freemium is a kind of business model of two-sided markets. The freemium model has multiple sides group. One is a user’s group who pay service fee on the platform, and the other is a user’s group who does not pay service fee. The freemium model can be used as an effective go-to-market strategy of Start-ups. Despite its popularity and clear benefits, freemium is still poorly understood (Kumar 2014).

The purpose of this study is to clarify the best practice of an accounting cloud service in Japan and how to formulate the best accounting cloud service which has two-sided markets and freemium structure.

Outline of this paper consists as follow: theoretical framework related the topic; methodology; market survey; case study; discussion of formation; and conclusions.

LITERATURE REVIEW

We attempt to answer the following questions, and thereby fill key research gaps in the existing

literature: a) organization management; b) market strategy; c) Open Service Innovation; d) Open & Close strategy.

Organization Management

Gawer and Cusumano define that “Platforms are industry building blocks which attract other firms’ investment and innovation on add-on products or services analyzed the competitive strategy of major enterprises” in the viewpoint of the platform formation and leadership with their case studies of Intel, Microsoft, and CISCO (Gawer and Cusumano 2002). Platform strategy discusses how to manage and how to integrate internal resources of enterprise. Iansiti and Levien examine competitive strategy with the framework of business ecosystem (Moore 1993; 1996) which connects seamlessly with various enterprises. Business ecosystem discusses how to manage and integrate external resources of enterprises (Iansiti and Levien 2004).

Market Strategy

March classifies that market activity of enterprises has two types which are exploration and exploitation (March 1991). Arthur established theory of network economy and explains that network effect is increasing returns to scale and have characteristics of path independence (Arthur, 1994). In other words, network effects is that the growth of users of a platform increases the growth of profits that gain from the platform. Rochet and Tirole established theory of two-sided markets and describe platform competition that “Enterprises tries to get the two (or multiple) sides on board by appropriately charging each side onto their platform.” The two end-users groups are attracted to each other (Rochet and Tirole 2003). Eisenmann et al state that “The platform value to any given user largely depends on the number of users on the network’s other side with two-sided network effects ” and that “value grows as the platform matches demand from both sides” (Eisenmann et

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