

Mobile Phones Becoming e-Wallets – Branching Out Into the Credit Business –

Interviewer: Murakami Kuniko

NTT DoCoMo, Inc., which holds a majority share of the Japanese mobile phone market, was slow to promote the third-generation (3G) mobile service featuring high-speed data transmission, and fell behind its rival KDDI, the operator of the “au” mobile service, in the net growth of mobile phone subscriptions – new subscriptions minus cancellations – in 2004. DoCoMo has been trying to catch up with its rivals with the launch of fixed charges for packet data communication service and the introduction of brand-new handsets capable of e-money settlements called “Osaifu Keitai,” or “Wallet Phones,” for consumers. NTT DoCoMo President and CEO Nakamura Masao, eager to branch out into the credit business using mobile phones, talks about his company’s future business strategy.



Photo : NTT DoCoMo, Inc.

Capital Injection for Japan’s No.2 Credit Card Firm Sumitomo Mitsui Card

In April 2005, DoCoMo acquired a 34% equity stake in Sumitomo Mitsui Card Co., the second-largest credit card firm in Japan, to branch out into the credit business. What does DoCoMo hope to gain from its acquisition?

Nakamura: First of all, DoCoMo will be able to obtain earnings with its 34% stake in Sumitomo Mitsui Card. We can expect increased revenues from Sumitomo Mitsui Card because payments can be made by placing DoCoMo’s special mobile phones over credit card readers at its member stores. We also plan to branch out into the credit business with the DoCoMo brand. We would like to begin by using conventional plastic cards as well, besides using mobile phones as credit cards. We are now working out specific business plans.

Are you considering linking up with other credit companies?

Nakamura: We want to do this in a non-exclusive way. If DoCoMo’s mobile phones can be used at any store equipped with card readers, it would be much more convenient for users.



The average monthly charge for each subscriber is on the decline. Mobile phone carriers need to find new sources of revenue. What kind of business fields is DoCoMo planning to emphasize?

Nakamura: Internet advertising for computer users is a rapidly expanding field. There still remains room to develop the mobile phone ad business, and it does not pose risks or increase costs for us.

DoCoMo Will Not Seek to Monopolize Content

Rival carriers sell handsets that can monitor analog terrestrial broadcasts.

Nakamura: DoCoMo will not market handsets capable of monitoring analog broadcasts. From next year, digital terrestrial broadcasts can be viewed with mobile phones. The development of handsets for this purpose is proceeding smoothly, and we believe we will be able to put such products on the market to handle the new services.

It is now certain that the new carriers will begin offering 3G mobile phone services. This will further intensify the competition among carriers and lead to a battle for quality content for mobile phones. Does DoCoMo plan to monopolize content?

Nakamura: We do not think it is necessary, for now. There are enormous content service items for 3G. Content service providers cannot earn unless they transmit content to all carriers – DoCoMo, au and Vodafone. It would be better for both carriers and content service providers to forge a “win-win” relationship where they can both post profits.

It may, however, be difficult for DoCoMo to differentiate its service if the same content is provided.

Nakamura: We think a quick launch of services would lead to differentiation. In short, speed will decide the winner. A



Photos : NTT DoCoMo, Inc.

FOMA N901iS "Mobile Wallet" series and shopping sample image

new content service that is completely different, say, game software, is certain to emerge in the 3.5G mobile phone service which will further speed up data transmission.

Scope of 3G FOMA Users Expanding

Are you studying another cut in mobile phone charges?

Nakamura: DoCoMo's service has often been criticized for being too costly, but we could catch up with our rivals after launching a new fee system that allows users to carry over the free-call service for two months and to share it among family members. I think we have destroyed the mistaken belief that many DoCoMo users have large bills. DoCoMo also needs to cope with the mobile number portability system that will be launched in the fall of 2006. This will allow people to continue using their phone numbers after switching carriers. This system is said to be unfavorable for carriers with a large market share, but nobody knows if this is true at this point.

DoCoMo has put on sale the inexpensive 700 series of 3G handsets to promote the 3G FOMA service. What kind of reaction are you receiving from users?

Nakamura: It is selling well as expected. The 900 series is highly functional while the 700 series sets are low-end models. We are aiming to sell these two versions in a ratio of 6 to 4. At present, the share of the 700 series has topped 35%, approaching the targeted 40%. From now on, we would like to make the 700 series more attractive and expand the scope of FOMA users.

Japanese Products Are No.1 in Screen Beauty

DoCoMo has begun procuring products by foreign makers such as Motorola of the United States for its 3G FOMA handset. What is behind the decision?

Nakamura: A significant reduction in procurement costs is one of the merits. However, foreign makers' products do not sell well in Japan without modifications. Meanwhile, we are considering selling handsets of Japanese specifications abroad. Japanese products are No.1 in screen beauty. European and US makers such as Nokia and Motorola are pursuing price advantages, but the price can be lowered with an increase in sales. These two companies have so far dominated the mobile handset market in Europe, but the traditional notion of voice phone calls is fading now. Visual

aspects are starting to attract attention. The world's mobile handset market is experiencing a major change as seen by the rise of Samsung Electronics of South Korea.

M&A Is Also an Option

The integration of fixed and mobile phone businesses has become a major challenge for the world's telecommunications industry. How is DoCoMo going to embrace this matter?

Nakamura: DoCoMo has already put the N900iL model handset on the market. This handset can be used in the office as an IP (Internet protocol) phone linked to a wireless LAN and as a mobile phone outside the office. Sales of this model will gradually increase, especially to corporate users. As for the home-use phone service, people will eventually use handsets as a telephone linked to a wireless LAN at home which become a mobile phone outdoors. As the standardization of various devices and equipment is required to cope with such a trend, the services will first spread among corporate users.

DoCoMo is stepping up its own share purchases. How do you use those shares?

Nakamura: Merger and acquisition (M&A) deals would be one of the options if a "win-win" relationship can be established. If we judge we can invest in a growth area, then we will do so actively. Whatever the case, synergistic effects are basically sought for mergers or alliances. If there is no favorable M&A option, we will retire the shares and take other measures beneficial to our shareholders.

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