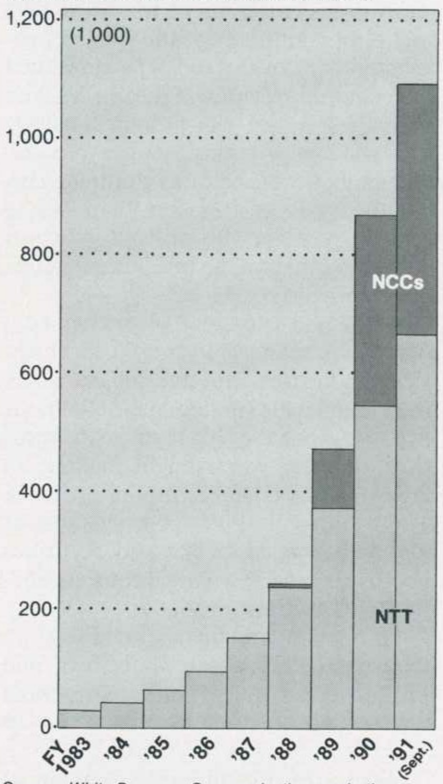
Competing for Callers

Nippon Telegraph and Telephone Corp. (NTT) and KDD, Japan's overseas communications giant, had a fall of over 10% in unconsolidated pretax profit in fiscal 1990, amid keen competition from the so-called new common carriers (NCCs), other Japanese public telecommunications service firms with their own circuits. NTT's telephone revenues, which account for most of its sales, grew only about 2%, while the company made heavy capital investment in service digitalization. Such investment is expected to continue for several years, reducing profits. KDD, which in fiscal 1990 entered full-fledged rate-cutting competition with the two international NCCs, also suffered a profit decline.

Of the three long-distance NCCs, Japan Telecom Co. and Daini-Denden Inc. in fiscal 1990 chalked up sales growth of more than 50% over the previous year. Teleway Japan Corp. also had higher sales. Unlike the other two, however, it has pursued a strategy of giving priority to operations on the "golden route" (Tokyo-Kyoto-Osaka-Kobe). If it is to build up its business further, it will have to expand operations to various other parts of the country by increasing the number of points of interconnection (POIs) with NTT telephone lines.

Number of Car Phone Subscribers



Source: *White Paper on Communications* and others.

In 1992 these long-distance NCCs will face a new phase of competition with NTT, which is due to introduce a long-distance and local calls division system in April and is planning at the same time to consolidate the number of POIs to one to each prefecture. The NCCs have so far set up two or more POIs with NTT telephone lines in each prefecture, to enable them to charge less than NTT to subscribers. If NTT carries out its proposed integration, the NCCs will lose this advantage. Yet they will still have to continue paying depreciation costs for the facilities already built by them at POIs.

NTT and the NCCs share the cost of making alterations in switching systems for such NCC services under existing agreements. A review of the agreements is likely to take place in 1992. A decision is also expected in 1992 on how and when to lift the ban on a linkup between public and leased telephone lines. Depending on how it is done, the lifting of the ban is expected to have a major effect on the NCCs' management strategy.

In the case of regional NCCs, Tokyo Telecommunication Network Inc. (TT-Net) in fiscal 1990 doubled its sales, and chalked up its first operating profit. The sales growth was due to a 95% increase in its leased circuit service revenues. In April 1991, the way was opened for TT-Net's network to be connected with NTT's telephone service network in the Tokyo metropolitan area. The combined telecom circuits of the regional NCCs in 1991 grew more than 50% over the previous year.

As for NCCs using satellites, the failure of the *Super Bird A* satellite, launched in late 1990 by Space Communications Corp. (SCC), has left only two Japanese communications satellites, both launched by Japan Communications Satellite Co., in operation. SCC is due to launch a substitute satellite in 1992. In 1991, Satellite Japan, inaugurated mainly

PTT Telecom of the Netherlands has opened a Tokyo office, entering Japan's increasingly competitive telecommunications market.

by Nissho Iwai Corp. and Sumitomo Corp., became the third NCC with a satellite license. It is expected to launch a satellite in about 1994. In 1992, a number of new satellite broadcasting services–18 PCM broadcasting channels and six telecasting channels–are due to start operation.

The market for car phones and portable phones continued to expand steadily in fiscal 1991. The total number of these cellular phones owned in Japan totaled about 1.09 million as of the end of September 1991. The NCCs had a 39% share in the market. NTT, with the NCCs hot in pursuit, launched the world's lightest and smallest cellular phone, the "Mova" series, in a rollback attempt.

In February 1991, the Ministry of Posts and Telecommunications announced guidelines on 1.5-gigahertz band digital car phone services, under which two consortiums, one led by Nissan Motor Co. and the other by Japan Telecom Co., have decided to start such services. As a final decision was also expected by the end of 1991 on the standard specifications of the second generation of cordless phones, attention continues to be focused on the mobile communication market.

It is not easy for VAN service operators to survive only on network business. Such operators thus inaugurated an Open Network Council in the summer of 1991, aiming at establishing a Japanese-language version of open network architecture. If they are to improve their financial position further, operators feel that the way should be opened for a greater utilization of NTT's VAN network.

(Shinji Makiura, economist)