

Interview


Editor Mats Thorén meets
Softbank Mobile's chief strategist Ted Matsumoto



Smiling all the way to the bank:
Going from last to first, Softbank's
mobile operation has become a
turnaround success

Confidence in being different

It takes guts to build 47,000 new base stations and lower pricing, knowing that voice revenues will diminish . . . and not knowing what data services will bring. Softbank Mobile isn't just talking, it is betting on the future, building a world of content that is not a walled garden. The results are already showing.

 **TED MATSUMOTO** holds the reins as Softbank Mobile's chief strategy officer, and he is adamant about Softbank being very different – not just from its Japanese competitors but from any other carrier in the world.

“Many carriers, especially in Japan, are trying to change themselves from being mere communications companies to being overall service providers,” he says. “Our target is the same. But the approach is just opposite. We came from the internet world and we embraced the communications part of it only very recently.”

Upon meeting Matsumoto you can sense that something important has happened. His company aims to become number one in the highly competitive Japanese telecom market. And here is this smiling, happy, confident man almost bragging about not thinking like telecom people. His company took a decisive step in April 2006 by taking over Vodafone K.K.'s ailing business. A year later Softbank Mobile had achieved an amazing turnaround, going from losing customers to signing up new ones at the highest rate in the market.

A question of mindset

Softbank Mobile's move from last to first, with a speed that surprised many industry commentators, has much to do with being different. Another thing that sets the company apart, Matsumoto says, is not being afraid of the internet. “Many carriers feel that the internet is a threat, because their mindset is to keep a conventional business model as long as possible. It's a very conservative way of thinking. Now, they are starting to understand that it is difficult to protect themselves from the invasion of the internet, and instead, they have to embrace it. But the basic sentiment is that the internet is always the enemy, a strange new creation that is going to invade their long-time peaceful world.”

He adds: “Both communications carriers and internet service providers are trying to serve the people. From the outset, we have always tried to understand what people might need and to provide that. In contrast, communications carriers, often with a monopolistic background, think that everybody needs telecom, and they are the only ones who can provide it.

The basic mindset is so different. They are supply-push people, we are demand-pull people.”

“Don't misunderstand,” he continues. “Our competitors are trying hard. But, as we see it – still not good enough. We are a born service company. We are a born market-oriented company.”

Vodafone K.K. went wrong when it attempted to introduce its global mobile brand in Japan. They were not conservative, Matsumoto concedes. In fact, they were very innovative in many areas. But they knew little about the Japanese market. “Vodafone's business model obviously worked in Europe and many developing countries. But the Japanese market, especially when it comes to applications and handsets, is very different, and what was unfortunate for them is that it was almost two years ahead of the European market.”

Why not pay us instead?

A global player can make large-scale purchases of handsets. So maybe, Matsumoto says, Vodafone thought that if the cost came down because of the volume purchase, they could sell handsets like peanuts. “But Japanese consumers are a little bit more demanding. Price is, of course, very important, but only when you have products that appeal. Also, in Japan's mobile market, pricing has been a very tricky thing for a long time.”

Japanese handsets are very feature-rich and the average cost is USD 400–500. “Of course, we are not happy about that,” Matsumoto remarks.

Operators subsidize the cost of handsets for the customer, and recover their outlay from traffic charges. Japan's tariffs are among the highest in the world. “Not fair to the people that keep their handsets longer, but sweet to the those who change every two-three months,” says Matsumoto. “So, we changed that typical Japanese model to a more European-American style. Hey, you should pay us 400 dollars! We do not subsidize. However, the payment can be made over 24 months, which means 17 dollars a month. To offset this monthly burden, we offer you a very good discount on traffic charges.”

This new business model was well accepted by the consum-

❖ ...Confidence in being different

ers, and Softbank has been able to capitalize on the installments as a source of secured income.

In October 2006, number portability came into effect in Japan, enabling customers to switch mobile providers and keep their phone numbers. It was then that Softbank Mobile made news with a new flat-rate plan and a promise to always undercut the other two big providers, at least by 200 yen (USD 1.8) per month. This attracted new customers as well as many competitors' customers.

When it comes to pricing policy, one reason frequently given for Softbank's growth is that it has some of the most attractive calling plans in the market. One plan allows Softbank subscribers unlimited calling to any other Softbank subscriber for free.

Counting up the base stations

In early 2007, Softbank introduced the so-called "White Plan." For 980 yen (USD 8.9) per month, White Plan subscribers can call other Softbank subscribers at no additional cost between 1:00 am and 9:00 pm. Short Message Service (SMS) mail to other Softbank subscribers was included in the subscription at no extra charge.

March 2007 saw the introduction of the Softbank "Double White" service, an add-on to the White Plan, costing an additional 980 yen per month. According to this new plan, charges on calls to non-Softbank phones and to Softbank phones between 9:00 pm and 1:00 am were halved to 10.5 yen (USD 0.10) per 30 seconds.

Another reason cited as helping to imprint Softbank as a mobile brand is its successful TV advertisements. The company hired the best producer of Dentsu, plus two expensive foreign "spokespeople" from Hollywood: Cameron Diaz and Brad Pitt. The aim was to establish a sophisticated brand image, and to communicate a "flat-rate voice" behavior that subscribers would emulate.

"There are perhaps four basic factors that contributed to our

success," Matsumoto says. "First, when we bought Vodafone K.K., we made full promises to increase network coverage. Over one-and-a-half years, we have doubled the number of base stations. A huge investment, but we dared to do it."

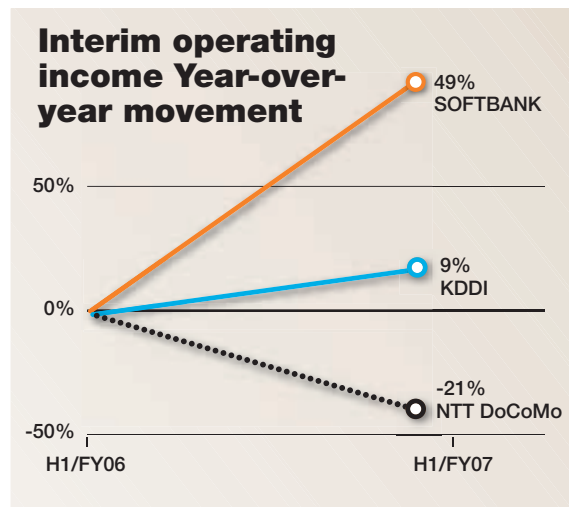
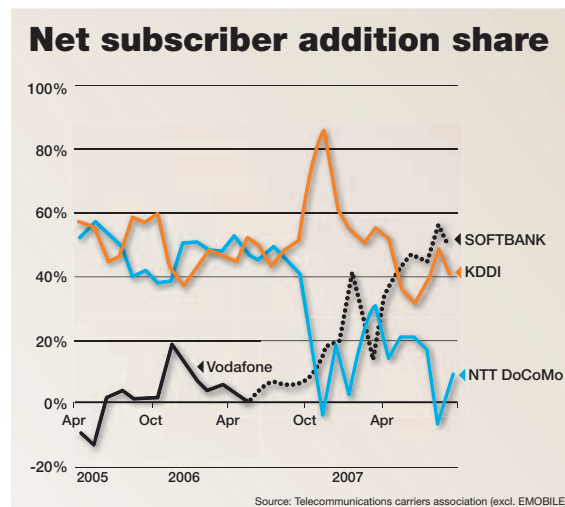
Second, Softbank increased the color range of its handsets. Previously, only three colors, maximum, were available. Matsumoto says jokingly, "Who said there could only be three colors? Obviously, it's not any legal requirement. Thus, we ditched this tradition and introduced 24 colors for the same handset! It's because we thought people want it. This is an example of our user-oriented mindset. We just try to find out what people want. Mobile phones are becoming a part of their lives; they want something smart, something cool. We knew that design, and especially color, are very important to many users. So, we didn't follow the industrial common sense. We followed the users' common sense."

A huge need for data capacity

Third, Softbank is not just a mobile brand, it has convergent offerings with Yahoo! (Japan). Though not many people know it, in Japan, Yahoo! is not only the leading portal, but also the leader in search (Google ranks second), auction (eBay has no presence in Japan), IPTV, and many other services. Softbank also has numerous collaborations and joint ventures with foreign companies such as MySpace, E*TRADE, Disney, and so forth.

Matsumoto names this third factor as the most important on his list of success factors. "It is the most important part of our strategy, because it will make us stand apart even more in the future. But we are only in a very early stage of the game. Introducing nice-looking colorful handsets can be done very quickly, and the customers responded. But data services require a very long-term effort."

The fourth success factor is marketing and sales. "We are born marketers," Matsumoto says. "Softbank was established in 1981 as a software distribution company by the founder, Mr.



quote

» **The basic mindset is so different. They are supply-push people, we are demand-pull people** «

Son, and two employees, and soon became a market leader in PC software distribution. Since then, we have always been selling new and innovative services, which always required good retailers and distributors. Through these experiences, we came to understand these people, how they work, how to motivate and encourage them.”

“In networks, we are still trying to catch up,” he admits. “Especially in the future need for data capacity, we see a great challenge. The data capacity our new subscribers will eventually need will be huge; it can’t be compared with voice capacity. It’s also very unpredictable. To increase network capacity four to five times will absolutely be not good enough.”

Spoiled Japanese vendors

Softbank Mobile has started to upgrade along the High-speed Packet Access (HSPA) roadmap, and after that will look at Long-term Evolution (LTE). The company has also decided it needs Worldwide Interoperability for Microwave Access (WiMAX) as a complement, although Matsumoto personally doesn’t think it will be mainstream for his business.

“Technically, WiMAX can’t do anything better than HSPA,” he says. “We need WiMAX because it may play an important role for the PC industry, and we want to get some part of the spectrum allocated to it. Because of the unpredictability of data traffic, if the PC users overload us, we don’t want that to be a burden to our existing users. So we need some other network as a complement, because of the different nature of the usage and the environment.”

He adds: “In not too distant a future, our income from data usage will exceed that of voice telephony. If mobile communication remains predominantly a voice service, we will not be interested in such a small industry. The reason we bought Vodafone was our belief that sooner or later the main income will be data.”

Matsumoto is no great admirer of the Japanese collaboration model between government and industry. “All we want the

government to do is to help to bring fair and effective competition in the communication service industry,” he says. “How to operate should be left in the hands of each operator.”

However, it’s true that the government is frustrated by the present situation, in which no Japanese mobile communication equipment vendor (except Sony-Ericsson, if it can be deemed a Japanese vendor) has been successful in the global market, where Korean and even Chinese vendors are threatening European and American vendors. The Japanese government sees the major reason for this in the unique Japanese business model. They believe the heavy subsidy of Japanese mobile carriers is spoiling Japanese vendors. Owing to this belief, the government has started to guide operators to change the present business model.

Understanding Google

Matsumoto does not believe such a change will bring any big difference to Japanese vendors in the global market. He believes they have failed so far solely because they lack the enthusiasm and guts Korean handset vendors have. “Japanese vendors have to help themselves rather than counting on the guidance of the government.”

Matsumoto feels the government has not pushed the industry to develop and use new technology. “NTT Docomo has played an important role in bringing innovation to the market, by the introduction of i-mode many years ago. But the government had nothing to do with this development. From now on, companies like Google will have far bigger power than any government. Google has already stirred a lot of emotions in the communication industry by taking the initiative to create a platform for handsets and applications, called Android. So, are we afraid of Google? No. We respect them. It is a bit too early to comment, but I personally think Android is a very good development for us, also. If you look at what Google is trying to do,” he continues, “they don’t want obstacles to growth for their service. Handsets that are too expensive or not flexible enough to comply with the new demands of the market are an obstacle that should be eliminated. We and our subsidiary, Yahoo! (Japan), are absolutely in the same position as Google, on this point.”

He goes on to say: “Looking at the alternative handset platforms, Windows has Microsoft, Symbian has Nokia. In contrast, Linux is good, but so far, too fragmented. So if Google is trying to create a core for it, it would be good news for the entire Linux community. If Android is really successful, Linux is going to have a strong base to attract many developers, and, finally, we will have a very strong, cost-effective and open platform. On top of it, as Android is not GPL [General Public License] based, we can make any middleware we like, if we want it.”

Mobile TV is another important issue for Softbank. In Japan, all new high-tier handsets have a mobile TV receiver, which is a small incremental cost of the handset. Watching is free of

❖ ...Confidence in being different



"Advertising merely whets the appetite. We should guide consumers directly to the actual transaction," says Ted Matsumoto.

charge, because the service is the simulcast of existing terrestrial TV programs, under the government order.

"Everybody likes it," Matsumoto says, "but the problem is that we have no revenues from this service. Nevertheless, we are embracing it for one simple reason: if the users like it, we should do it."

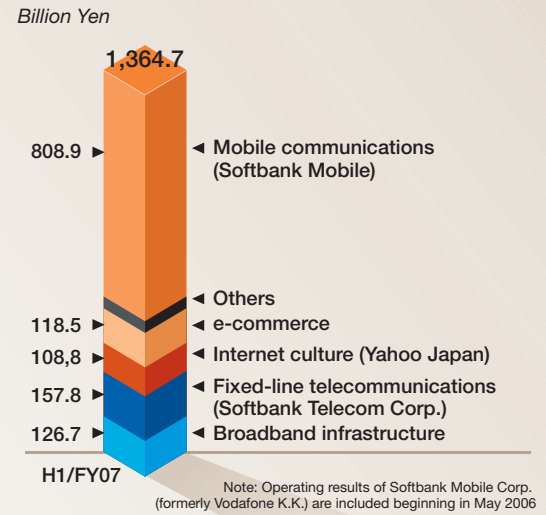
No money in mobile TV

Newer digital mobile TV formats like DVB-H (developed in Europe) and MediaFLO (developed in the US) are struggling to get frequencies, he explains. "Once they get it, we will see many TV services tuned especially for mobile users' needs, such as news clips, long-tail content, and pay per view. Hopefully, this will give us new revenues."

Softbank Mobile repeatedly states in its marketing that mobile will become an internet machine. But where is the value in that?

"From many sources," Matsumoto answers. "First, it will increase traffic revenues. That's a basic way for any communications company to make money. DoCoMo, for example, makes a lot of money on i-mode from traffic charges, while they get only a small percentage of content income. However, in the case of Softbank, as we own many internet service companies, this model would give us double benefit. That's why we

Net sales by segment (interim)



About Softbank Mobile

- Chairman and CEO:** Masayoshi Son
- Start of services:** April 1994
- Headquarters:** Tokyo
- Networks:** PDC (Japanese 2G) and WCDMA (UMTS 3G)
- Joined the SOFTBANK Group in April 2006
- Customers:** 17, 211,100 (Oct 2007)

believe we can become the leader in the new age of mobile communication."

Matsumoto also says, "Advertising on the internet is changing from banners to search-based 'personal advertising.' So if anybody has a good search engine, they can make a lot of money. But this is only the beginning. We want to be more aggressive. Advertising merely whets the appetite. We should guide consumers directly to the actual transaction. Hey, if you like what you see, you can buy it too! And you can even pick up the products on your way home, because we know where you are (on GPS), and where you can pick it up. In the future, we believe mobile carriers like us will become very efficient retailers of all kinds of goods."

"And," he asks rhetorically, "who can provide the most secure payment system? The communications carrier! In the future, will people still want to use plastic cards? No, we don't think so. Your handset is ten times more secure, efficient, and easier to use. Electronic payment and remote payment by mobile phone will become the mainstream of the future life of many people. And don't forget – all of this has to be either controlled by, or done with the involvement of, communications carriers like us, as a network and handsets will always be needed."