

CHAPTER 1

IMMUTABLE LAW NO. 1: VALUE OVER CULTURE

Our excitement and determination in writing this book stems from our belief that the lessons learned in the Japanese mobile market can serve as effective guides for the global evolution of the mobile Internet and the products, services, and solutions created for it.

While presenting our research and insights in a variety of international forums, however, we found that many audience members do not share our views. When we say those who study and learn from the Japanese mobile market will hold a competitive advantage in their own markets, for example, the typical reaction is “Gentlemen, is that not just a Japanese thing?”

No, it is not. If you will take our word for that, or already believe Japanese culture has had no significant impact on the success of the mobile Internet in Japan, please jump to Chapter 2. If you are still in doubt, however, we are here to convince you.

First, let us provide some essential background. Japan has had an advanced mobile data market since NTT DoCoMo launched its i-mode service in February 1999. (Japan Telecom’s J-Phone actually launched its “SkyWeb” mobile Internet service 3 months earlier in December 1998, but regionally rather than nationwide.) The Japanese market has also racked up a number of innovations over the years. In addition to being the first to successfully offer 2.5G data services above and beyond SMS text messaging (in February 1999), it introduced the camera phone, third generation (3G) services, and full-song downloads through a wireless network.

The financials are there as well. As Figure 1.1 shows, Japan’s mobile subscriber base accounts for less than 3% of the world’s mobile subscribers. Yet data from Chetan Sharma’s “Global Wireless Data Market Update 2007” shows that the Japanese market accounts for nearly 40% of all global revenues generated from advanced mobile data use.

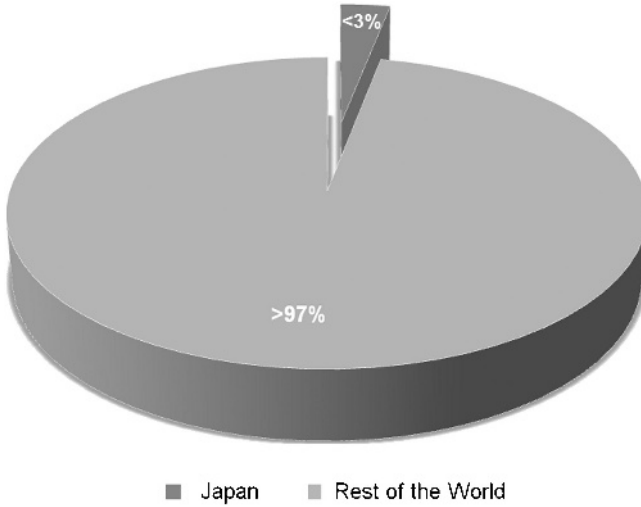


Figure 1.1 Japan accounts for just a fraction of all mobile phone users.

The politically incorrect view that many have expressed is that Japanese culture has unduly influenced the country’s mobile market. They claim that it makes the Japanese more “susceptible” to the mobile Internet, and things are different everywhere else.

We have examined a number of specific arguments, which we call “meta-myths”, that support these claims. While the exact reasons for the disparities between Japan and the rest of the world are too long and involved to include in detail here, we have categorized them into the four meta-myths below. These meta-myths are all prefaced by the phrase “The mobile Internet succeeded in Japan because ...”.

THE FOUR META-MYTHS

1. Japan is a land of gadget-lovers.
2. The Japanese live in small houses and lack the space for a computer, so mobile phones became the primary channel for accessing Internet content.
3. The Japanese spend a lot of time on public transportation.
4. The Japanese are naturally polite and quiet, so mobile phone-based communications suit the culture.

As a counterpoint, we offer the words of Takeshi Natsuno, one of the founding fathers of the i-mode service and a true visionary in the wireless communications industry. In a 2004 *Washington Post* interview about Japan’s mobile industry, Natsuno commented:

“Everyone wants to say, ‘Oh, the Japanese are strange. They love tiny and miniature things and that’s why cell phone services have taken off here.’ But the truth is that we are normal, and it’s the other guys who are something odd. It’s not about being Japanese. It’s about knowing what people want and how to sell it the right way.”

So, which perspective is correct? Did the mobile Internet succeed in Japan because of indigenous cultural characteristics that make Japanese consumers especially prone to becoming mobile Internet users? Or did the Japanese mobile industry create the operating model—along with the right handsets, content, and services—that consumers in Japan wanted to use?

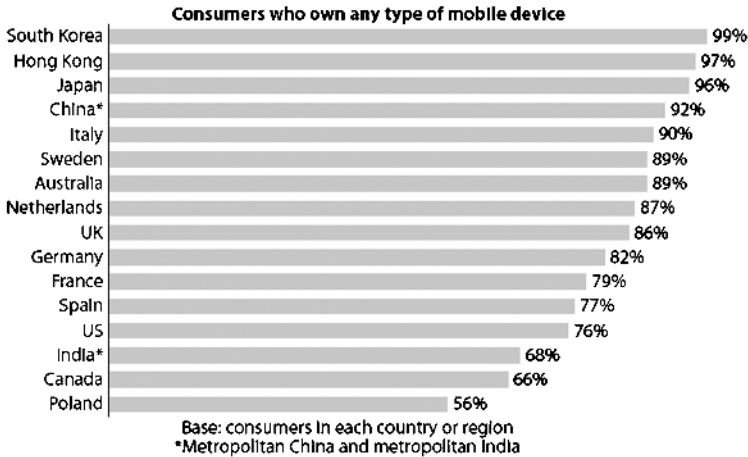
Answering this question is fundamental to our premise. If we can remove culture as a deciding factor in Japan’s mobile Internet success, we feel that others will agree that the lessons learned from the Japanese market can and should be applied to other mobile markets. We are going to investigate each of the four meta-myths in detail to see if we can remove culture from the table.

META-MYTH NO. 1: JAPAN IS A LAND OF GADGET-LOVERS

Variations of this meta-myth include “the Japanese are the world’s early adopters”, and “the Japanese love small, miniature things”.

Let us start by examining what that all suggests. If Japan is a land of gadget-lovers, we can logically assume that any gadget popular elsewhere would find a loyal following here. How then can we explain Research in Motion’s abject failure to sell Japanese business executives on the BlackBerry™, and Nokia’s continuing inability to achieve market dominance in Japan as it has in other mobile markets? The logical conclusion is that Japanese consumers are just like consumers in most advanced markets, only falling in love with gadgets they find appealing and useful.

Forrester Research published a report in 2006 that makes our job a little easier, comparing gadget adoption levels across many leading markets around the world. Figure 1.2 reveals that South Korea actually has the highest level of gadget adoption, followed by Hong Kong and Japan. Gadget-lovers do not just live in Asia, either: after those three



Source: Forrester’s APCTAS Q1 2006 Survey, Forrester’s NACTAS 2006 Benchmark Survey, and Forrester’s Consumer Technographics® Q4 2005 European Study

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Source: Forrester Research, Inc.

Figure 1.2 Gadget-lovers around the world (copyright © 2006, Forrester Research, Inc.).

we find Italy, Sweden, Australia, and The Netherlands. According to a 2007 paper by Gordon Bruner and Anand Kumar in the internationally acclaimed *Journal of the Academy of Marketing Science*, there is actually a Gadget-Lovers demographic segment distinct from citizenship and culture.

If a love of gadgets had a direct correlation to mobile Internet adoption, we would expect South Korea and Hong Kong to be the hottest mobile Internet markets around. China and Italy would be only slightly less avid than Japan. Since this is not the case, we believe we can eliminate this rationale for Japan's rate of mobile Internet adoption. While Japanese consumers acquire mobile gadgets at a higher rate relative to consumers in many other countries, no direct correlation exists between this and the success of the mobile Internet in Japan.

META-MYTH NO. 2: THE JAPANESE LIVE IN SMALL HOUSES AND LACK THE SPACE FOR A COMPUTER, SO MOBILE PHONES BECAME THE PRIMARY CHANNEL FOR ACCESSING INTERNET CONTENT

Bill Ray gave the best summary of this argument in a July 2007 article entitled "Culture Matters" for *The Register*:

"... the way in which the Japanese live drives them toward mobile content in a way that just doesn't exist in the West ... Japanese houses consist of spaces that are multifunctional depending on what the occupants are doing. Walls may be moved around during the day, and it's extremely unlikely that a child would have its own room. Entertaining at home is also unusual—socializing is done in restaurants, bars and coffee shops."

"This makes Japanese youths the perfect mobile consumers—they have no TV or computer in their bedroom because they have no bedroom of their own. In such a market it's unsurprising that Internet access from a mobile phone has been so popular, and equally unsurprising that Western youth haven't proved so receptive to the idea."

While Ray's hypothesis may be true, let us analyze his argument. First, Japan does have a highly urbanized population: Approximately 45% of its 127 million people live within the major metropolitan hubs of Tokyo, Osaka, and Nagoya.¹ Since the entire Japanese archipelago is about the size of California, it is reasonable to assume that Japanese houses are smaller than those in America or similar, but less urbanized markets. Still, this housing situation is not unique to Japan.

In addition, Japan's mobile Internet was launched in 1999, long after laptop computers had appeared and gained wide acceptance in the world's second-largest economy. It is therefore tough to imagine that the size of houses has had an impact on PC-based Internet adoption.

Even if house size is not the reason, doubts about Japan's adoption of PCs and the Internet have been aired repeatedly over the years. Take, for example, this excerpt from a January 2000 article in *BusinessWeek* by Irene M. Kunii and Stephen Baker:

"Japan has long lagged behind the U.S. in PC and Internet penetration, largely because of a lack of familiarity with the keyboard. But personal electronics are another story.

¹Source: *Statistical Handbook of Japan*, Japan Statistics Bureau, 2007.

This is the country that gave the world the calculator, the Walkman, the pocket TV, the Game Boy, and the camcorder. Millions of Japanese grew up playing video and pocket computer games—the so-called push-button generation. Many are now migrating to Net-ready cellular handsets, often bypassing home computers altogether. They form a perfect testing ground for new Net appliances.”²

What these and many other authors are suggesting is that the Japanese bypassed purchasing computers and using the PC Internet, moving directly to the mobile phone for their online needs. For the sake of our investigation, let us look at what the International Telecommunications Union (ITU) has to say about information communication technology deployment and diffusion rates across more than 200 countries annually since 1960.

Figure 1.3 and Table 1.1 show the ITU Internet user data per 100 inhabitants in 13 countries between 1999 and 2006. While Japan’s Internet usage in 1999 did

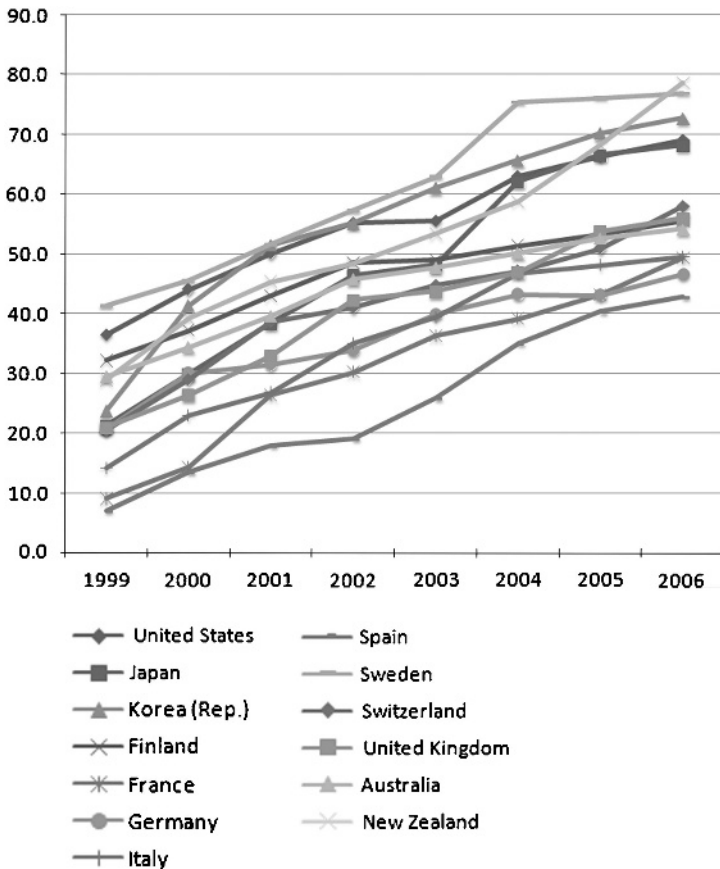


Figure 1.3 Internet user data for over a dozen countries between 1999 and 2006 (copyright © International Telecommunications Union, 2008).

Source: International Telecommunications Union.

²Available at http://www.businessweek.com/2000/00_03/b3664010.htm.

TABLE 1.1 International Internet Users

Internet Users Per 100 Inhabitants (Source ITU World Tele communications Indicators)									
	1999	2000	2001	2002	2003	2004	2005	2006	CAGR
United States	36.6	44.1	50.1	55.2	55.6	63.0	66.3	69.1	10%
Japan	21.4	29.9	38.4	46.5	48.3	62.2	66.6	68.3	18%
Korea (Rep)	23.8	41.4	51.5	55.2	61.1	65.7	70.2	72.8	17%
Finland	32.3	37.2	43.0	48.6	49.1	51.4	53.3	55.6	8%
France	9.2	14.4	26.4	30.3	36.3	39.3	43.2	49.5	27%
Germany	20.8	30.2	31.5	33.9	40.0	43.3	43.2	46.7	12%
Italy	14.3	23.0	26.9	35.1	39.5	46.0	48.2	49.6	19%
Spain	7.0	13.6	18.0	19.1	25.8	35.1	40.4	42.8	29%
Sweden	41.4	45.6	51.6	57.3	63.0	75.5	76.2	77.0	9%
Switzerland	20.5	29.1	38.6	41.0	44.8	47.2	50.9	58.1	16%
United Kingdom	21.0	26.4	33.0	42.3	43.7	47.0	53.8	56.0	15%
Australia	29.6	34.5	39.7	45.8	47.8	50.2	52.6	54.2	9%
New Zealand	29.0	39.3	45.4	48.4	53.5	58.9	68.4	78.8	15%

Source: ITU World Telecommunications Indicators.

lag behind that of Sweden, the U.S., Finland, Australia, New Zealand, and South Korea, it topped the United Kingdom, Germany, Switzerland, Italy, France, and Spain when i-mode appeared in February that same year. Comparing the Internet diffusion rates versus the compound annual growth rate (CAGR) between 1999 and 2006, we find that Japan's PC Internet growth was actually fourth highest at 18%, even though Japan had the most robust mobile Internet platform in place over this entire period.

So while we can accept the general statement that homes in Japan may be on average smaller than those in the United States, the correlation between house size and PC Internet adoption appears nonexistent. Similarly, if a correlation existed between house size and mobile Internet adoption, the mobile Internet would succeed in any country where the average house is small. That argument clearly does not hold up.

The truth is, Japan's PC Internet adoption rate matches closely with many other developed markets, and therefore does not represent a reasonable explanation for Japan's successful mobile Internet deployment. The mobile Internet therefore did not succeed in Japan because Japanese people live in small houses.

META-MYTH NO. 3: THE JAPANESE SPEND SO MUCH TIME ON PUBLIC TRANSPORTATION

As previously mentioned, Japan's population is heavily urbanized. The Japanese typically use public transportation to avoid the dense traffic in major metropolises like Tokyo, Nagoya, and Osaka.

According to the Japan Statistics Bureau, which gathers information on how the Japanese occupy their time during a typical day, the average citizen spends

approximately 31 min per day on public transportation. That is a lot of commuting, especially considering that the figure mentioned represents an average for Japan's *entire* population, from babies to the bedridden. A quick trip on any urban train or bus will inevitably reveal at least a few passengers staring at their mobile phones and frantically working the tiny keypads. Clearly, a strong correlation must exist between this high rate of commuting "downtime" and the mobile Internet, right?

Well, let us dig deeper. First, anyone who has ridden public transportation in Japan knows there is nothing unique about the country's buses and trains. So no factors related to the specific types of public transportation available in Japan can account for differences in mobile Net use.

Japanese commuters are also far more likely to be doing something other than fiddling with their mobile phones, including sleeping, listening to music, and reading. Only a small percentage of the typical commute is devoted to mobile phone use. (We will provide evidence of that later in this chapter.)

Sitting on a close-packed commuter train or bus, it is hard to tell exactly what commuters are doing as they tap away on their handsets, which are packed with a dizzying array of features, capabilities, and functions that require no Internet connection. A lot of them, however, are undoubtedly playing games, doing data entry (e.g., scheduling or editing phone book records), or browsing through pictures, videos, or music files.

To get more detail on the environments in which people use their mobile phones, we first consulted with the research division of Japan's largest media and advertising agency, Dentsu, which conducted a 2005 study on mobile phone related services, including traditional voice calls, e-mail, and Internet browser use. Dentsu found that the location people cited most often for e-mail use was at home, while they were commuting, work, or school, and then other locations.

These findings provided us with some overall usage trends, but not how much people are using their phones in each location. To answer that, this book's coauthor, Philip Sugai, conducted a comprehensive study in March 2007 that asked mobile phone subscribers in Japan to rate their mobile use in four primary environments (home, work or school, leisure time, and while commuting).

While the international media regularly report about excessive mobile phone use by Japanese commuters, which the Dentsu study supported, Sugai's study showed that for both genders and across all age categories, overall mobile data usage while commuting was the lowest of all four environments. For men, the environment of most intensive use was the workplace, at their desk or office; for women, it was at home in the living room.

When comparing these results to Japan Statistics Bureau data, it turned out that mobile Net use closely matched the general time and location allocations that Japanese citizens follow during their day. As Figure 1.4 shows, mobile phone use followed the general time allocation by location, with the most time spent at home, then work or school, then leisure time, and then the commute.

While these results looked somewhat similar to time allocation for the three other categories, we found that Japanese consumers spent nearly 10% of their mobile Internet time during their commute, which only required 2% of the average day.

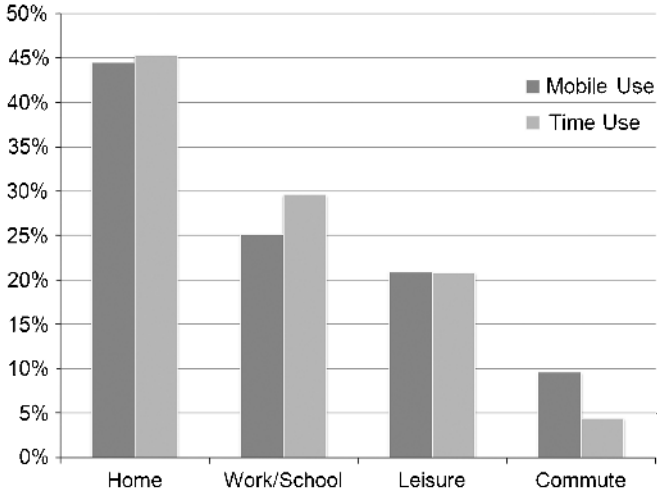


Figure 1.4 The Japanese use their mobiles less during their commute.

Japanese consumers were spending a significant percentage of their overall mobile Internet time during a very limited interval.

That is undoubtedly why the media and visitors to Japan believe the local commute was such a vital piece of the mobile Internet’s success. However, our results show mobile Internet use mostly took place at home and at the office.

Our findings make perfect sense when we set these results against the marketing of mobile phones as “anytime, anywhere” devices, not just while users are out and about. Since at least 90% of mobile Internet use occurs outside commuting hours, we can conclude that long commutes have not driven the success of the mobile Internet in Japan.

Just in case you think this may be confined to the Japanese market, here is another parallel. The French mobile game company IN-FUSIO conducted a survey in 2002 to understand their mobile game customers better. IN-FUSIO went in figuring that subscribers mostly used its games during daytime leisure times and commuting. To the contrary, the company discovered that subscribers mostly played games at home during the night.

META-MYTH NO. 4: THE JAPANESE ARE NATURALLY POLITE AND QUIET, SO MOBILE PHONE BASED COMMUNICATIONS SUIT THE CULTURE

Variations of this myth typically include references to singular elements of Japan’s culture that supposedly make Japanese consumers more “susceptible” to the mobile Internet than consumers elsewhere.

Since the Philippines, Europe, and the United States have become avid users and advocates of Short Message Service (SMS) messaging and e-mail messaging via mobile phones or more advanced smart phones, such as the BlackBerry, it is difficult to say that texting is only for a “quiet” culture, such as Japan. (Even the notion that Japan is a quiet country is suspect, as anyone who has lived there can tell you.) But we will leave that debate for a different forum and get back to the underlying issue related to this meta-myth.

Of all the pushback we have received while presenting our research on Japan's mobile market, the culture argument is by far the most difficult to dismiss. This claim occurs mostly because Japan's culture is rich, distinctive, and mysterious to many outside (and even inside) Japan. To counter this claim and convince skeptics that the lessons learned in the Japanese market can boost the global expansion of the mobile Internet, we will have to get into the science of culture.

In 1980, cultural anthropologist Geert Hofstede called culture "the software of the mind". We could easily argue that if Japan's culture is the impetus for local mobile Internet and mobile phone use, Japanese consumers must view the mobile Internet differently than consumers in other cultures. In that case, just as DVDs from Japan will not play in U.S. DVD players, insights from Japan's mobile market would not "play" in the United States—or likely any other world market. We are not talking about language, layout, or user interface design, either, but something more fundamental in how groups of consumers view the value, impact, and importance of the mobile Internet.

The operative question for the cultural researcher is how to examine this software of the mind. Even opening up someone's skull to study their brain will not reveal the details of this particular "software", so gaining a clear understanding of culture remains a controversial area of academic research. Psychologists have one perspective, sociologists another. Do not even think of ignoring the viewpoints of anthropologists, market researchers, management scientists, and the vast array of other academics, all with their own cultural software models in place to try to understand culture.

We chose to take a simpler and more direct approach: Do respondents from distinctly different cultures have similar views of the mobile Internet, its value, and uses? If so, it would help eliminate culture as a viable reason for the differences in mobile Internet use.

The trick was to find a culture (or cultures) distinctly different from that of Japan, and a culturally unbiased way of assessing views on the mobile Internet.

Satisfying the first criterion turned out to be far easier than meeting the second—we simply opened a copy Geert Hofstede's 1996 book "Cultures and Organizations: Software of the Mind". Hofstede conducted one of the most comprehensive studies of culture ever undertaken, and in the process developed four widely accepted scales to "measure" cultures: power distance; individualism; masculinity; and uncertainty avoidance.³ He rated each country using those criteria and a vast amount of international data he collected.

To find countries with cultures very different from Japan's, we took the absolute value for each variable and added them up. Japan and the United States, for example, had the scores shown in Table 1.2.

Hofstede measured 68 countries. Table 1.3 shows the 10 countries whose cultures differ the most from that of Japan. This table also includes the mobile penetration

³**Power Distance Index (PDI)** is the measurement of how members of a society accepted inequality of power. A higher score indicates greater acceptance. **Individualism (IDV)** measures how much a society stresses the importance of the individual over the group. A high score means that a society values individual welfare over the welfare of the group. **Masculinity (MAS)** measures the level of assertive and/or competitive "male" characteristics within a culture versus the more "feminine" (modest and caring) characteristics. **Uncertainty Avoidance Index (UAI)** measures the level of discomfort a society experiences when dealing with new or unstructured situations. The higher the UA index, the more averse people within that society are to such situations.

TABLE 1.2 Culture Match: Japan and the United States

Culture Match – Japan and the U.S.				
	Power Distance	Individuality	Masculinity	Uncertainty Avoidance
Japan	54	46	95	92
U.S.	40	91	62	46
Difference	40	45	33	46
Absolute Value of Difference	14	45	33	46
Sum of Absolute Values			138	

TABLE 1.3 Looking for a Culture to Compare to Japan's

Hofstede's Comparisons and Mobile Phone Penetration Levels			
Rank	Country	Difference from Japan (Hofstede)	Mobile Penetration Rate % (2003) ¹ — ITU
0	Japan	0	67.9
1	Denmark	212	88.3
2	Sweden	201	98.1
3	Singapore	177	85.8
4	Norway	175	88.8
5	Malaysia	171	44.4
6	Netherlands	170	81.1
7	Vietnam	159 ^a	3.3
8	Indonesia	149	8.6
9	Guatemala	148	16.5
10	U.K.	148	91.2

^aEstimated.

rates for each country as reported by the International Telecommunications Union in 2003 when we originally conducted this research.

Because we were looking for consumer images of the mobile Internet originating from truly different cultural experiences, we also chose to focus on the level of mobile phone adoption within each of these culturally distinct countries. If both the culture and the level of mobile technical deployment were radically different than in Japan, we believed we would be able to negate the impact culture (including mobile phone culture) had on consumer perspectives of the mobile Internet.

As outlined in Table 1.3, the two countries with mobile phone penetration levels far below the rest were Vietnam (3.3%) and Indonesia (8.6%). However, because Hofstede's measurements of Vietnam's culture were based on estimates rather than actual data collected in the country, we chose to use Indonesia as our comparative culture.

The second issue involved finding an unbiased way to explore differences in how these two cultures viewed the mobile Internet. Culture being the software of the mind, we needed a different "diagnostic tool" that would not taint the results by influencing the people we were studying.

After considerable research, we chose a relatively new method called the Zaltman Metaphor Elicitation Technique (or ZMET) developed by Dr. Gerald Zaltman of Harvard with the support of Dr. Robin Coulter at the University of Connecticut. The fundamental logic behind ZMET—and what appealed to us as we examined the similarities and differences in perceptions of the mobile Internet across cultures—was its use of photos and other images as the primary sources of research information.

Zaltman and Coulter state that at least 80% of human communications is nonverbal in nature. Most modern research methods, however, rely exclusively upon data in written form taken from surveys or derived from phone or face-to-face interviews. To circumvent that, ZMET begins the research process by asking a simple question: When you think of “X”, what images come to mind?

Our variation was When you think of the mobile Internet (defined as any nonvocal use of a mobile phone requiring network connectivity), what images come to mind? We asked our respondents to go home and collect 8–10 pictures—including personal photos, pictures from magazines, newspapers or the Internet, and their own drawings—that reflect those images.

The respondents returned 1 week to 10 days later and were guided through a structured interview process to create a “mind map”: A structured view of how that individual perceives the mobile Internet. These individual mind maps from each country were combined to form aggregate country maps.

This was a fascinating process to follow, especially because we were looking for cultural differences between the two countries as we did our analysis. Although the pictures collected in these disparate cultures differed significantly, we found the underlying reasons for choosing them were very similar.

In fact, they were so similar that the fundamental ideas about the mobile Internet and its value clearly extend beyond culture. Figure 1.5 combines two mind maps, one for Indonesia and the other for Japan. Shared concepts included “anytime/anywhere; access (to information); and communication (for both business and personal use).

Differences arose not because of culturally specific elements, but from the state of the underlying mobile infrastructure. For example, Japanese consumers might be expected to talk about their “cool devices”, while Indonesian respondents would not. That proved untrue. Respondents from both cultures stressed the importance of handsets within the context of the mobile Internet.

In Japan, where mobile Internet use has been widespread since 1999, our 2003 survey found that the mobile’s convenience had made it essential to daily life. In Indonesia, however, where major technical and price barriers prevented most Indonesians from taking advantage of mobile telephony, the mobile Internet was considered high tech, but riddled with infrastructure-related inefficiencies.

The paper published about the study details these results.⁴ However, we can tell you that culture did not appear in respondents’ views of the mobile Internet. We therefore concluded that Japan’s culture was not responsible for the country’s widespread use of the mobile Internet. To paraphrase an October 2000 interview that Jupiter Research

⁴Sugai, Philip (2005) “Mapping the Mind of the Mobile Consumer Across Borders”, *International Marketing Review*, vol. 22, no. 6, pp. 641–657.

Combined Aggregate Mental Maps, Japan and Indonesia

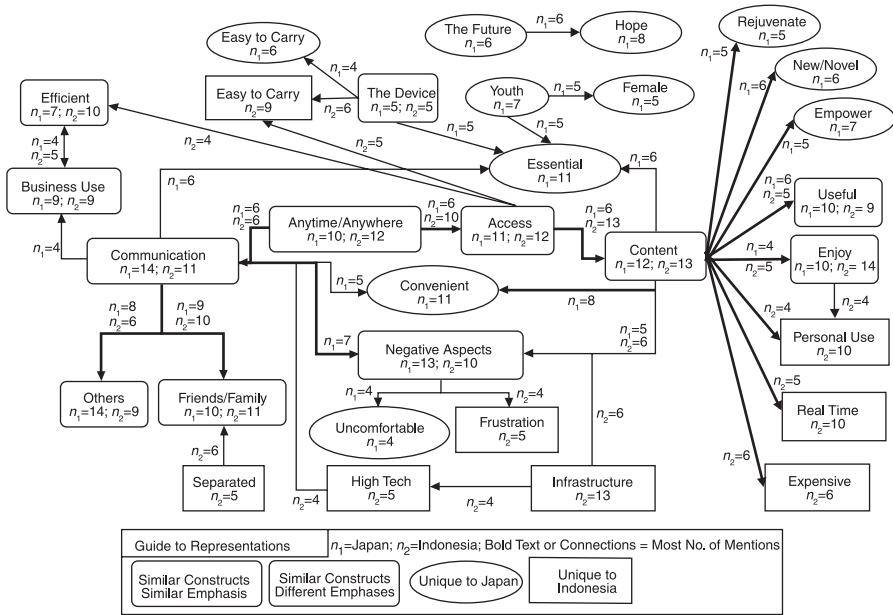


Figure 1.5 Mind maps.

director Seamus McAteer gave the BBC, the idea that the success of mobile data services in Japan can be attributed to cultural factors is a “handy cop-out”.⁵

While a country’s culture will surely influence the design and capabilities of handsets and the popularity of specific content, services and service plans, mobile-related businesses must focus on developing a compelling value proposition for consumers. To emphasize this point, we would like to repeat part of Takeshi Natsuno’s quote:

“It’s not about being Japanese. It’s about knowing what people want and how to sell it the right way.”

To understand just how well the Japanese mobile industry has grasped what people want, and how to sell it, we need to examine how the content and services are used. We chose to divide them into four broad categories according to what users are trying to do. These four categories (Inform, Transact, Entertain, and Express) are shown in Figure 1.6.

Offerings in the “Inform” category, for example, include services that allow consumers to learn, either through targeted information gathering like accessing today’s weather or news, or more general mobile data information services, such as search from companies like Yahoo! and Google.

⁵Available at <http://news.bbc.co.uk/1/hi/business/945051.stm>.

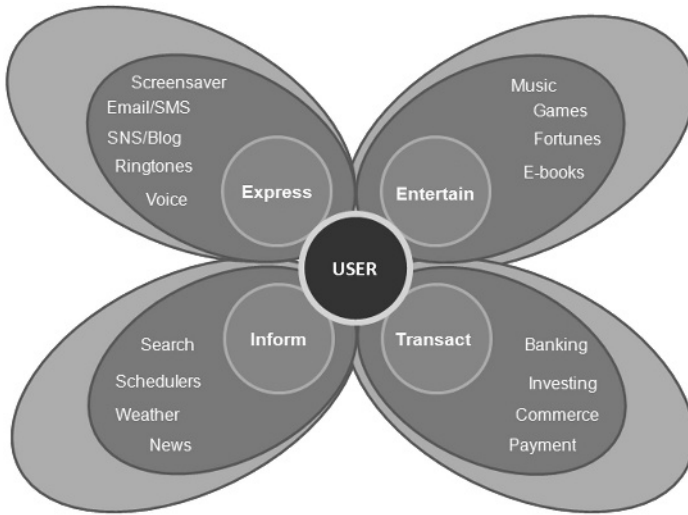


Figure 1.6 The four broad categories of mobile content and services.

The “Transact” category covers services in which consumers initiate actions related to the transfer of money. Such transactions can involve mobile banking or investment services, online e-commerce, or point-of-sale purchases using a contactless RFID service, such as mobile Felica.

Entertainment-specific content and services, such as games, e-books, music, and movies fall into the “Entertain” category. The “Express” category includes activities that enable users to better express themselves through telephone calls, e-mail, or SMS messages, blogs or social networking services, or downloading ringtones and background screensavers.

To understand the value Japanese consumers place on these four categories, we can check overall usage or the revenues they generate. The numbers will undoubtedly have changed by the time you read this; these are snapshots of what Japanese mobile consumers have embraced as valuable, and provide evidence that compelling mobile content and services are being created in Japan, and that they are not unique to the Japanese culture.

Japan’s Mobile Marketing Data Labo surveyed over 3000 mobile subscribers in November 2008 about how they use 35 different types of mobile content and services. For consistency, we further categorized them into our four distinct usage categories.

As shown in Figure 1.7, the services Japanese consumers use most often are in the “Inform” category, such as weather forecasts, news sites, and search services. The next level comes from content and services in the “Express” and “Entertain” categories, including downloads, such as ringtones and songs, as well as mobile games. Last come transaction-based services, such as shopping, auctions, and sweepstakes sites.

While some may argue that usage is an acceptable measure of value, others might insist that revenue rules, so let us shift our focus to the financial as shown in Figure 1.8.

According to the Ministry of Internal Affairs and Communications figures for 2007, total revenues generated from mobile content services in Japan exceeded ¥11.5 trillion,

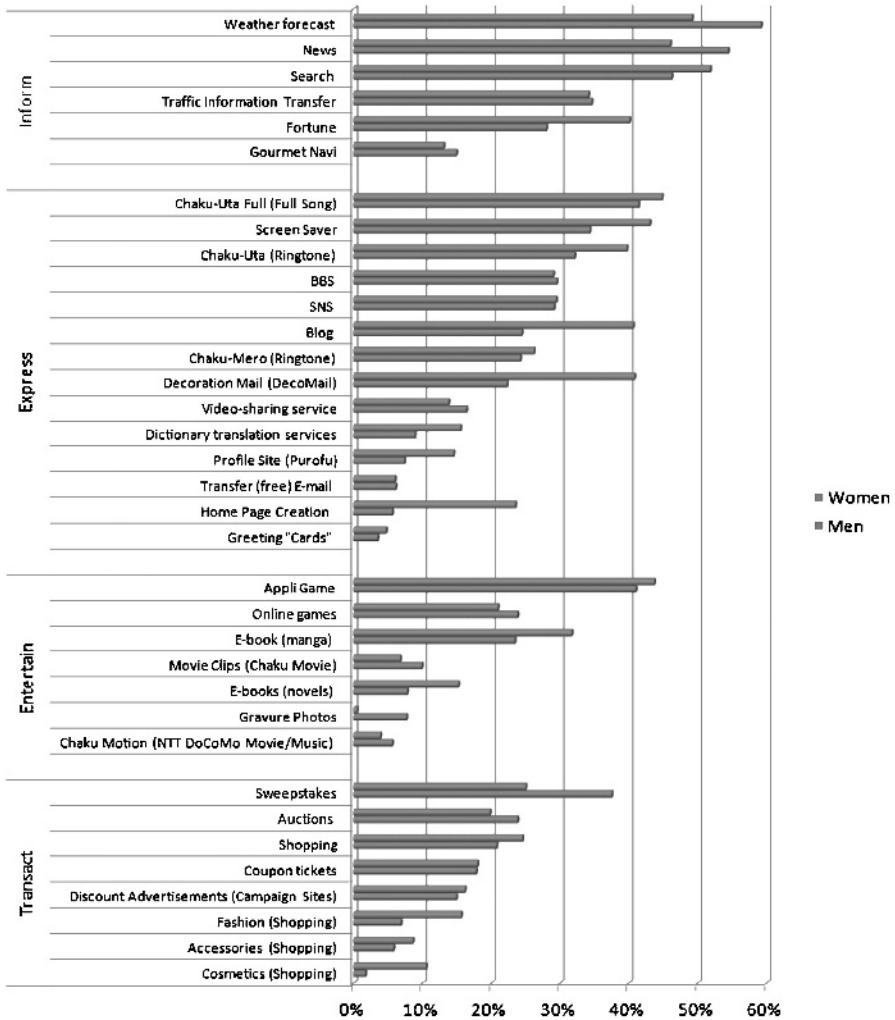


Figure 1.7 Content and service usage in Japan (copyright © Mobile Marketing Data Labo, 2008).

or \$107 billion. Of that, 63%, or ¥7.23 trillion, came from mobile commerce (we will call this all “Transact”); the remaining 37%, or ¥4.23 trillion, was from mobile content subscriptions and services.

Those services match our “Entertain” category, and include music downloads (¥1074 billion), games (¥848 billion), e-books (¥221 billion), and fortunetelling sites (¥182 billion). Those matching our “Express” category included ringtones (¥559 billion) and screensavers (¥229 billion). Most of the “Other” category of ¥1,122 billion we can assign to our “Inform” category.

To get the complete revenue picture, we need to add the nearly ¥6 trillion generated from voice calls through Japan’s top three mobile operators to our “Express”

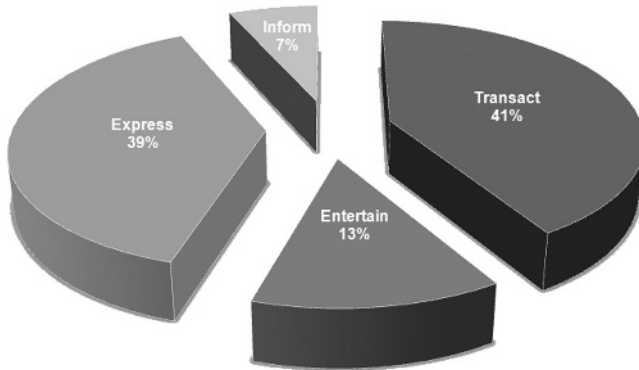


Figure 1.8 Revenues by category.

Source: Japanese Ministry of Internal Affairs and Communications, 2008.

category, and the ¥55.6 billion generated from mobile ads to the advertising-supported “Inform” category.

Overall mobile revenues in 2007 surpassed ¥17.6 trillion. The average revenues generated monthly by each of the 100 million mobile phone subscribers exceeded ¥14,000 (or \$128) across all four of our service categories. We can see from both sides of the value proposition that Japanese mobile content and service providers have succeeded in providing something of worth to consumers.

Now that we have eliminated culture as the driver, Chapter 2 will explore the real reasons for such spectacular results.

Expert Insight

Dr. Sachio Semmoto
Founder, Chairman & CEO,
EMOBILE Ltd.
Founder & Chairman, eAccess Ltd.

Dr. Semmoto founded eAccess Ltd in 1999. eAccess is Japan’s first true entrepreneurial and global IP/telecom company that provides high-speed broadband telecommunication services using xDSL technology. eAccess has grown in to a leading broadband IP operator in Japan, and completed its Initial Public Offering at the Tokyo Stock Exchange Mothers in October 2003 and moved to the Tokyo Stock Exchange First Section (TSE1) in



November 2004. This is considered to be the fastest listing in the TSE1 whose market capitalization was \$1.5 billion.

Additionally, he founded EMOBILE Ltd., which was awarded a third-generation (3G) spectrum license in 2005 and entered into the mobile broadband market in 2007. EMOBILE completed its financing, total US\$3.5 billion, which includes \$1.2 billion for equity and \$2.3 billion for debt financing, to roll out the nationwide mobile network. EMOBILE launched its data service in March 2007 and then the voice service in March 2008. Bundled with an Ultra-Mobile PC (UMPC), EMOBILE's high-speed, flat rate, and reasonable pricing mobile data communications service dramatically changed the existing mobile scene, creating a "broadband revolution" in the mobile industry.

Prior to eAccess, Dr. Semmoto spent 30 years in senior management positions including Nippon Telephone & Telegraph (NTT), Kyocera, and DDI Corporation (currently "KDDI"), which he cofounded as an Executive Vice President in 1984. At NTT, he developed the first optical fiber system in Japan and led the development of the Information Network System, the world's first digital service, which embodied the ISDN concept. He was Japan's official representative to the ITU on optical fiber and ISDN (1974–1980). He played a major role in bringing DDI up to \$5 billion in sales and U.S. \$630 million in profit after 7 years of operation. In 1990, he founded DDI cellular group (currently "au") as an intrapreneur. Subsequently, in 1995 he founded DDI Pocket, a PHS company (currently "WILLCOM"), and became the first president.

In 1996, Dr. Semmoto became a full professor at the Graduate School of Business Administration, Keio University to teach in the areas of entrepreneurial management and information technology, prior to the establishment of eAccess Ltd.

Although he spent most of his career in the telecommunication industry, he has also had a background of academic involvement through extensive lecturing engagements at the world's leading universities, including Harvard, Stanford, Northwestern, Cambridge in the United States and the United Kingdom. He was a visiting professor at the Carnegie Mellon University and at the Haas School of Business at University of California Berkeley during 1992–1993 and 2000–2001, respectively, and a visiting research fellow at Stanford University in 1997. At present, he is a visiting professor at University of Canterbury in New Zealand.

He is a director and the board of Reuters Founders Share Company, Telecom New Zealand, International Christian University (ICU), Tokyo, and a member of the Network of Global Agenda Councils, World Economic Forum and the Trilateral Commission. He is a Fellow of the IEEE and a member of the Royal Swedish Academy of Engineering Sciences. Also, he serves as Vice President of the Fulbright Association in Japan. He published numerous academic papers and books on both telecommunication technologies and high-technology corporate management.

He graduated from Kyoto University, Japan, and received his M.S. and Ph.D. of Electrical Engineering from the University of Florida.

Six Laws

Dr. Semmoto, if you could give the readers of this book insights into what you believe will be the most important issues going forward for the mobile industry, what would these be?

Dr. Semmoto

I would have to say that above all else, government officials together with industry executives must work to stimulate far more entrepreneurial activities in this industry. Especially because the mobile industry is strategically linked to all industries within a country or region, as well as for individual governments, it is essential that a healthy entrepreneurial spirit pervades this industry. But even if I look at Japan today, we are still lacking many things related to an open, entrepreneurial environment. For example, if you look at the spectrum allocation that the Japanese government has given to the operators, NTT DoCoMo has almost 50% spectrum, KDDI has 30%, Softbank has 15%, and new entrants only have a very small percentage. This is totally unfair. In America on the other hand, the U.S. government has implemented a cap on spectrum allocation to 30%. A model such as this is much more favorable to new entrants, as they are far more likely to have enough spectrum allocated for their use. But in Japan there really is no room for new entrants. We have arrived at this point from the accumulated results of the past.

This issue alone can shape an entire mobile industry, and the companies that ultimately operate within it. If I can point out one critical weakness in Japan's mobile industry, the one critical issue that the Japanese government must address is the development of a cap on spectrum allocation. Otherwise, there will always be one incumbent who dominates the market. This is one of the reasons why the Japanese government cannot find the adequate solution to turn around the Japanese economy in the wake of the global financial crisis. I think the best and only exit from our economic troubles is creative entrepreneurship. If we can spark the development of a new industry, create new businesses that can be adopted and used for the benefit of many people, the mobile arena is the key industry where such things can happen.

Six Laws

And you believe that this is one of the most important roles for government authorities to play?

Semmoto

Yes, I think that is the most important role that a government must play. And in this respect, the Japanese government has not been very successful with its management of Information Communications Technologies, except for the case of ADSL. The ADSL was one of the exceptional success stories for Japan back in early 2000. This initiative was led by both EACCESS and Softbank's Yahoo BB!. Together with Masayoshi Son, the founder of Softbank, we initiated a strong and open argument to compete against NTT's monopoly in broadband Internet access. These discussions opened the door for the Japanese government to create a fair environment for competition within the broadband Internet access market.

From this foundation, we entered into a number of open debates and forums, which invited a wide range of stakeholders including,

of course, existing operators, new entrants, the media, and representatives from consumer groups. We were able to bring all of these people together in the same place and hold a series of discussions together with NTT. The final results from these discussions were very favorable and very fair. This is why ADSL penetration rates in Japan in the early 2000s were so high and why costs remained so low versus nearly every other country in the world.

This is also why I always encourage entrepreneurs to create new businesses and new industries. As entrepreneurs, we were able to reshape the discussions in the industry and within the government oversight bodies. Such entrepreneurial activities are a fundamental factor for a country to become increasingly successful.

So I am also very happy that the new ambassador from the United States, John Roos, has a very strong background from Silicon Valley. He has been very influential in encouraging entrepreneurs in the Silicon Valley and, of course, this shows that the Obama administration strongly encourages entrepreneurship, as well as environmental responsibility. The Japanese government has to learn this approach so that our entrepreneurial efforts will keep pace with those in the rest of the world.

Six Labs But even with such a strong entrepreneurial spirit, the United States has been lagging far behind Japan in terms of mobile content and services.

Semmoto This is mostly the result of the actions taken by their former administration. Prior to the Bush Administration, when Reed Hundt—who is on the Board of Advisors for our company—was in charge of the FCC, he emphatically supported entrepreneurship within the US wireless industry. He encouraged incumbents, big corporations, and new entrepreneurs to actively discuss and develop new solutions in the US market.

But as far as I know, for the past 8 years the US mobile industry, as well as the overall telecom industry, has been dead. Actually, during this period incumbents like Verizon and AT&T just barely recovered, and because attention was focused on these giants, little attention and support was given to smaller, entrepreneurially minded companies. But now I am very much looking forward to the Obama administration's policies to encourage entrepreneurs within the US wireless industry.

So to summarize, the role of governments should be to help and encourage new entrants, and not to protect the rights and positions of incumbent companies. From my perspective, the mobile industry is the key strategic industry within any country, and its health has far-reaching implications that must be carefully considered.

Six Laws Do you see any countries today whose internal efforts of managing their wireless industries may have a significant impact on the rest of the world?

Semmoto I see enormous potential in both China and India. In China, companies, such as Huawei, ZTE, and many of the small start-up companies, have a very fresh and exciting spirit for entrepreneurship and innovation. But the only risk is that these companies are operating within a society that is being actively controlled by the government, including the issue of intellectual property.

I actually mentioned this in front of China's top leaders who visited Tokyo recently for the trilateral commission meetings. During our talks, I frankly and flatly stated that China is a very, very promising market. But the only drawback is government control, especially as it related to the IP issue. As you can imagine, they were not very happy to hear me make these comments.

Six Laws And you also see significant potential in India?

Semmoto India is important because they are an English speaking country. Also, their mentality is more closely aligned with the West, and they have the longest history of democracy in all of Asia. So India is also a large market with significant growth potential, and they have far fewer issues related to the control and influence of the government.

But I feel that the country with the greatest potential is China. They have a huge population and the quality of their scientific research is quickly bringing them to the forefront of global technical innovation. For example, we are the first Japanese telecom operator to decide to work with Chinese rather than Japanese technology for our base stations. We are working closely with Huawei, and when we first announced that we would be using their technology, everyone was shocked and surprised by our decision. They actually hated that we had chosen a Chinese high-tech product, and looked down on us for making this decision.

They just could not believe that in the Japanese market a Chinese company could create a competitive technology in such a critical strategic sector, the mobile industry. But now, Huawei has established itself as the number two player in the world, second maybe only to Ericsson. And if China can continue to operate in a very fair, open, and transparent manner while continuing to invest so heavily in research and development, China has the potential to become the world's technology leader in the years to come.

Six Laws If we focus on the fundamental issue of innovation either here in Japan, China, India, or any other market in the world, what do you believe is the most critical factor that will stand in the way of the success of these innovations going forward?

Semmoto If we look at the mobile industry from the perspective of the consumer, clearly the most important issue will be price. As the price decreases, usage of wireless content and services increases. If I look at the EMOBILE pricing plans, even though we are offering a very competitive price versus the competition, I still believe that our price point is too high. Even though we are offering unlimited mobile data service plans, other companies are choosing to implement technical restrictions that cannot truly be classified as unlimited use.

This is only addressing the issue of mobile data usage. If we focus on voice as well, then there is still a great deal to be done in terms of connection charges between carriers. It is very easy for us to introduce unlimited voice calls within our own network, but it is still impossible for us to even consider unlimited voice calls outside of our network because of the interconnection charges.

This issue applies internationally as well. While each country has their own pricing models or policies, there is definitely room to further decrease mobile data and voice charges globally.

As prices decrease, there will again be more opportunities for innovation as consumers will be willing to spend more time using wireless technologies and services.

Six Laws But even if prices decline significantly, one thing that we believe is vital for the mobile platform is a clean, simple and intuitive user interface.

Semmoto Yes, this is a very natural way of looking at the mobile industry. But from our standpoint, we are focusing our efforts on further expanding our network and infrastructure. For companies such as NTT DoCoMo and KDDI, they have already introduced easy-to-use handsets that are optimized for the elderly. While these phones may have been developed with a focus on what you call Simplicity, we are purchasing our handsets from Taiwan. And since these are developed to a global specification, it is not possible for us to currently focus on developing phones that are unique for the Japanese market. Actually, we would like to have the time and energy to focus on this point, as customers do sometimes complain that the handsets are too complex.

But something that may go against your argument for Simplicity is our experience with simplified pricing. Initially, when we launched our services, we introduced only one unlimited plan for our data service. We offered only one price, and in line with your theory, we felt that consumers would prefer this simplified approach to pricing.

But at the same time as we were offering this simple pricing plan, our competitors had developed what is called Double Teigaku, or a two-tiered pricing scheme. They offered an extremely low Tier 1, or price floor, in order to lower the barriers that consumers might

feel in shifting to a flat-rate pricing plan. As customers use these network services more, their monthly prices increase until they reach the Tier 2 price ceiling for their unlimited usage plan.

Consumers preferred this type of pricing model, and because of this, we also have begun offering these more complicated pricing plans.

Six Laws

From a consumer behavior standpoint, I definitely can understand why consumers have reacted in this way. But as they adopt unlimited pricing plans, as you have already stated, their usage of wireless content and services will increase. Is EMOBILE focusing on developing an ecosystem similar to those that other operators in Japan have built?

Semmoto

Fundamentally at this point in time, EMOBILE is an infrastructure company. We still consider ourselves to be a venture start-up business, and because we are still at the very early stages of our development, it is critical for us to remain focused. Our current focus is almost exclusively on infrastructure.

Where we are seeing the greatest opportunity at this point is actually helping people to switch from their fixed-line telephones to our wireless phone services instead. As your research has shown, most mobile phone usage is from fixed locations, so it is very easy to use a mobile device as a fixed line phone. This is where we see a legitimate growth opportunity for our business.

As we continue to focus on building our infrastructure, we are doing so with the idea of modularity in mind. By doing so, we have built the capability to integrate different modules for content or service solutions that other companies develop into our network. As we develop new partnerships, we must be able to take the broader view of how to best develop the entire ecosystem.

Six Laws

Is this a business model that entrepreneurs in other markets around the world could also implement?

Semmoto

I think it is possible and it is an interesting model, but in most cases entrepreneurs focus on new mobile businesses from the service side not the network side. It is actually much easier to enter the market from the service side, because from the infrastructure side you must have access to a great deal of money. An infrastructure business is a huge investment, and it is therefore very hard for a startup to enter from the infrastructure side of the equation. A more traditional model that I see is that the entrepreneur will develop a service business that appeals to a wide audience. At this point it is then possible for that business owner to invest in the infrastructure side of the business. It is actually a very rare case for a venture business to start from the infrastructure side.