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Japan's phone market change boosts opportunities

By Michiyo Nakamoto in Tokyo

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At the end of last year, a group of procurement officials from NTT DoCoMo, Japan's largest mobile carrier, visited China to inspect Nokia's mobile phone plant.

The visit, ahead of the launch in February of the Finnish group's handsets bearing the DoCoMo logo, was designed to reassure the Japanese carrier that Nokia's facilities were up to its demanding standards.

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Nokia is one of a growing band of foreign handset makers that are entering, or in some cases, re-entering the Japanese market.

Last month Pantech, Korea's second largest mobile phone maker, launched a handset for au, the mobile service operated by KDDI, Japan's second largest telecoms group.

In December Nokia said it had started deliveries of Nokia 6680 to Vodafone KK in Japan.

And in July, after an absence of several years, Motorola re-entered the Japanese handset market with a 3G wide-band CDMA phone for DoCoMo targeting business users.

Next spring, LG Electronics is also scheduled to launch a phone for DoCoMo.

And there is strong speculation that Samsung is developing a model for Vodafone in Japan, although a Vodafone representative says no decision has been made yet.

The growing presence of foreign handset makers reflects major changes in the Japanese market, which are providing greater opportunities for manufacturers.

For one thing, Japanese mobile operators now use globally agreed technology standards for 3G mobile services, rather than a proprietary standard that was only used in Japan, known as PDC.

Until just a few years ago, the dominance of PDC made it difficult and uneconomical for foreign handset makers focused on the European standard, GSM, or CDMA - used in the US - to do business in Japan.

Although both Nokia and Motorola did supply PDC handsets to the main carriers, "because Japan had technology that was completely different from the rest of the world, it was difficult for foreigners to compete," says Tom Okada, General Manger of mobile devices at Motorola Japan.

But the shift to W-CDMA, a global standard for 3G services, "is a huge turning point, an opportunity for Japanese manufacturers to go overseas and for foreign companies to come to Japan," Mr Okada says.

Japanese carriers also have their reasons for encouraging foreign manufacturers to develop handsets for the Japanese market.

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With market penetration at about 70 per cent, and fierce competition expected with the introduction of number portability next year, carriers are under pressure to cut costs as well as to offer consumers a range of price options.

Pantech's handset for au, which is the first foreign-made model for KDDI since the au brand was launched in 2000, is "very cost competitive," says a KDDI representative.

Large global manufacturers, such as Nokia and Motorola, whose annual shipments dwarf those of their Japanese competitors, have a cost advantage they can put to good use in Japan.

However, low-cost alone will not win over Japanese consumers who are technology savvy and notoriously fussy about quality.

The big challenge facing foreign handset makers is to keep producing handsets that are not only cost-competitive but also offer outstanding features that can differentiate them from the models of their domestic rivals.

"The (Japanese market) pie is not growing and about 70 new models are launched each year. So, unless foreign makers launch new models quite frequently throughout the year, their presence won't be noticed," says Michito Kimura, senior market analyst of communications at IDC Japan.

The early signs are that the foreigners face an uphill battle.

"Joint development is not that easy. It takes a very long time," says a KDDI representative. "We announced the Pantech handset in the summer and it only came out this month, so you can reach your own conclusions from that," he says.

DoCoMo cancelled its initial contract and scaled back its procurement from Nokia when the launch was delayed due to the difficulty of installing i-mode, its mobile internet system, according to one official.

DoCoMo has so far managed to sell only about 20,000 out of 200,000 3G phones it procured from Motorola.

The situation is frustrating for both the foreign makers and Japanese operators alike.

Nevertheless, foreign manufacturers will be keen to make their mark in Japan because it is the only market where W-CDMA, a technology they have spent much time and resources on, has really been taken up broadly, says IDC's Mr Kimura.

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