Special Feature

DOCOMO's Strategies
Part 1 Changing Business Environment

Whenever, wherever, and whoever.
Mobile phones have brought about major changes in how people communicate and have made daily lives more comfortable, pleasant, and convenient.
The mobile phone market, in which DOCOMO has played a pioneering role, has reached a significant turning point.

Changing Business Environment

Japan's mobile phone market has continued to mature, with the total number of subscriptions surpassing 100 million. While competition to acquire subscriptions has intensified, the diversification of consumer values and lifestyles has generated a variety of growth opportunities.

■ Japan's Mature Mobile Phone Market Against a background of DOCOMO's October 1993 elimination of subscription deposits and the 1994 liberalization of handset sales, Japan's mobile phone market has recorded rapid growth. After we launched the *i-mode* Internet connection service in 1999, new demand was generated in the form of data communications.

Subsequently, the market continued to expand even as it showed signs of maturing. In December 2007, the total number of subscriptions passed 100 million and the penetration rate reached approximately 80%. These milestones are emblematic of the full-scale maturation of Japan's mobile phone market. In the future, the rate of growth in subscriptions is expected to decelerate further.

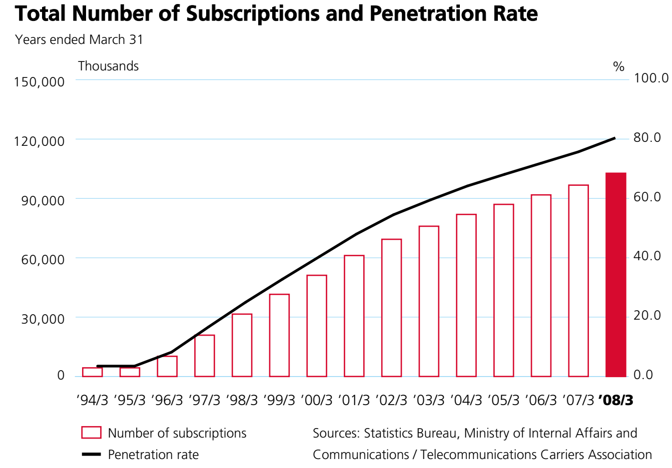
■ Handset Sales Model in the Market Expansion Phase Reached Its Limit In the market expansion phase, when the number of subscriptions showed substantial growth, mobile phone operators paid handset sales incentives to agent resellers, thereby reducing handset costs for customers and fostering the acquisition of subscriptions. Handset sales incentives were subsequently recovered from subscribers' voice and data communications charges.

This model is practical if the market continues to grow. In the market expansion phase, for mobile phone operators, handset sales were linked to the acquisition of new customers, and therefore a business model based on handset sales incentives served as a driver of growth. Also, rapid growth in the customer base promoted price reductions from handset manufacturers who enjoyed economies of scale, and further spurred mobile phone penetration.

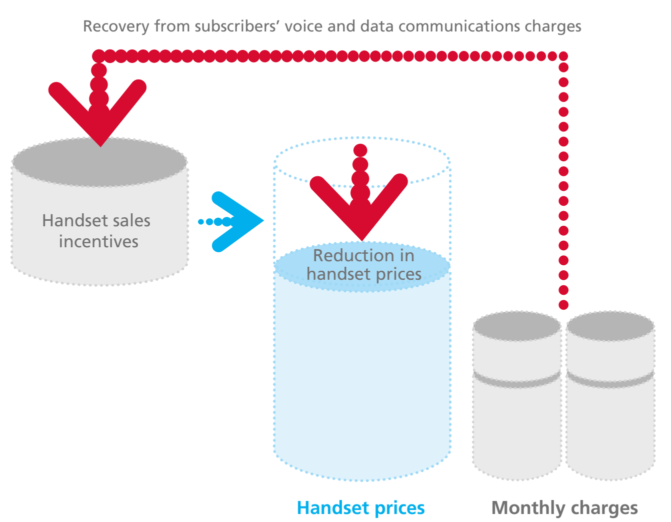
However, in a mature market, that expansion phase business model presents a variety of problems. With growth in the number of new subscriptions sluggish and replacement taking on the principal role, handset sales are no longer directly linked to expansion in the customer base for mobile phone operators. This means that the business model based on handset sales incentives has broken down. Handset sales have already been delinked from new customer acquisition, and accompanied by an increase in handset replacement, the burden of handset sales incentives has put pressure on the profitability of mobile phone operators.

Also, the system of recovering handset sales incentives from the voice and data communications charges paid by subscribers fostered a sense of unfairness among subscribers in terms of handset replacement frequency. The expense of the handset sales incentives for subscribers who changed handsets in short periods of time was funded, in part, from the voice and data communications charges of subscribers who used the same handset for long periods of time. This issue became a topic of discussion as a social problem.

Total Number of Subscriptions and Penetration Rate



Former Handset Sales Model



■ Intensified Competition for Subscriptions In recent years, rate competition among mobile phone operators has intensified and ARPU[1] is declining. In the market expansion phase, declines in ARPU were offset with the acquisition of new subscriptions, and growth in revenue was maintained. Currently, however, with no expectation of substantial growth in the number of new subscriptions, it is difficult to sustain this model.

The competition among mobile phone operators for market share, which has intensified since the introduction of Mobile Number Portability[2] in October 2006, has had a further influence on the revenue structure. With each mobile phone operator implementing distinctive strategies, such as low price strategies for both handsets and communications charges, or strategies targeting the stimulation of demand for second handsets, the competition for market share has intensified. DOCOMO, with the largest share in the industry, has been most heavily affected by this competitive landscape.

1 Average monthly Revenue Per Unit
2 System enabling subscribers to change to another mobile phone operator while maintaining their previous telephone numbers.

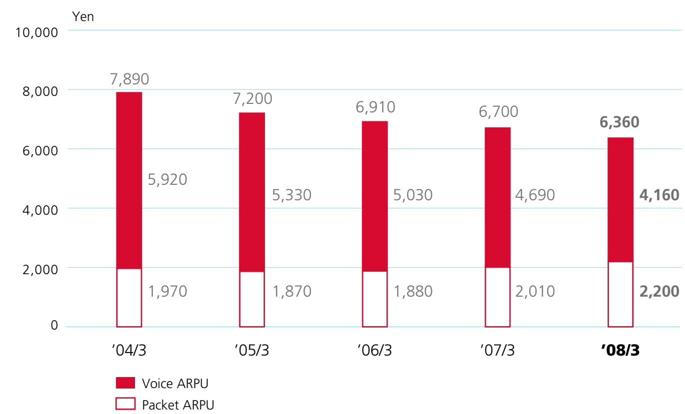
■ Diversifying Usage Patterns Against a background of diversified lifestyles, more-advanced handsets, and enhanced content, the ways in which people use mobile phones are diversifying. This trend is a noteworthy aspect of mobile Internet usage.

Starting with DOCOMO's *i-mode* service, the world of mobile internet services has advanced rapidly, and with the penetration of 3G mobile phones that make possible faster data transmission, that development is accelerating. According to the Ministry of Internal Affairs and Communications' "Communications Usage Trends Survey 2007," against a background characterized by such factors as increased communications speeds, there has been rapid growth in the use of such devices as mobile phones by individuals accessing the Internet.

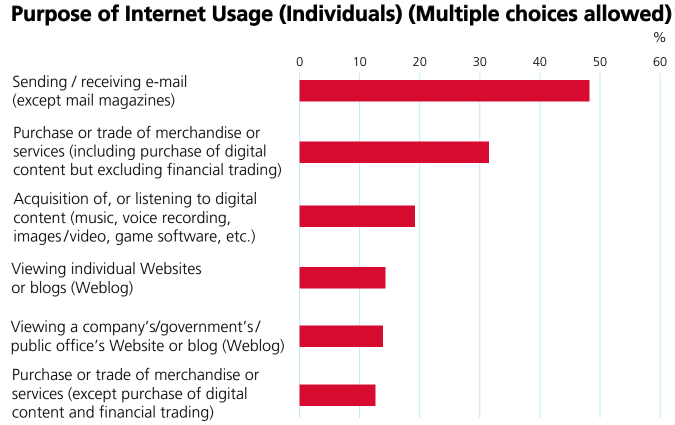
Looking at the purpose of use, in addition to such typical functions as e-mail and Web browsing, higher rankings have been reported for "acquisition of, or listening to digital content," such as music and videos, and "purchase or trade of merchandise or services." Based on DOCOMO's operating data, a distinctive feature of usage trends in recent years has been a marked increase in data traffic due to video viewing on mobile phones.

DOCOMO's ARPU (*FOMA* + *mova*)

Years ended March 31

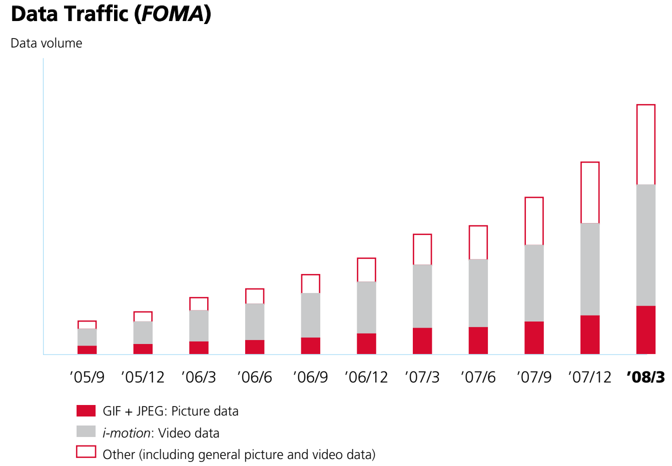


Purpose of Internet Usage (Individuals) (Multiple choices allowed)*



* The top five answers were excerpted from the complete list.
Source: Ministry of Internal Affairs and Communications, *Communications Usage Trend Survey* in 2007

Data Traffic (*FOMA*)



Also, even in areas other than the Internet, the ways in which mobile phones are used is expanding. Since they began in 2006, One-Seg broadcasts, which are terrestrial digital TV broadcasts for mobile phones and other devices, have advanced the penetration of compatible handsets. In April 2008, simultaneous broadcasting regulations[3] were abolished, and in the future the launch of content optimized for mobile phones is anticipated. This has the potential to create new business opportunities.

In addition, mobile phones are being used in a variety of ways in accordance with people's lifestyles, such as alarm clocks, schedulers, room entry/exit control systems, and GPS-based navigation. *Osaifu-Keitai*, a mobile phone based settlement function using credit or prepaid electronic money, is rapidly becoming a part of people's lifestyles as the availability of compatible handsets and payment terminals expands.

3 Systems for the simultaneous broadcast, by a single broadcaster, of the same content over multiple media, such as digital broadcasts, analog broadcasts, TV, and radio.

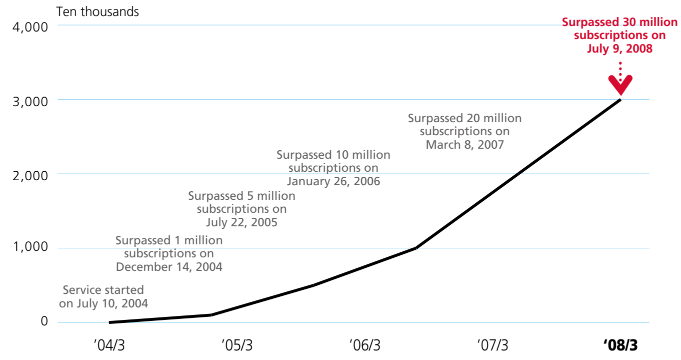
■ DOCOMO's Strategies DOCOMO has opened up the market as an industry pioneer. The results it has achieved, a comfortable usage environment, and the ability to innovate that launched pioneering, unique services, have earned the support of a wide range of subscribers. As a result, we have built a strong position, with a customer base of 53 million subscribers and a mobile phone market share of 52.0% as of the end of March 2008.

This position means that in the current market environment DOCOMO must follow strategies that are clearly different from those of other operators. With limited room for the acquisition of new subscriptions, other operators have room to grow by taking market share from their competitors, including DOCOMO. On the other hand, it is possible that DOCOMO, with its large market share, would foster price competition and shrink the mobile phone market if it follows a strategy of taking market share from other operators.

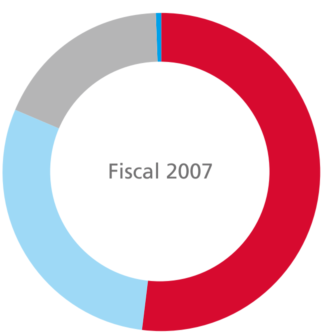
What strategies does DOCOMO need to implement? The answer is provided in the next chapter, "Part 2 Strategic Direction."

Penetration of *Osaifu-Keitai* Compatible Handsets

Years ended March 31



Share of Mobile Phone Subscriptions



DOCOMO	**52.0%**
KDDI (au + Tu-ka)	29.5%
SoftBank	18.1%
EMOBILE	0.4%

Source: Telecommunications Carriers Association