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## A Major Backfire in Japan Deflates Vodafone's One-Size-Fits-All Strategy

By MARTIN FACKLER and [KEN BELSON](#)

TOKYO - Yoko Yakushiji's biggest complaint with her [Vodafone](#) cellphone was not just the lack of functions, the expensive bills or the poor signal. It was not even the delays in receiving text messages.

What annoyed her most was feeling like a social outcast, cut off from the instantaneous electronic world of Japan's tech-savvy youth. The 21-year-old university student says she often missed friends' calls and messages with invitations to meals, parties and even class assignments.

In April, she switched providers - something she had resisted because she had to change her phone number and phone-based e-mail address.

"My friends used to treat me differently. They'd say things like, 'Oh, you can't reach Yoko. She's got Vodafone,'" said Ms. Yakushiji, a junior in international finance at Meiji Gakuin University in Tokyo. "I just couldn't take it anymore."

Ms. Yakushiji was not the only one, as Vodafone, the world's largest cellphone carrier, is finding out. Service problems, a botched rollout of its third-generation phone network and a skimpy lineup of new handsets have driven away Japanese customers in droves. The exodus has turned into an embarrassing and costly setback for Vodafone - and one it is now struggling to overcome.

Vodafone, which is based in London and also owns 45 percent of [Verizon Wireless](#) in the United States, now must win back customers if it is to revive what was once one of its most profitable units and a cash cow for its global operations. Though the performance of its subsidiary in Japan has shown some signs of improving, it has fallen far behind its two larger rivals here, [NTT DoCoMo](#) and KDDI.

Vodafone's woes in Japan are a lesson in how global corporations can stumble if they try to push a sales agenda across many national markets without heeding local quirks. The company admits that its biggest misstep was a decision to focus its lineup in Japan on what it calls "converged handsets" - mobile phones that Vodafone released in December in 13 countries simultaneously. By offering the same phones to many of its 165 million worldwide subscribers, Vodafone hoped to drive down handset prices.

But the one-size-fits-all approach backfired in Japan. Features that were acceptable in Europe or the United States appeared primitive and clunky in Japan. Consumers here are used to getting new technologies like high-resolution color screens, two-megapixel cameras and full Internet access a year or two before the rest of the world.

"Japan has the most advanced terminals in the world," said Izumi Aizu, a researcher at the Center for Global Communications in Tokyo. "Why did Vodafone think consumers here would want to give these up?" Only three years ago, Vodafone was crowing about its operations in Japan, the world's second-largest cellphone market and Vodafone's largest global market by revenues. Along with Shinsei Bank and [Nissan Motor](#), Vodafone was one of those rare foreign-owned companies in Japan that was holding its own against the powerful local incumbents. The company leaped ahead of rival KDDI into second place in Japan behind NTT DoCoMo, thanks to flashy marketing, slick camera phones and low prices.

But in the first five months of this year, Vodafone lost nearly 200,000 subscribers.

Vodafone said the decline was a main reason that the unit in Japan, called Vodafone K.K., reported a 15.4 percent drop in recurring annual profit in the year ended March 31, its most recent earnings period. The unit's stock tumbled 30 percent in March and April before it was delisted on Aug. 1.

"Japan has been a peculiar place where things haven't worked Vodafone's way," said Makio Inui, a telecom analyst for UBS Securities in Tokyo. "The company was slow to realize that, gee whiz, Japan is really different from Europe."

Now, to revive its fortunes, Vodafone has shaken up management in Tokyo, started a series of product redesigns and poured more money into its cellular networks.

But the going will only get tougher in Japan's increasingly saturated market, analysts say.

Competition could intensify as regulators consider letting in three new cellphone providers this year, and rule changes expected next year allow users to keep their phone numbers while changing providers, making it easier to shop around.

The troubles began in December, when Vodafone introduced seven of its "converged" handsets in Japan. Five months later, as it hemorrhaged subscribers, the company backtracked, saying it would add new phones made by Japanese manufacturers and designed to appeal to local tastes.

"The Japanese customer is more demanding and more specific in certain areas," William Morrow, the president of Vodafone K.K., told reporters in April after he was reinstated to lead the lagging Japan unit. "We're going to have to offer the converged handset, and we're going to have to offer the Japan-specific handset."

Repeated calls to Vodafone seeking comments from its executives in Japan were unanswered.

To restore some of the luster to its Japanese unit, Vodafone is bringing back people who helped put it on the map here. One is Hiroshi Ohta, who was rehired in May, after leaving Vodafone in 2001, to head new product development. Mr. Ohta enjoys almost legendary status in Vodafone's unit in Japan, where in the 1990's he led the development of the world's first cellphone with a digital camera attached.

Another is Mr. Morrow, who led Vodafone's Japanese operations for two years until late 2003. During that stint, he won praise for selling the company's slower-growing landline group and turning the more profitable wireless division into a legitimate challenger to DoCoMo.

After returning to Japan, Mr. Morrow moved quickly to simplify complicated price plans. In June, Vodafone started offering low, flat monthly rates for e-mail and calls between family members, similar to plans already offered by competitors.

Analysts say the moves contributed to a rebound in subscribers in June and July. Vodafone added 23,300 subscribers in those two months, bringing the total to 14.98 million in Japan over all. But Vodafone still had just a 16.9 percent market share in July, down from 18.4 percent at its peak in 2002, and a distant third behind DoCoMo's 56.1 percent and the 23 percent held by KDDI.

The hardest task, though, will be restoring the trust of consumers. The company's reputation took a drubbing this spring after technical problems in its third-generation, or 3G, network led to frequent delays and outages. In one case in May, almost a million users across Japan lost e-mail and Internet access for seven hours.

Vodafone says the problems stemmed from the company's pushing 3G phones too quickly, before the infrastructure was in place to handle them. In response, Vodafone said in June that it would increase spending this year on new 3G base stations by 260 billion yen, or \$2.4 billion, 50 percent more than originally planned.

Vodafone added to its problems by cutting investment in its older network, leaving users like Ms. Yakushiji frustrated because she could not get a signal at her university campus or even in parts of central Tokyo.

"I gave Vodafone three years to improve things, but the service never seemed to get any better," said Ms. Yakushiji, who now uses a pink KDDI phone with tiny, clear blue plastic dolphins dangling from its strap.

Ms. Yakushiji says her Vodafone service was more expensive and the handset had fewer functions than her friends' phones.

Vodafone's spokesman in Japan, Matthew Nicholson, said the company was trying to make its phones more appealing. In June, it unveiled phones in Japan that come with a selection of removable rubber cases. One is black with grooves like tire treads. Another is green with tiny suction cups to stick the phone to walls. A third sprouts horns and four legs, making it look like a little red bull.

"Tailoring phones to customers in Japan is a priority," Mr. Nicholson says. "We learned a lot from what happened."

Martin Fackler reported from Tokyo for this article, and Ken Belson from New York.

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