

Softbank's Yahoo! Model

By Keith Mallinson Wednesday, February 20, 2008

What Softbank has done with Yahoo! in Japan could be instructive for U.S. wireless carriers as they provide the mobile Internet.

My accolade for one-upmanship at the Mobile World Congress (MWC) in Barcelona goes to Softbank's CEO Masayoshi Son, aplomb with success in driving adoption and usage of mobile broadband and Internet in Japan. He even predicted mobile voice will end up being offered for free. "Finally," he said, "the handset is now powerful enough to support the mobile Internet."

Many carriers are enthusiastically investing in mobile broadband networks, with 174 commercial deployments of HSDPA worldwide and 36 of these delivering 7.2 Mbps download speeds. However, most carriers are paranoid and indecisive in their partnering strategies for mobile Internet services.

Several 2008 MWC speakers insisted that carriers must not let themselves become dumb bit pipes in mobile as did the wireline carriers with PCs online. Carriers need to integrate with content partners, but how can they develop demand for new services without being disintermediated in the process with most of the revenues or profits going to Internet companies such as Google?

Softbank has a decisive strategy that is working well with 70% of its 12.7 million subscribers on mobile broadband and 12 of its 16 handsets using HSDPA. It integrates Yahoo! Japan into mobile in the most prominent way. Softbank shunned the standard phones provided by the mobile operator's former owner across many Vodafone operators worldwide. Instead, it offers unique phones for its Japanese customers with HSDPA and a very prominent "Y!" hard key. This is even visible and available on slider phones that present few other keys when closed.

Yahoo! claims introducing this key has increased the number of users accessing the site 75-fold. Doesn't this divert the customer and much of the additional revenue potential in content, advertising and commerce away from the carrier and into the clutches of this leading Internet brand? Yes, but no worries, Softbank is the largest stockholder in Yahoo! Japan. A win-win situation if ever there was one.

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Back in the real world for every other wireless carrier on the planet, life is not as simple. Wireless carriers know they can't go it alone. The big Internet names including Google, Yahoo! and Microsoft have enormous customer pull. How will these customer relationships develop and how can carriers establish commercial terms to secure ongoing value beyond bit-hauling? Alternatively, carriers can partner with white-label search and solutions providers to create a mobile Internet experience from a long list of names including Medio, JumpTap, Motricity and Openwave.

Nobody knows how service markets and business models will develop in mobile with content, advertising and commerce. After seven years of lackluster performance in developing mass-market mobile services beyond person-to-person voice and text, the mobile Internet is still embryonic. Technological change and innovation are bringing dramatic change. For example, new market entrant Apple has disrupted the market with its cool iPhone through unprecedented direct distribution and a 15% service fee revenue share from AT&T.



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Nokia is in a mobile Internet renaissance with its Ovi offering, following carriers' resistance to its Club Nokia early this decade. Vodafone and Orange have signed up. Vodafone's CEO says he will not commit to Google's Android platform until he has a better understanding of how it is "wired," concerned that it may seek to bypass Vodafone.

Mobile Internet market leadership is still up for grabs. Mobile is significantly different from online in many ways. Google has an unassailable market leadership in online search with 62% of worldwide searches versus 12.8% for Yahoo! and 2.9% for Microsoft, as reported in the Economist. This is a tremendous competitive strength for mobile market entry, but it by no means guarantees leadership.

Additional factors are important in mobile, such as reducing or eliminating the number of clicks, adjusting or summarizing content displayed due to device constraints, making the most useful inferences on the basis of user identity, previous behavior, location and context. There's a lot of learning and development to be done. Wireless carriers have some unique assets as custodians of subscriber data.

With Yahoo! currently in play, following Microsoft's hostile acquisition approach and counter-offers possibly emerging from Google and News Corp., major carriers AT&T, or Verizon and Vodafone also should consider pitching in with bids for a stake. Other carriers could replicate what Softbank has created in Japan.

No carrier has anything like the global geographic reach of Yahoo!, but it could divvy itself up into a federation along the ownership lines it has in Japan to become kind of Internet franchiser adding as many national and regional carrier partners as it needs.

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