

CASE STUDY

“Quest To Go Global: NTT DoCoMo’s Global Business Strategic Alliances: A Case Study”

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Abstract:

“Change, it is said, is the only constant in life; and business, it seems, is no exception to this rule.”

Despite of the economic changes constantly taking place on the global platform, business organizations are striving for sustainability with the help of various strategies. As companies continue the trend towards becoming not only international but transnational companies, strategic alliances are becoming more critical to business operations.

According to Wikipedia, a strategic alliance is defined as “a mutually beneficial long-term formal relationship formed between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations”. In the business sense, it is “a synergistic arrangement whereby two or more organizations agree to cooperate in the carrying out of a business activity where each brings different strengths and capabilities to the arrangement.”

There are several reasons a company should create a strategic alliance. Businesses use strategic alliances to achieve advantages of scale, increase market penetration, enhance competitiveness in domestic and/or global markets, and enhance product development. The main reasons why most companies create an alliance are to have the ability to access new capital for growth, for development of new products or services, or for entry into new lines of business. Another important reason to form a strategic alliance is the access to international markets.

When the last decade has witnessed mergers and acquisitions, now-a-days strategic alliance is the need of time. With the rapidly increasing global competition, organizations find strategic alliance a tool for sustainability in the global market. After the saturation in the national market, the organizations focus on expansion in different countries and strategic alliance can be a good option for the same.

What are the drivers for the strategic alliances?

Varadarajan and Cunningham [1995], in their article, summarize the motives for alliance formation. The reasons for getting into an alliance have been mainly for market growth and/or profit growth. Varadarajan and Cunningham [1995] approach the formation process from the competitive approach viewpoint. The authors mentioned the following motives for formation:

Market entry in the international arena: Due to increase in global competition, firms tend to enter foreign markets in order to improve their profitability as well as their market share. Strategic alliances benefit firms that seek complementary resources in a foreign partner.

Evade barriers to entering new international markets: New international markets, especially developing country markets, are often difficult to enter due to government regulations regarding full ownership of a subsidiary. Strategic alliances can be helpful in circumventing these barriers to enter new international markets.

Protection of the home market competitive position: By entering international markets through alliances, firms force foreign competitors at home divert their resources away from expansion into the international markets, thus protecting the home market.

Broaden product line/fill product line gaps: Firms often enter alliances to increase the product line or fill gaps in the existing product line. Lack of technology or high cost of production may force a firm to seek a foreign partner to fill their product lines.

Enter new-product market domains: Firms that operate in stagnant or mature industries often enter alliances to gain a foothold in emerging industries.

Reduce potential of future competition: By entering into an alliance with another organization, firms tend to reduce future competition potential of that organization.

Raise entry barriers: Raising entry barriers by joining forces with other organizations is a powerful motive to enter into alliances. However, firms have to be careful not to violate the anti-trust laws of any other nation or the US.

Enhance resource use efficiency: Alliances allow firms to lower their manufacturing costs, achieve efficiencies in the production process, and allow them to gain experience effects.

Resource extension: Firms that lack the resources to grow enter into strategic alliances. Small firms often enter into alliances in order to acquire R&D resources, which could be capital or equipment.

Acquire new skills: Knowledge acquisition is an important element in formation of alliances. Partners in an alliance often attempt to learn as much as possible from the other partner while guarding their distinctive skills.

Table 1: Classification of motives for formation

Transaction Cost Approach	Organization Theory Approach	Competitive position Approach
Enhance resource use efficiency	Acquire new skills	Entry into new markets
Resource extension	Entry into new product market domains	Circumvent barriers to enter new markets
		Protect competitive position in home market
		Broaden product lines/ fill gaps
		Reduce future competition threat
		Raise entry barriers

In this context, this paper focuses on the strategic alliances as a tool for competitive advantage. The researcher aims to study the topic with special reference to NTT DOCOMO, a Japanese Telecommunication giant through case study.

INTRODUCTION

A **Strategic Alliance** is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations.

In the strategic alliance two or more organizations agree to work towards some shared interest. This happens when two companies team up for a research effort. They may create a third entity, called a joint venture, or they may simply agree to work together on some limited basis. A merger or acquisition results in one or more organizations simply disappearing.

The strategic alliance partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. The alliance is a co-operation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk.

Companies are continually striving to gain access to new markets and new supply sources, capitalize on technology, use assets better, and become more profitable. They commonly use three methods to achieve these objectives: internally developing physical assets and company skills, acquiring these assets and skills, or *agreeing with other companies to pool physical and human resources*. The latter is commonly known as a *strategic alliance or joint venture*. Although the distinction is not important for our purposes, and the terms will be used interchangeably, the two forms of partnership between companies differ. Joint ventures entail creating a third-party legal entity, whereas strategic alliances do not. In addition, as a general rule, strategic alliances focus on projects that are smaller in scope than joint ventures.

OBJECTIVES

- To study the selected strategic alliances, acquisitions and joint venture activities by NTT DOCOMO Group in past 3 years (more specifically between the period from yr.2006-2009).
- To study analytically these selected strategic alliances, to see if NTT DOCOMO as a Group of Industries generates a trend in the area of strategic alliances.
- To study the drivers of strategic alliances by NTT DOCOMO.

3. SCOPE

As noted earlier, strategic alliances are not new phenomena. India too has witnessed tremendous increase in the number of alliances, in sectors varying from IT, Telecom to manufacturing. NTT DoCoMo, a Japanese company, the world leader in mobile Internet services has become the most valuable mobile telecommunications company in the world and was poised to capitalize on its enormous global expansion opportunities.

This paper is an attempt to study the drivers of strategic alliances by NTT DOCOMO over the globe.

INDUSTRY PROFILE- About NTT DOCOMO

DoCoMo is the world's most valuable cell-phone company and once the largest single-country cell-phone operator with a total of 35.5 million subscribers. NTT DOCOMO is Japan's premier provider of leading-edge mobile voice, data and multimedia services. With more than 55 million customers in Japan, the company is one of the world's largest mobile communications operators.

DOCOMO also is an influential force in the continuing advancement of mobile technologies and standards. Way back in 1999, DOCOMO launched i-mode™, the world's most popular platform for mobile Internet services including e-mail, browsing, downloading and more. Over 48 million DOCOMO subscribers now use i-mode. In 2001, DOCOMO introduced FOMA™, the world's first 3G commercial mobile service based on W-CDMA, which has transformed the mobile landscape in Japan while bringing the DOCOMO brand global recognition. The role of mobile phones as "lifestyle tools" was cemented when DOCOMO launched Osaifu-Keitai™, a mobile wallet platform enabling quick, contactless transactions for cash, credit, ID, and more.

More than 35 million phones equipped for Osaifu-Keitai services are now in use. Building on a solid foundation of research and development, and guided by its customer-first philosophy, the company leverages the power of mobile communications to enable customers to enrich their lives. DOCOMO is expanding its global reach through offices and subsidiaries in Asia, Europe and North America, as well as strategic alliances with mobile and multimedia service providers in markets worldwide.

Quick Facts

President and CEO: Ryuji Yamada

Headquarters: 2-11-1 Nagata-cho, Chiyoda-ku, Tokyo, Japan 100-6150

Capital: 949.68 billion yen

Employees: 22,865 (NTT DOCOMO Group)

DOCOMO's Strategic Alliance with Telefonica

In May 2009, NTT DoCoMo and Telefonica, a Spanish company announced their strategic alliance introducing windows mobile handset model of Toshiba company in their respective Japanese and Spanish markets as a part of a plan for various joint undertakings by the two mobile operators. The two companies are now considering various other initiatives to mutually strengthen corporate competitiveness and customer satisfaction in their respective markets, including a joint study of possible services and applications for new technology handsets, etc.

DOCOMO Senior Vice President and Product Department Managing Director Kiyohito Nagata said: "DOCOMO looks forward to working with global operators such as Telefonica to jointly develop mobile services and applications for mutually enhanced global competitiveness. At the same time, we would be pleased if such efforts have the added effect of supporting Japanese mobile phone manufacturers in their attempts to expand handset sales overseas."

Telefonica is one of the most important telecommunication companies in the world as for market capitalization. Its activities are basically centered in landline and mobile operations, as well as broadband services as the key for the development of both endeavors. Telefonica has offices in 25 countries and a customer base of 261+ million accesses in the world. It is a strong player in Spain, other countries of Europe and Latin America where it is concentrating its developing efforts. It's completely privately owned company with more than 1.5 million shareholders. Its capital is currently divided in approx. 5,000,000,000 shares in the Spanish stock markets, Madrid, Barcelona, Bilbao, and Valencia, as well as stock exchanges in London, Tokyo, New York, Lima, Buenos Aires and Sao Paulo.

DOCOMO's Strategic Alliance with Avex Entertainment to Provide Mobile Video

In Sept. 2008, NTT DOCOMO formed a strategic alliance in the form of joint venture with Avex Entertainment Inc., (AEI) a subsidiary of Avex Group Holdings Inc., and Avex Broadcasting and Communications Inc. for production of and on-demand distribution of video content packaged for the mobile phone environment.

Avex Entertainment Inc., (AEI) is one of Japan's biggest music and movie entertainment companies, with operations involving production, packaging, sale/ distribution (including web) and rights management of music and visual content not only in Japan but other markets of Asia as well. With this strategic alliance, DOCOMO provided its IT infrastructure, advanced mobile technologies and vast experience in providing mobile customers with popular video content. AEI contributed its expertise in the fields of content creation, artist management and services centered on intellectual property.

7. Strategic Alliance of NTT DOCOMO and Sharp in Sept. 2008

NTT DOCOMO and Sharp Corporation jointly developed a mobile phone capable of functioning as an intelligent key for automobiles- a world's first. The device incorporates Nissan's Intelligent Key system, a standard feature in Nissan's vehicles already. Sharp Corporation, a world known electronics manufacturer, and Nissan, a global name in automobile sector joined together with NTT DOCOMO to integrate the technologies of electronics, mobiles into automobiles, who expected users to appreciate the seamlessly integrated features of their new handset.

8. Strategic Alliance of NTT DOCOMO with Irish Maritime Wireless Systems Provider

NTT DOCOMO, in Sept. 2008 announced that it has invested 10 million US \$ to acquire an 11.5 % stake in Blue Ocean Wireless (BOW) an Irish company providing GSM communications system to the merchant maritime sector.

The acquisition is the latest joint endeavor between DOCOMO and its affiliate Phillipine Long Distance Telephone Company (PLDT) including PLDT's wholly owned mobile subsidiary Smart Communications Inc., one of BOW's shareholders. As part of the strategic arrangement DOCOMO intends to assist BOW's management in adding value to its services for global maritime carriers.

BOW provides GSM connectivity for seafarers by setting up satellite antennas, GSM base stations and conversions devices on vessels, which enable users to make and receive voice calls and send and receive SMS text messages

using their existing handsets. DOCOMO believed that BOW's effective use of bandwidth, low cost systems and privacy protection measures would give the company distinct competitive advantages over conventional satellite communication services.

DOCOMO's partnership with Google in Mobile Internet Services

In Sept. 2008, NTT DOCOMO (Japan) and Google Inc. (USA) formed a partnership that included providing search services, search related advertisements and potential applications to i-mode users. The two companies would also collaborate to enhance the user- friendliness of i-mode services by making various Google services easier to access through i-mode handsets. The default pre-loading of Google Maps application into upcoming DoCoMo i-mode handset was one of the initial initiatives discussed. Google's innovative search technologies connect millions of people around the world with information every day. Google today is a top web property in all major global markets. Google is headquartered in Silicon Valley with offices throughout America, Europe and Asia.

DOCOMO's strategic alliance with TATA in Nov. 2009

In November 2009, DOCOMO joined hands with TATA Teleservices Ltd., for management and provide know-how on helping the company develop its GSM business in India. The launch of the TATA DoCoMo brand marks a significant milestone in the Indian telecom landscape, as it stands to redefine the very face of telecoms in India. TTSL alongwith NTT DoCoMo, (which acquired 26% stake in Tata Teleservices, in 2008, for \$ 2.7 bn) jumped onto the GSM bandwagon with the launch of its GSM services, under the brand-name 'Tata-DoCoMo'. This was the biggest deals in Indian Telecom Space. TATA DOCOMO has also set up a 'Business and Technology Cooperation Committee' comprising of senior personnel from both companies. The committee is responsible for the identification of key areas where the two companies will work together.

Tata Teleservices (TTSL), a TATA Group company, in telecom sector, having its existence in the CDMA again adopted a strategic business alliance with NTT DoCoMo, world's leading mobile operator and provider of advanced mobile services. TTSL's CDMA brand has already established its presence and is the fastest- growing pan-India operator. Incorporated in 1996, Tata Teleservices Ltd., is the pioneer of the CDMA 1* technology platform in India. TTSL alongwith TTML, serves over 37 million customers in more than 320,000 towns and villages across the country offering a wide range of telephony services including mobile services, wireless desktop phones, public booth telephony and wire line services.

The launch of the TATA DoCoMo brand marks a significant milestone in the Indian telecom landscape, as it stands to redefine the very face of telecoms in India. Tokyo-based NTT DoCoMo being one of the world's leading mobile operators in the Japanese market, the company is clearly the preferred mobile phone service provider in Japan with a 50% market share.

Analysis of Strategic Alliances by NTT DoCoMo

Strategic Alliance with	Country	Year	% of Stake Acquired by DOCOMO	Strategic Driver
Avex Entertainment Inc.	Japan	Sept. 2008	30%	Benefit of AEI's expertise in media for DoCoMo mobiles
Sharp	Japan	Sept. 2008	Not available	Technological alliance
Ocean Wireless (BOW)	Ireland	Sept. 2008	11.5 %	Entering the seafarers market with technology base of BOW
Google	USA	Sept. 2008	Not available	Google search and G-map on i-mode handsets
Telefonica	Spain	May 2009	15%	Expansion of markets in Europe
TATA Telecom	India	Nov. 2009	26%	Market expansion in India

- These alliances are only examples. There are many and many are in pipeline. The common factor observed while studying the numerous strategic alliances by NTT DoCoMo, is the company's strategic planning is very strong and it was not affected at all by the global economic slowdown. Rather it must have worked as an opportunity for expansion of markets over the globe.
- The analysis of possible strategic drivers, expanding in international market, broadening product line, entering new product market using the technological expertise and strong market presence of the strategic alliance partners are highlighted in the above case study.
- NTT DOCOMO being at number one position in Japan in mobile services, it doesn't limit itself in that sector. It is seen that the company has tried to come up with innovative services with its mobiles and uses the technological expertise of its strategic alliance partners to expand its market to automobile sector as well.
- Entering emerging markets through strategic alliances is looked at as a successful strategic tool by multinationals. (MNCs).

STRATEGIC ALLIANCES FOR FUTURE

- Based on the case study of NTT DOCOMO, it can be said that mergers and acquisitions, are no more looked as failure of merging firm to make profits.
- Strategic alliances in the form of M & As, Joint Ventures are strategic tools for sustaining in the competitive markets, which can be looked at as an opportunity to expand globally by multinationals if any of the above said drivers exist.
- Today's economies can be referred to as knowledge economies driven by systematic innovation and technology. Strategic Alliances are a key for such fast growing technology driven firms who intend to expand in the global markets.
- NTT DOCOMO is expanding radically throughout the world once it found saturation in the Japanese mobile market. It is investing in the alliances for a return to be gained in the future.
- Strategic alliances represent a medium that can create scale and scope advantages necessary to be competitive on a global basis. Alliances allow firms to conserve their resources as compared to forming a wholly owned enterprise. The advantages and disadvantages of alliances have to be carefully weighed by each organization before making a decision to enter an alliance.

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