

Japan carriers brace for VoIP competition

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Having the hottest mobile-phone model remains a status symbol among Japan's glitterati and school children alike, but some of the biggest changes in the telecommunications market are coming from less-apparent areas, such as Voice over Internet Protocol.

VoIP still is considered something of a novelty in the United States, but mainstream Japanese telecommunications groups and software companies have been quick to enter the market -- and are seeking to expand their share. In fact, Japan constitutes the world's biggest VoIP market today, and some of the biggest names in the industry are preparing to work together in order to ensure their dominance in the potentially lucrative business.

The Japanese daily Asahi Shimbun reported Wednesday that Softbank, Japan's largest software developer and the country's biggest VoIP provider, will be working with NTT Communications, the biggest Japanese telecom group and second-largest VoIP provider, as early as next month to further the Internet telecommunications network.

Since it entered the VoIP market in 2002 Softbank has dominated the domestic market, but it is facing increasingly stiff competition from outside Japan, particularly from Skype. The Luxembourg company is the world's biggest VoIP provider and recently was bought by online-auction giant eBay.

At the same time, companies that have traditionally played no role in telecommunications, including Microsoft and Time Warner, as well as

Internet companies such as Yahoo! and Google, have made significant investments in recent months in their bid to become major players in the increasingly lucrative VoIP market.

As such, industry analysts broadly agree it would be in the best interest of major Japanese VoIP providers to join forces in order to keep a firm hold on the domestic market amid increasing competition from abroad.

Neither Softbank nor NTT Communications confirmed nor denied the Asahi report, but if the companies do plan to go forward, it would mean Softbank and NTT subscribers would be able to talk to one another online for free. Currently, VoIP users who want to connect to another company's subscribers must go through a conventional carrier in order to be able to talk to one another. The deal between Softbank and NTT would allow subscribers of both companies to circumvent the need for a carrier, thereby allowing them to talk to one another free of charge.

In addition, the Asahi reported that NTT will be allowing its Internet subscribers to access the VoIP service as well, thereby increasing the number of Web-based phone users even further.

With broadband access in Japan being among the most widespread in the world, and the extensive proliferation of personal computers as well, the latest corporate alliance between the two VoIP giants is expected to expand further the demand for phone lines via the Internet.

Admittedly, the overall VoIP market still remains small. As of March 2005 the number of fixed-line phone subscribers was estimated at 51.63 million individual lines according to industry analysts. Meanwhile, the number of those with Internet-protocol phones was estimated at 8.3 million, with Softbank having about 4.7 million subscribers, while NTT has about 2.1 million.

Nevertheless, analysts are confident that VoIP penetration will only continue to rise in coming years and point out that the expansion of the VoIP market is likely to change the way businesses use their phones as much as individual consumers. For instance, under the fixed-line system, the company that initiates the call must pay for that connection, but there is no such established rule under VoIP connectivity, and instead the tab is picked up on a case-by-case basis, largely depending on how the recipient of the call decides to pick up the line in the first place.

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