Japan's telecom battles claims victim

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For the investors of Heisei Denden, it was as if the telecommunications industry was going to return to its heyday of the late 1990s. Yet the glitter used to attract shareholders could not keep the company from its demise.

"I went to their investors' party at a hotel in Ginza (a ritzy part of central Tokyo) just a few months ago, and it was really great," said one business executive who had been courted by the company to put money into the fixed-line and Internet service provider. "You would have never guessed they would fall so far."

The company had been calling for new subscribers for its shares as recently as Sept. 30. Yet late Monday Chief Executive Kenji Sato apologized while bowing deeply for the fact that the company had filed for bankruptcy protection amid $1.05 billion (120 billion yen) of debt.

The irony is that the Japanese stock market has been booming over the past few weeks, with the benchmark Nikkei average reaching a four-year high, while the bulls insist that the only way for share prices to move from here on out is up, given the steady recovery of the Japanese economy.

Yet while the overall market appears to be heading upwards, Heisei posted the second-largest bankruptcy filing in the country this year. Moreover, some of Japan's biggest corporations were vested in the company, including blue-chips such as electronics giant NEC and trading group Marubeni, clearly indicating that major shareholders and Heisei alike were confident about the company's future prospects and the overall telecommunications sector.

Still, the company that was founded in 1990 stated that increased competition in the industry both from within Japan and overseas was cutting into its profits, especially as rivals continued to slash prices. In addition, Heisei said in a news release that it ultimately was unable to win over subscribers from the competition who offered cheaper prices, even though the increasingly sophisticated networks required vast amounts of investments.

Certainly, deregulation of the telecommunications sector has made it easier for startup companies to enter a market that had hitherto been dominated by NTT, a former state-owned network provider. As a result, NTT and its affiliates had seen their market share decline soon after the telecommunications market was open to competition from other providers. In fact, Heisei Denden itself benefited from NTT's restructuring, as it was able to acquire some of the former giant's lines and offer flat-price calls nationwide from 2003 that was unheard of until then in Japan.

Yet with price cuts and extensive networks, in addition to deep pockets that have allowed solid spending in capital as well as research, long-established companies have been able to keep up profits while continuing to cut prices and maintain capital expenditure.

Such a feat, however, may be increasingly difficult for startups, according to some industry analysts. Indeed, Heisei Denden had plans to start up a wireless Internet service by November together with Dream Technologies, a mobile company, but that plan too has been scrapped with Heisei's demise. Meanwhile, the number of Heisei subscribers had continued to fall to nearly half its peak to about 59 million by the end of last year.

At the same time, some analysts have pointed out that Heisei's business practice itself was becoming increasingly shady as its fortune turned for the worse. At its latest public offering, the company had attracted about 19,000 individual investors largely because it was promising returns of a minimum of 10 percent. Such assurances by the company had come under investigation from Japan's Financial Service Authority.