

KDDI au Smart Pass



Unlimited access to mobile applications.

EXECUTIVE SUMMARY
<p>Customer Name: KDDI Industry: Telecommunications Location: Japan Number of Employees: 15,000 Number of Customers: 38 million</p>
<p>BUSINESS CHALLENGES</p> <ul style="list-style-type: none"> Remain relevant to consumers for access to mobile applications and content Grow revenue from mobile content and value-added services
<p>NETWORK SOLUTION</p> <ul style="list-style-type: none"> Subscribers have unlimited access to content library of 500 applications Content can be accessed through range of registered devices by all household members Enhanced au Smart Pass services include cloud storage, discounts, and mobile technical support
<p>BUSINESS RESULTS</p> <ul style="list-style-type: none"> Six million subscribers within 14 months of service introduction Ninety percent of KDDI customers purchasing smartphones subscribe to au Smart Pass

Overview

The KDDI au Smart Pass smartphone service offers subscribers unlimited access to a large library of applications and content that can be shared across multiple devices. The service enables KDDI to remain relevant to its customers while increasing revenue from mobile content and value-added services.

Service Innovation

KDDI, Japan's second largest mobile operator, launched the au Smart Pass application store for smartphone subscribers in March 2012. The service is not just a suite of applications but is a part of a broader strategy of content distribution. The initial au Smart Pass offering began with a suite of 500 applications, with about 10 to 20 applications being added each month (and the same amount being removed), depending on the quality and popularity of the applications. Au Smart Pass is offered on all Android and iOS devices.

Every subscriber has a unique ID for their data and content. The subscriber is then presented with two opt-in programs, au Smart Pass and au Smart Value. Au Smart Pass allows content to be accessed through a range of registered devices, while the Smart Value

proposition covers mobile and broadband packages for all members of the household.

KDDI has expanded au Smart Pass to include value-added services such as cloud storage, discounts and coupons, exclusive access to events and restaurants, and mobile technical support. Content offerings via the au Smart Pass include movies and magazines.

The au Smart Pass service features an easy-to-use interface that helps to lower barriers to adoption. First-time smartphone users can quickly familiarize themselves with the mobile applications and digital content offered on the service. KDDI also encourages users to vote on new service developments, user interface enhancements, and the introduction of new services.

Opportunities

In au Smart Pass, KDDI successfully implemented a service that leverages the Over the Top (OTT) players' strengths and derives revenue for both the operator and OTT provider. KDDI has also been able to add value to the OTT service by adding a range of functions such as multi-device access, storage, payments, and technical support. It is also offering subscribers exclusive access to concert tickets and restaurant reservations.

The au Smart Pass service enables KDDI to be in the strategic position of connecting a users' offline and online service experiences, allowing users to convert or further their digital activities into the real world. This capability provides KDDI with the means to differentiate against OTT players and grow its relevance to the consumer in terms of content and applications.

Challenges

KDDI must compete not only against dominant carrier NTT DoCoMo but also against OTT players that are attracting an increasing number of consumers to their service and content offerings. The growing popularity of OTT services can potentially diminish the role of mobile providers such as KDDI in content distribution, thus creating more churn and revenue reduction. If operators want to improve their content revenues, they must remain relevant to consumers, which is a key objective in KDDI's decision to launch au Smart Pass.

“We wanted to create a new content ecosystem between the consumer, the developer, and the carrier ... As a carrier, we wanted to drive the shift (to smartphones) by attracting new services and applications.”

— Kaz Shimizu, Overseas Development Manager, KDDI

Strategic Partnerships

Partnerships and collaborations are the foundation for the success of the au Smart Pass service. The three main types of partnerships include the following:

- **Developers and Publishers.** The core of the service, i.e., the suite of 500 applications, allows subscribers unlimited access to the most popular mobile applications on their smartphones. Developers are encouraged to utilize au Smart Pass as a new distribution channel because they receive about 80 to 90 percent of the revenue share. Gameloft, NHN, and Namco Bandai are examples of partners in this category.
- **Online to Offline Partners.** These partners enable KDDI to offer their subscribers exclusive access to restaurants, concerts, and events. This aspect of the service effectively bridges the offline and online worlds of the subscriber. Partners in this category include PIA, the Japanese ticketing agency.
- **Search and Advertising.** This new service allows users to search from their au Smart Pass home screen. Advertising is also expected to be available in the near future. MCN is a key partner for this aspect of the service.

Monetization

The au Smart Pass monetization model is subscription based. Users can sign up for the service for a fee of 390 Yen (US\$3.80) a month. Currently, KDDI offers the first month free and a monthly charge thereafter.

Au Smart Pass also opens channels to upsell digital content such as e-books, video, and music through specialized passes priced up to 590 Yen/month (around US\$6).

Success Metrics

The au Smart Pass service signed up over 400,000 subscribers within its first three weeks of launch. As of June 2013, the service had over six million subscribers. KDDI has stated that they should achieve break-even for the service when they reach four million users. KDDI has reported that the iOS version of the service has already surpassed the break-even point. The average number of downloads of applications has quadrupled since the launch of the service.

The au Smart Pass service has been successful in drawing in more smartphone subscribers as well as boosting value-added services average revenue per user (ARPU) from smartphone users. Eighty percent of new KDDI smartphone subscribers have opted for au Smart Pass, and in Q3 2012, KDDI announced that mobile VAS ARPU was 25 percent higher for smartphone users as compared to the average mobile subscriber.

For More Information

To find out more about the KDDI au Smart Pass service, go to <http://www.au.kddi.com/english/content/>.



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