

TV/Net Integration in Japan

By *UTADA Akihiro*

Digital Telecast Spurs Broadcast/Communications Fusion

According to a Japanese government decision, analog telecasting is scheduled to end in July 2011, to be completely replaced by digital telecasting. Terrestrial digital telecasting began in Japan in December 2003 in the three largest urban areas – Tokyo, Osaka and Nagoya – and spread to all prefectural capitals and vicinity by December 2006. The digitalization of telecasting is likely to further prompt the integration of broadcasting and communications, namely, the fusion of TV and the Internet.

It remains unsure whether Japan's plan for digital telecasting will proceed according to schedule. At present, digital telecasting can reach 84% of households. At the end of September 2007, 25.26 million digital TV sets, tuners, and cable TV sets have been put on the market, enough to cover more than a

third of the total number of households. Despite these figures, the number of households actually watching digital TV is probably smaller, taking into account the fact that some households have more than one TV, or do not use the digital TVs they have, or live in areas that cannot receive digital broadcasts.

In the United States, analog telecasting was scheduled to end in December 2006, but the deadline has been postponed. This was because of an agreement that analog broadcasting would end only when 85% of all households had digital TVs by the scheduled date, but ownership of digital TVs had not reached the targeted figure. The goal for a Japanese association promoting digital telecasting is for digital TV ownership to reach 100 million sets by 2011 when analog broadcasting ends. The association is taking an optimistic view, forecasting that as the date for terminating analog broadcasting draws near, dig-

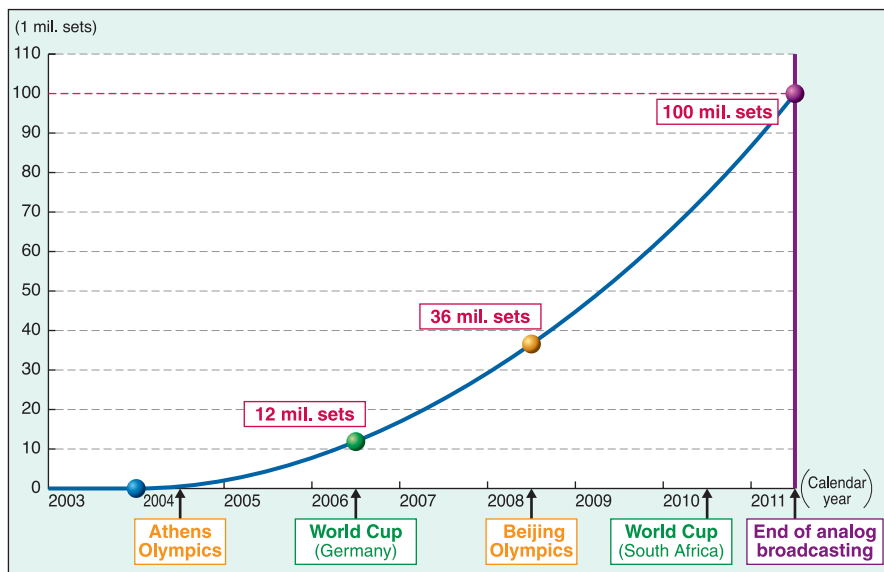
ital TV ownership will accelerate (*Chart 1*). However, it is the wealthy who first buy digital TVs, and there is no telling whether people not well off will buy receivers for digital telecasting in the next four years.

According to a survey report on terrestrial digital telecasting released by the Internal Affairs and Communications Ministry on June 14, 2005, only 20% of respondents said they would buy digital TVs once digital telecasting begins. Many said they would wait and see after digital telecasting begins or that they would buy when digital TVs become cheaper. In multiple replies, more than 20% of the respondents said either they will not buy digital TVs until their current TVs break down or they have no plans to buy yet. Therefore, the possibility lingers that if there are still many people who cannot watch digital telecasting by 2011, analog broadcasting cannot be terminated as scheduled.

On the other hand, the number of Internet broadband subscribers has grown, accounting for more than half of all Internet users in 2004 (*Chart 2* on the next page). Broadband subscription among households exceeded 50% in 2007. In January 2006, the government's IT Strategic Headquarters announced a New IT Reform Strategy, which had a subtitle envisioning "a society where anyone can enjoy the benefits of IT anywhere at any time." It also called for measures to complete broadband infrastructure such as an optical fiber network by fiscal 2010 and ensure no regions will be left without available broadband connections.

It would be inappropriate to remain unable to enjoy digital TV and the same can be said of people left out of broadband hookups in the future. Both are indispensable. Moves are underway to make digital telecasting available through optical fiber networks, further contributing to the integration of broadcasting and communications.

Chart 1 Roadmap for diffusion of terrestrial digital TVs



Source: "7th Action Plan for Promotion of Digital Broadcasting" unveiled on Dec. 1, 2006, by an association for promotion of terrestrial digital broadcasting, set up at the suggestion of an advisory panel to the Internal Affairs & Communications Ministry

Multichannel TV Making Slow Progress

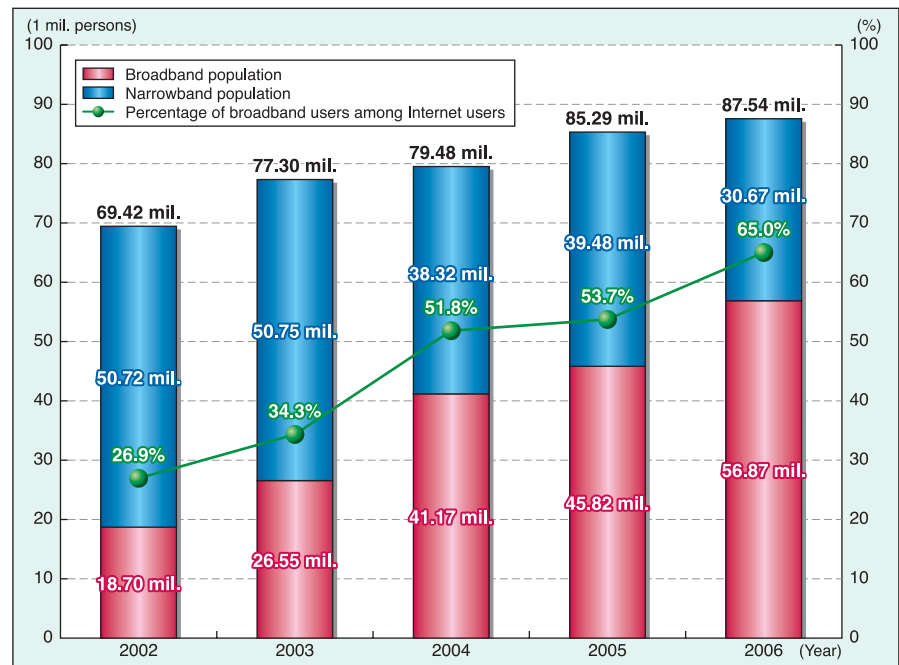
The big changes occurring on the border between broadcasting and communications are obvious when we look at advertisements for the latest personal computer models. At first glance, it is difficult to tell whether a newspaper ad is for TVs or for PCs since both now can come equipped with DVDs, hard discs (HDs), large screens and easy recording functions. There are times that we look at an ad believing it to be for a TV set and realize a moment later it is actually for a PC brand.

The integration of TV and PCs is taking place fast. TV broadcasts are becoming available on PCs, and TV sets are turning Internet terminals.

In the United States, the average household can view as many as 91 TV channels, but that is not the case in Japan. Free terrestrial broadcasting is provided on 22 channels in New York, 32 channels in London and 29 channels in Berlin. In a report released in March 2006, the Internal Affairs and Communications Ministry compared telecasting in Tokyo with that in Berlin, Rome, Seoul, London and New York, and noted that terrestrial broadcasting is available on more than 20 channels in all the foreign cities with the exception of Seoul. In Tokyo, which the report noted is “one of the cities with the largest number of channels for terrestrial broadcasting in Japan,” there are only six channels for free terrestrial telecasting, even when including UHF stations. (There also are NHK channels, but fees are charged for them.)

In Japan, about 280 channels exist for satellite broadcasting, including 100 digital radio channels. There are nearly 300 channels when terrestrial broadcasting and broadcast-satellite digital channels are added, but such

Chart 2 Estimated number of broadband/narrowband users (household members)



Source: “Survey of Current Status of Telecommunications 2006” by Internal Affairs & Communications Ministry

multichannel broadcasting is not as widespread as in the United States. While about 80% of American households subscribe to cable TV, only about 20% of all Japanese households have pay satellite multichannel TV or pay cable TV contracts.

Telecom Firms' TV Strategy

Particularly active viewers can't be satisfied with the limited number of channels with only a few variations in Japanese TV content. This is a market waiting to be tapped. The three major telecommunications groups – NTT, KDDI and Softbank – and cable TV companies have consequently started competing with one other in providing broadband services, selling a package of services comprising the Internet, fixed-line telephone and multichannel TV and costing less than ¥10,000.

These corporate groups, which have

gone through fierce mergers and acquisitions, now have their eyes on adding mobile phones to their services. In the future, they are likely to provide a wide spectrum of services ranging from on-demand videos, music distribution, shopping and auction services to various financial and settlement services. Coupled with the existing mechanisms of payment for monthly basic fees, call charges and content-viewing fees, TVs and mobile phones equipped with added functions such as account settlement services for shopping and financing are eventually expected to become something like virtual household ATMs, not only providing content but also serving as a powerful billing and settlement system.

In the United States, Apple Inc. has put on sale the wireless terminal “Apple TV” allowing users to download content to watch it replayed on

TV. Major Japanese movie-distributing sites such as *GyaO* and *Yahoo Doga* (Movies) also have started selling set-top boxes that connect Internet lines and TV so that users can watch the content of these sites on their TV screens. It is likely that competition will heat up in this genre of on-demand services permitting users to watch movies when they please. With technology in Internet transmission and compression becoming more sophisticated, more businesses are likely to come forward offering Internet content that can be enjoyed on the large TV screen.

TV Manufacturers' Strategy

TV manufacturers no longer regard TV sets simply as equipment to show TV programs. In electric appliance stores, numerous large-screen, high-precision digital TVs are on display. It is visibly obvious to anyone that progress is being made in the hardware aspect, but the content being shown on TV is also undergoing a steady transformation.

On February 1, 2007, major TV manufacturers jointly started a portal service for digital TV. Major electronics companies such as Matsushita Electric Industrial, Sony, Sharp, Toshiba and Hitachi set up a joint venture to operate a common TV portal site named *Actvila*. Movie distribution sites are provided as "channels," and users can watch Internet content on TV by simple manipulation of a remote controller. The joint company started the TV portal service for still images and text in February 2007, and began streaming video-on-demand service in the summer. In fiscal 2008, it will begin a new service enabling users to download movie content on their TVs. The TV set is fast becoming a device for showing Internet movie content.

When using the joint portal service, viewers will be allowed to access only inoffensive content selected for families. But the portal will be open for use to any content provider, which essentially means that the number of "channels" will be increased infinitely. Once having joined the portal site, a

content provider will have a chance to capture a large audience sitting in their living rooms.

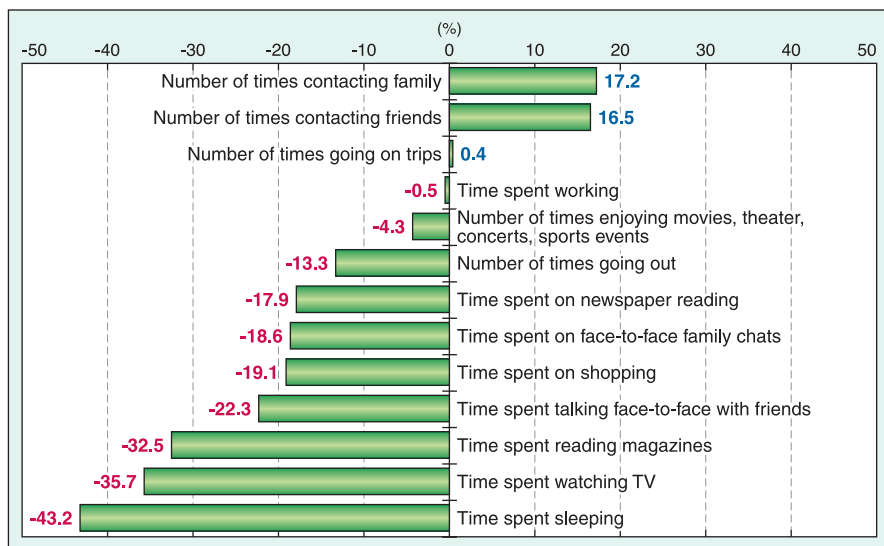
While many viewers in Japan currently have only seven regular TV channels available, this will all change in the future. The time will soon come when they will have access to an unlimited variety of video content in their living rooms.

TV Networks' Strategy

When it becomes standard for TVs to be connected to broadband services and for viewers to watch on-demand movies and programs, it is inevitable for terrestrial TV stations offering real-time broadcasting to lose their importance. Many people now say they no longer watch TV. We are busy with ever-increasing forms of media such as the Internet, mobile phones, music and games. It is clear from various surveys that the time people spend on TV viewing is falling. According to the 2005 government white paper "Information and Communications in Japan," people who said they spent less time watching TV than two years before outnumbered by 35% those who said their TV-viewing time had increased (*Chart 3*). The status of terrestrial TV networks has slipped, and will probably continue to do so in the future.

The Nomura Research Institute says nearly one in four users of HD recorders skips all TV commercials, with a majority of users skipping more than 80% of them. The institute estimates that companies lost a total of ¥54 billion in such unseen commercials in 2005. The ratio of households owning HD recorders was estimated at 15% that year, but the institute shocked the TV industry by predicting that the ownership would grow to 44% by 2009. Furthermore, 64% of the people surveyed said they spend more time on the Internet than before, and there were more people spending less time watching TV than those spending more time on TV, with the

Chart 3 Lifestyle changes brought about by Internet usage (compared with 2 years before)



Note: The numbers represent the percentage of people saying the frequency or time spent on an activity has increased minus that of those reporting decreases.

Source: "White Paper on Information and Communications in Japan 2005," Ministry of Internal Affairs & Communications

former category of people accounting for one in three.

In Japan, terrestrial TV stations are still powerful, but in the United States where multichannel cable TV subscriptions are widespread, major TV networks already face an uphill battle. The day will come when we look back at this age as a period when Japanese TV stations were enormously privileged due to the limited functions of TV sets. TV stations are increasingly pressed to provide content for use in movies and other applications, and advance into Internet services (Chart 4).

Why Japanese TV Industry Is Reluctant to Embrace Net

So far, Japanese TV stations have not been very enthusiastic about moving into Internet operations. In the United States, TV networks were reluctant to build broadcasting towers, and instead commissioned the distribution of TV programs to cable TV companies and other entities. As a result, the use of cable TV has become common. Also, the rights to TV programs have come to be held by Hollywood productions, and the major TV networks have drastically lost power. Since Japanese TV networks know what the US TV industry has gone through, they have tried hard not to lose their control on either the hard aspect (distribution) or the soft aspect (programs) of the business. The broadcast media is something they can easily control, and they are cautious about advancing into areas they are unfamiliar with. They have also guarded the rights to programs they have made. Hence it is difficult for production firms placed under the control of TV stations to independently produce programs.

The legal system of the Japanese broadcasting industry is another factor that hinders TV stations from aggressively moving into the Internet business. Broadcasting in Japan is undertaken on a prefectural basis and there

are limits to investment by TV stations to prevent them from exerting oligopolistic influence.

The broadcasting law is designed to ensure healthy development of democracy by protecting diversity and regional characteristics. Of course, it is technically possible for key TV stations to make nationwide broadcasts using the Internet or broadcast satellites, but this would threaten the position of regional stations. This is why key stations have been hesitant about providing their content nationwide through the Internet.

However, digitalization requires huge investment and, with multichannel TV service becoming available, it is no longer realistic to keep the principle of decentralization alive. Moves are therefore underway to ease restrictions on the TV industry.

Another reason why TV stations have been slow in starting Internet distribution is the complex system of rights to programs. To obtain the rights to music used in a program, for example, it has so far been necessary to negotiate separately with the composer, the lyricist, the singer and the musicians. Taking the time and effort to get all the rights has not appeared worthwhile considering the amount of revenue that can be obtained through Internet distribution. However, in December 2006, the copyright law was revised. For simultaneous redistribution of content on terrestrial digital TV and the Internet, it is no longer necessary to get approval from per-

Chart 4 The site of Dogatch founded by 5 Tokyo-based key TV stations and a major ad agency



Source : Dogatch (<http://dogatch.jp/>)

formers such as actors, directors and musicians or from those making the records. Just as with cable TV, the issue of rights can now be dealt with by paying compensation. Various TV stations have consequently set up portal sites for on-demand distribution.

Changes are clearly beginning to take place. It may have been a slow start, but from now on, the proliferation of broadband services will no doubt encourage TV stations to become more enthusiastic about distributing content via the Internet. **JS**

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