

Converting to Mega Content Provider Kadokawa Leads Publishing Industry's Shift

Interviewer: Shinichi KOIKE



Tatsuo Sato, President, Kadokawa Group Holdings Inc.

In Japan, bookselling has been sagging in value, **KADOKAWA GROUP HOLDINGS, INC.** with the downward trend in the proportion of regular readers of monthly and weekly magazines showing no signs of coming to a halt. The publishing industry's sales of both books and magazines reached their peak around 1997, and have since remained in a slump for more than a decade. On the other hand, publishers are boosting sales of novels and *manga* comics that are linked to the Internet and mobile phones. On top of this, they are faring well in sales of book-based video content. These represent the publishing industry's full-fledged foray into new business areas. Among a variety of publishers, it is Kadokawa Group Holdings Inc. that has indicated from early on what the publishing media should look like in the 21st century. It has been playing a leading role in converting the industry. Tatsuo Sato, president of the company, discussed its publishing strategy in a recent interview with *Japan SPOTLIGHT* at Kadokawa's head office in Tokyo.

Worries Are Common

Kadokawa Group has practically indicated what a new publishing industry should look like, wouldn't you say?

Sato: The publishing industry is now in the midst of a headwind. It peaked in 1996. Since the following year, this sector has sustained a downward trend constantly, with both books and magazines undeniably in the doldrums. To make matters worse, the four traditional major media sectors, including newspaper publishers and TV broadcasters, are confronted with an extremely tough situation in ad revenues. By stark contrast, the Internet is expanding its presence significantly and threatening magazines and books as an information-gathering instrument. If Kadokawa Group is to be described as "pioneering," that may be because our group does not stick to the publishing business alone and calls itself a "mega content provider."

Please tell us in detail what the mega content provider is.

Sato: Before long, we are going to see a world where all kinds of digitized content such as publications and videos are distributed on the Internet. The challenge for us is to what extent we will be able to respond to that. It goes without saying that we continue to think a great deal of traditional paper media. However, the crux is how far we can go in building up our physique in order to fare well in a wide variety of media fields such as videos and movies, and the Internet, let alone publishing. That is what the mega content provider should look like.

Last year, the International Federation of the Periodical Press (FIPP) held a general meeting in Tokyo. Participants discussed

how magazines should change during a symposium. In a lecture, Tsuguhiko Kadokawa, chairman of Kadokawa Group Holdings, pointed out that publishers in Japan, the United States and Europe have all but common worries. The direction they need to pursue in resolving such worries is the same; namely, to what extent they can change the editing shop-floor so as to clear the way for creating multiple content.

Rapid Rise in "Kadokawa Anime Channel" Hits

What specific measures have you taken to change the editing front?

Sato: Kadokawa Group has thus far implemented numerous steps on a trial basis. These measures include incubation within the group, M&A and business alliances. Besides, we have ventured into e-commerce in collaboration with a variety of companies. Meanwhile, we have more than 50 magazines on our product list. We have started trying to change all editing sites for these magazines into those for creating multi-content. For instance, we have set up our official page, Kadokawa Anime Channel, on the YouTube video contribution service site to offer *anime* and other video content (*Photo 1*). The channel is performing strongly with a huge number of hits from around the world.

What business areas are you prioritizing among those undertakings?

Sato: Basically, publishing is the core of our businesses. The biggest challenge is how best to realize collaboration between publishing and videos. We attach importance to publication-based story content. Based on this, we intend to focus on

multiplying story content in expanding our business in the fields of videos and movies.

With regard to videos, Kadokawa Group launched the movie business in 1976. We have made works of noted novelists such as Seishi Yokomizo and Jiro Akagawa into movies in an extension of our work to publish their books. Our company was listed on the Second Section of the Tokyo Stock Exchange in 1998 (and upgraded to the First Section in 2004). Now that the movie division has stood on its own feet, our group recognizes afresh that collaboration between publishing and movie production represents a classic yet new theme for us. How strongly we can emphasize such collaboration to the public seems to hold the key to our business performance.

Platform for Billing Needed

One of the problems facing Internet-linked businesses is what to do with the collection of viewing and advertising charges. How is Kadokawa Group responding to those questions?

Sato: As you pointed out, we have yet to complete a platform or a mechanism to collect charges and ad fees. Currently, the Internet looks like a lawless area where price remunerations cannot be fully secured. And there is no prospect for the present of making Internet-based operations profitable. However, it seems impossible to continue with a way of business in which content is distributed free of charge with ads attached. Accordingly, we should strive to set up a platform in which we will be able to adequately collect charges and protect copyrights. In this regard, the challenge facing us for now is to build up a model platform on our own to have viewers of our content pay compensation in proportion to a sort of respect they have for our work or to join hands with those who are building such platforms.

For instance, the possibility of creating a next-generation network (NGN) of telecommunications is emerging. Moreover, iPod, Nintendo DS, PSP and other game consoles have appeared in the marketplace. Assuming these gadgets will become available more widely, we intend to expand our activities in this area once a business environment is in place to permit adequate business accompanied by a practicable billing system. To this end, we intend to make preparations.

Kadokawa Shoten Publishing Co. was founded immediately after the end of World War II in 1945 with the prime aim of reconstructing Japanese culture through publication. Since then, it has successively published great books of literature and history. Publishing prowess is seen as Kadokawa's tradition. Meanwhile, the publishing world is in a period of major transition. How is your publishing strength being reflected in your business activities?

Sato: Years ago, Chairman Kadokawa set forth a policy of "changing time, changing publishing" when a paperback book series was launched. He expressed the view that publishing changes as the times change. In 1982 through 1983, Kadokawa Group launched magazines related to computer games, *anime*, TV

PHOTO 1

Photo: Kadokawa



Kadokawa Anime Channel on YouTube

information and town information one after another. That period represented "an age of magazines" for Kadokawa Group. In the meantime, however, originally as a publisher of national history and literature, we take good care of an "unchanging human mind." I believe it meaningless to pursue new forms alone without touching on unchanging aspects.

Opening Japanese Culture to the World

How do you assess the current state of the Japanese culture market?

Sato: I think that the level at which Japanese people understand and enjoy culture is very high. You may take Japanese culture for granted as you live in Japan. You may have quite a few experiences in realizing that Japan has a variety of stellar cultural assets only after Japanese *ukiyo-e* (woodblock prints), *manga* and *anime*, for instance, have won high appraisal abroad. For this very reason, what is most important for Japanese publishers and editors is to keep in touch with the general public and keep up with changes of the times. In this respect, it seems that Kadokawa Group traditionally has a sort of mindset to take good care of its own curiosity and set a precedent for venturing into new areas such as *anime* and computer games. Needless to say, publishers essentially need to have the sensitivity and mind to recognize what is happening today and what it means from a bird's-eye view.

This year marks the 150th anniversary of Japan's opening to the rest of the world. What is needed for today's Japan may be to humbly listen to the opinions of those who live outside Japan and who are well aware of the attractiveness of a wide array

of Japanese cultural assets. In other words, that may be interpreted as the opening of Japanese culture to the world, don't you think?

Sato: I think you are quite right. The Japanese publishing sector is not making enough efforts to get what is going on in Japan known abroad, nor is it good at working together with the government. Frankly speaking, I was surprised to know that Japanese publishers rarely consider how to send out Japanese-made content to the rest of the world. The so-called Galapagos phenomenon is applicable to Japanese publishing circles, too.

Protected by *hiragana* (phonetic characters) and *kanji* (Chinese characters), Japanese people to date have lived in the isolated area of peculiar culture. But digitized content easily goes beyond national borders. Now is the time for us to be firmly determined regarding to what extent we will go in engaging in international cultural activities.

For example, I have long worked around the computer game industry. I was wondering why major Japanese game machine makers such as Nintendo and Sony Computer Entertainment release new products in the United States in the first place, not in Japan.

Primary Focus on Asia

Kadokawa Group has set forth a strategy to put its primary importance on Asia, has it not?

Sato: In Asia, we publish the *Walker* town information paper in Taiwan and Hong Kong (Photo 2). Also, we have begun publishing "light novels" and comics. These business operations have now started yielding good results. On top of that, we are pushing forward plans to invite Chinese cartoonists to Japan so they will learn the essence of Japanese *manga* and to serialize *manga* both in Japan and China in partnership with Chinese publishers. We want to grow *manga* cartoonists who are capable of dispatching comics to the world. On that score, Kadokawa Group has now secured quite some presence in Asia (Photo 3).

PHOTO 2



Hong Kong version of "Walker" town information magazine (left) and Chinese edition of "Sgt. Keroro 4" comic DVD

PHOTO 3



How about your group's strategy toward the United States and Europe?

Sato: During the 1980s and 1990s, *anime* and computer game products dominated the European and US markets. This is mainly because there was a pattern that promised a success. Specifically, *manga* was animated and *anime* put into computer games while going on the air as TV programs. It would seem impossible to realize such a pattern in the Western world with one company going it alone. Some projects, including measures to prevent the spread of pirated copies, cannot be carried out unless aspirants work together with government support.

The Japanese publishing industry looks like it is undergoing a major realignment, does it not?

Sato: Obviously, existing systems have begun to fray around the edges, with big printing companies and bookstores taking measures to survive one after another. The whole picture of industrial realignment will get clearer from here on.

Synergetic Effects of Publishing & Videos

Please tell us what policy you have to nurture young subculture-loving editors who have grown up with Kadokawa Group's content.

Sato: We must have a mechanism in which we absorb and sublimate successes and failures of individual editors. The current age requires ideas and deeds that overturn conventional ways of publishing. Under such circumstances, I hope each editor will consider how to develop into those players who can carry through his or her role. For instance, Kadokawa Group is currently exploring the possibility of launching new Internet and video distribution businesses. We are planning to implement projects that convert these possibilities to actual businesses by investing money, human resources and things. Since January 2009, a strong

adverse wind has been blowing against us. Hence, it is extremely hard to say exciting projects are in the pipeline. But the raging headwind makes me hope all the more strongly that young people will take on ongoing changes as their own themes for challenge and use them as springboards to create new businesses.

On all accounts, traditional publishing will live on, and so will traditional movies. But no growth is expected if these businesses are being conducted separately. If we can lay the foundation for producing synergetic effects of publishing and videos and create an environment for sending out new content to the world, then further growth is possible. The question is how to make a great leap forward toward that goal. Our uphill struggle has just got under way. JS

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