

Anime Businesses Move Online to Survive the Pandemic



Author Roland Kelts

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Four years ago, the Japanese prime minister, Shinzo Abe, popped up on a podium in Rio de Janeiro cosplaying as Nintendo's most famous character, Super Mario. Wearing the eponymous Italian's signature bright red cape and cap and holding a crimson ball, Abe was a hit with fans at the stadium in Brazil and on social media around the world. The signal was sent that Japanese pop culture would be the global face of the 2020 Tokyo Olympic Games.

International anime hits such as the film *Your Name* and series like *Slam Dunk* and *One Piece* helped spawn an official Anime Tourism Association. Pilgrimages by fans to locations featured in anime programs soared in popularity. The Tokyo metropolitan government issued a new series of tourism posters and videos called "Old Meets New" – pairing icons of traditional Japan with world-famous pop culture figures such as Sanrio's Hello Kitty and the virtual anime singer Hatsune Miku.

The anime industry was anticipating a banner 2020. Together with record-breaking incoming tourism numbers that peaked at 32 million in 2019, the Olympics promised increases in production, live events, commercial tie-ins, merchandizing and sponsorship deals.

Instead, the Covid-19 pandemic forced the postponement of the Games and a dizzying drop of 99.9% in foreign visitors to Japan, according to the Japan National Tourism Organization (JNTO). Anime businesses both inside the country and overseas were radically transformed in a matter of months.

Exposed by Covid

The national government's first call to prohibit all large-scale events in February caused the cancellation of AnimeJapan 2020, the industry's only official yearly trade fair. Soon after, anime conventions in the United States and elsewhere also started dropping off the calendar.



Anime conventions worldwide were canceled this year, including Anime Expo in Los Angeles, the largest in North America.

For studios, most of the damage was sustained in the spring and early summer. After the government declared a national state of emergency in April, production schedules were delayed, domestic and global supply lines disrupted, and live events postponed or canceled, crippling merchandising sales. Studio recording sessions had to be scrapped over infection fears, and the shuttering of cinemas put theatrical releases on hold, drying up a key revenue stream for anime studios and investors.

In Japan, many traditional anime companies accustomed to having managers and staff work side-by-side at adjacent desks initially struggled to implement teleworking strategies. More digitally driven computer-generated imagery (CGI) studios, whose technologies theoretically make them better equipped for remote labor, faced an unexpected obstacle: their bandwidth levels were exceeded when employees at home tried to access company servers at the same time.

The anime industry has been plagued for years by a checklist of adverse conditions: long hours in cramped studios, razor-thin profit margins, domestic labor shortages and a reliance on public fan gatherings and box office sales. With the state of emergency, those adversities were exposed and exacerbated, forcing management to scramble for new business models.

Dozens of productions were suspended, including hit series like *Pokemon* and *My Hero Academia*, theatrical releases in the popular *Doraemon* and *Detective Conan* franchises, and even *Sazae-san*, the domestic drama that holds the Guinness World Record for the longest running animated series on broadcast TV.

In late April, Kumiko Okae, a veteran voice actress behind *Pokemon* and Studio Ghibli productions, died from pneumonia complications caused by the coronavirus, shocking the voice-acting community.

Animation studios in Japan are not like their mammoth corporate counterparts in the US – Disney, Pixar and DreamWorks. Most are chronically understaffed and overworked, qualifying at best as small and mid-sized businesses. Many are also independently operated, reliant upon collaborations with other studios at home and abroad.

Veteran anime business analyst and critic Tadashi Sudo, founder of industry trade site Anime! Anime!, identified the four major challenges facing Japanese studios in the throes of the pandemic: the disruption of supply lines with Asian partners and subsidiaries; the cancellation of live events and closure of cinemas; delays in domestic production due to teleworking; and the cancellation of voice-dubbing sessions. Of these, he said, the last was the most pressing.

"Dubbing is the biggest problem. Many anime voice actors gather together as a full cast in a highly congested space. They speak loudly to each other, filling the air. Some of those actors are elderly. We can try to change the system, but it will take a long time."

Adapt to the New Normal

Having actors appear one at a time to record their lines is standard procedure for many video game companies, Hollywood studios and the larger overseas animation producers. But booking solo recordings is costly. As Tokyo-based anime and manga translator Dan Kanemitsu said, it also produces different aesthetic results.

"The spontaneous interaction between the performers is lost when you have people come in one by one," he noted, contrasting anime with video games, where flowing dialogue between multiple characters is rare. "Anime voice actors also make a lot of money with their live performances. With this revenue stream disappearing, the situation is very difficult."

So difficult, in fact, that one voice actor, Megumi Ogata of *Evangelion* and *Yu-Gi-Oh* fame, tweeted a plea for understanding from impatient anime fans frustrated by delays: "It's amazing that anything is on the air," she wrote. "While the cuts are painful, we're working as hard as we can."

Japan's anime industry has been reluctant to embrace global standards in digital, computer-generated 3D imagery, adhering instead to a 2D model of visual art, much of it hand-drawn by employees crammed into tiny open-air cubicles, surviving on instant noodles and sometimes sleeping at their workstations. The environment is often as antiquated as company policy: working from home does not compute.

But Japan's few pioneering computer-generated anime studios faced their own unique limitation: bandwidth.

Seven years ago, Shuzo John Shiota, president and CEO of Polygon Pictures, the world's oldest computer-generated anime studio, became the first industry executive to ink co-production deals with Netflix. Through this spring and summer, Shiota said that his staff was operating at 70% to 80% capacity, but not without strain.

"Being digital natives gives us advantages working remotely," he said. "The advances in data compression allow us to do things that were inconceivable just a few years ago. But the pandemic has caused a premature jump. I am sure the 2D anime industries will look into adopting digital technologies and workflow faster now."



Shuzo John Shiota, president and CEO of Polygon Pictures, says his studio has reopened but more than half his staff still work from home.

Photo: Courtesy of Polygon Pictures

Embrace Life Online

More recently, there have been glimmers of hope. Jeff Wexler, who runs Kiyuki Inc., a Japan-based consultancy supporting several anime studios, including Ponoc, Ghibli and Mano Animation Studios, helped broker a deal to make all of Ghibli's films available worldwide via streaming services starting in the spring of this year.

The timing was fortuitous. Like other entertainment media, anime has surged on streaming platforms with homebound audiences.

Dedicated services like Sony's Funimation, Warnermedia's Crunchyroll and HIDIVE from Sentai Filmworks – the latter two having recently signed a distribution partnership – saw their spring and summer subscription numbers spike.

Crunchyroll surpassed the three million-subscriber mark in less than a year's time, after taking 10 years to reach one million. "We're fortunate to be in a business that provides entertainment and comfort during these times," said Joellen Ferrer, the company's vice president of communications and marketing. "We have experienced a noticeable uptick in users and engagement throughout the pandemic."

HIDIVE's founding CEO John Ledford of Sentai Filmworks called his streaming platform's subscriber growth "massive". "It blew our projections out of the water," he said. "Folks were stuck at home, and we are the most price-friendly site for anime on the market."

Sentai and other anime distributors sustained their biggest losses in physical sales, with the closure of retail giants like Walmart and Best Buy, and theatrical releases. For the *Made in Abyss: Dawn of the Deep Soul* anime movie, Ledford said, "We had over 1,000 theaters booked across America alone, and that all evaporated with Covid."



Photo: Photo by Noah Ledford

John Ledford, founder and CEO of Texas-based anime distributor Sentai Filmworks, says his company's streaming platform, HIDIVE, saw "massive growth" during the pandemic.

The Anime Option

With most live-action productions in film and television stalled over safety concerns, animated properties that can be created and produced with very little human-to-human contact have become an attractive content option. Larger mixed media streaming outlets like Netflix and HBO Max, whose debut in May included a content-sharing deal with Crunchyroll, are expanding their anime menus.

Los Angeles-based animation producer, writer and consultant Eric Calderon, who oversaw the international development of Takashi Okazaki's 2007 anime series *Afro Samurai*, said the number of inquiries he received from US entertainment executives skyrocketed this year. "People from the live-action world who have never made and know nothing about animation have called me asking about prices," he said. "The animation medium has been growing in audience acceptance for years, but the pandemic really accelerated the interest on the creative side."

The anime industry has survived national crises before, most notably during Japan's triple disasters of March 11, 2011. That disruption, according to Joseph Chou, founder of Sola Digital Arts, the computer-generated anime studio behind Netflix reboots of *Ultraman* and *Ghost in the Shell*, lasted only a month, and studios needed two to three months to resume production schedules.

Predictions that the coronavirus will continue to surge in waves caused Chou to worry about the industry's long-term capacity to survive. "We almost went under in 2011," he said. "It's like a speeding

train. You can't go from 100 miles per hour to zero, and then expect to get right back to 100 again."

But the post-2011 recovery, together with the slow but steady adoption of digitalization over the years and Japan's relatively light coronavirus caseload, may have strengthened domestic anime businesses, leaving them battle-tested and better prepared for the pandemic.

Japan's Post-2011 Resilience

By this autumn, studios had settled into a mix of staggered in-house working and teleworking schedules. Productions had resumed, and with the start of limited cinema seating, theatrical releases were being cautiously rolled out.

"We've reopened our studio since the end of the 'emergency' period," said Polygon's Shiota. "But more than half of our staff continues to work from home, or mostly from home. We've found that they work just as efficiently as they do in the office. We've also renovated our studio arrangement to allow for 'free address' seating, so that people can choose to work from home or the office, depending on their tasks. This type of flexible work arrangement that we discovered due to Covid-19 will be a permanent structure going forward."

Nippon TV (NTV) announced that it was launching a new division in October focusing solely on anime content – an unusual move for a major Japanese TV network – to compensate for uncertainties in live action film and television production and the resulting plunge in advertising revenue. Despite the strain of the pandemic, a growing number of start-up anime studios have increased the potential for another industry boom.

A network executive from NTV added that increased regulation and censorship had made the Chinese market less attractive, but the North American market continued to strengthen, especially for anime shows about friendship and overcoming challenges.

Analyst Sudo believes the industry is managing a remarkable comeback. "There will be a concentration of anime feature film releases at the end of this year," he said. While box office totals will inevitably be reduced, cinema operators and film distributors will take the brunt of the losses, not anime studios.



Photo: Courtesy of Polygon Pictures

Anime studios in Tokyo were empty during Japan's state of emergency in April.

Losing Live Spaces

Unfortunately, the pandemic's impact on anime conventions, *anisong* (anime soundtrack) concerts and other live performances has been more devastating and long lasting. Though adjustments are being made to conduct events and their related businesses online, the

drop in merchandising sales for producers and artists has in many cases been steep.

In Japan, Comic Market (Comiket) 98, the largest fan-artist convention in the world, with roughly half a million participants at each of its biannual summer and winter events, ran its first virtual convention, Air Comiket, from May 2 to 5.

Comiket emphasizes the print sales of artwork created by fans. For its Internet replacement, Air Comiket sold physical books through e-commerce sites featured on its livestream feed, recording 443,357 views over four days.

Online transactions were surprisingly brisk, according to translator Kanemitsu, a frequent Comiket participant. The overall demand for anime, manga and videogames in Japan has never been higher than it is now, he said, though it's being redirected through online portals. This explains the year's explosive success in Japan of VTubers, entertainers who livestream on YouTube with a computer-generated anime avatar, who have capitalized on the stay-at-home market.

"There's not as much new anime, and fans can't go to concerts or cosplay shows," Kanemitsu said. "So their passion is being channeled differently, through online and virtual platforms. People who were playing anime characters as VTubers filled the top ten list of fan donations through Super Chat," a service enabling viewers to contribute donations to entertainers while commenting on their YouTube streams. "That shows that the passion is still out there and probably even growing."

Online contributions also helped cover the year's costs for Comiket, whose organizers set up crowdfunding resources for both of its biannual editions. The virtual version, Air Comiket, attempted to replicate fan-artist interactions on Twitter, and physical manga books were sold through a variety of digital consignment shops.

Over the summer, Comiket announced that its winter event this December, Comiket 99, would also take place entirely online, together with a commemoration of its 45th anniversary.

A Global Convention Crash

Internationally, the 2020 anime convention season was decimated by the spread of the novel coronavirus. Hundreds of events held annually across the globe, from Paris to Seattle to Toronto and Sydney, most of which attract thousands of guests, were canceled or postponed.

Some conventions date back 30 years or more and have never before been scratched. Fans spend an entire year preparing for them, designing costumes, budgeting for travel, lodging, get-togethers and reunions. Hotels, halls, guests and vendor booths are booked months or even years in advance.

On We Run Anime Cons, a private Facebook group for convention organizers across the globe, the postings shifted from cheerful exuberance over big-name guests and cosplay contests to anxiety and dread over refunds and insurance policies. Group founder A. Jinnie McManus said that while canceling was clearly the right call in a public health crisis, it is never an easy one to make.

"It's a very heartbreaking choice, a difficult and emotional decision," she said, "forgoing a year's worth of planning and affecting thousands of people. Conventions are made up of a lot of moving pieces. Often they can't just simply cancel or shift dates."

Special guests, such as professional voice actors, anime artists, musicians and cosplay models, often rely on event appearances as a key source of income. Anime-related businesses large and small rent booths and sell merchandise, some of it produced exclusively for the convention site. A separate area is usually dedicated to independent fan artists, who lease and decorate stalls to market their wares.

For the smaller industry players, an entire season's worth of convention cancellations may be impossible to survive. "It is sobering to think of the domino effect this pandemic will have," said McManus. "Vendors, especially small businesses and fan artists, are among the hardest hit. Some events are making the decision to call off their 2020 convention knowing they'll likely never return as a result."

Tom Croom, CEO of the Orlando, Florida-based Green Mustard Entertainment, a producer of pop culture events that started as an anime club 20 years ago, described the scenario in harsh Darwinian terms.

"Conventions will either be strong enough to survive or smart enough to evolve, or they're just going to die out," he said. Of those that have scrapped this year's plans, "I'd be surprised if more than two-thirds of them return in 2021."

The legal term for permission to cancel is *force majeure*, a contract clause enabling all parties to walk away from their obligations in the face of a massive and unforeseeable event, such as a pandemic. It's a phrase on the lips of event organizers worldwide. Of the over 200 anime-dedicated events planned across the US in 2020, nearly all had to cancel or postpone, leaving tens of thousands of fans, dealers, distributors, volunteers and guests, not to mention hundreds of hospitality venues and transportation services, in the proverbial lurch.

In some ways, the summer conventions had it lucky. By the time the virus's continued spread became self-evident, two of the largest, Anime Expo in Los Angeles and Otakon in Washington, still had two months of lead-time to announce their decisions and make plans to host virtual events.

But last-minute cancellations saw many spring conventions scrambling to cut losses, and in some cases pay for them. Kansas' Naka-Kon was forced to pull the plug by local officials in mid-March, one day before opening its doors, with customers, performers and exhibitors from around the world already on site, pre-registering and checking in to hotel rooms.

According to Treasurer Takuya Jay Inoue, Naka-Kon could not recoup its pre-convention costs and may not survive another year. "The situation and the timing was the worst it could be," he said. "Not only the loss of income hurt, but we had everything set up and ready to go. For us, termination is definitely a possible outcome."

Virtual Survival

McManus tracked the experiences of convention runners nationwide. "Not all conventions have contracts that even allow for government intervention," she said. "In some places, that's seen as 'big government', so it isn't acceptable. There are conventions in the US that have spent thousands of dollars to cancel their own event."

Many US providers dropped pandemic insurance coverage as early as January, a maneuver that stranded service industry businesses, and left some conventions with no recourse but to hold a limited version of their show, or fight even harder to shut it down.

Anime conventions are now finding a new normalcy online. In a matter of months, virtual events have become practically *de rigueur* in the anime industry, partly to engage with its community of supportive fans, but also, to a lesser extent, sustain the commercial branding and sales of its companies.

Nevertheless, coordinating a virtual convention is uncharted territory for most event runners, and presenting one effectively involves having technical skills and hiring third-party operatives to augment a convention's in-house staff.

Otakon Online hosted 45 hours of programming on six streaming channels over the course of a single day in August, including live streams from Japan. They used Twitch to deliver video, and a cloud-based production site called Stage Ten, reaching more than 61,000 live views.

Anime Expo's Ray Chiang, CEO of the nonprofit company Society for the Promotion of Japanese Animation (SPJA), started thinking about canceling his physical event in February, when the SPJA's biannual industry gathering, Project Anime Tokyo, was shuttered.

"Profit and income were already out of the equation," he said. "What we cared about was relevancy, engaging with our fans and educating the public about the industry. A virtual digital platform was our only option."

The digital replacement, Anime Expo Lite, recorded more than 500,000 views from 70 countries and territories. Roughly half of Anime Expo's ticketed fans rolled their purchases over to the 2021 event, and, more significantly, 80% of its exhibitors have committed to returning next year.

Anime NYC is exploring similar options, but there are hitches. Fans are showing signs of "Zoom fatigue" – a growing weariness with anything online that resembles yet another conference call.

Also, one of the biggest challenges has been converting high viewership numbers into online purchases. Convention exhibitors and dealers are seeing a fraction of their usual sales from this year's virtual events.

Anime NYC founder and Show Director Peter Tatara of LeftField Media said that after a summer of virtual events, it's time to have conversations across the industry about what works and what doesn't. "The initial approach was to just take what's on the floor and put it on the Internet," he said. "But the reality is that people don't experience both the same way. Revenue for artists and distributors has been pennies compared to what they'd get at a physical show."

In the events business, anime conventions face an additional hurdle: many have become so reliant upon guests from Japan that even if Covid-19 is managed domestically in the US, international travel restrictions and reluctance may hamper future live shows. For both creators and fans, the future of anime will be found online – where innovation is still sorely needed.

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