

No Interest in Buying TV Companies

– At Epicenter of M&A Rush, Yahoo Japan Keeps Its Cool –

Interviewer: Onishi Daisuke

THE Internet industry and broadcasting stations have now become the epicenter of the merger and acquisition (M&A) market in Japan. No sooner had Internet company livedoor and Fuji Television Network fought their battle over radio broadcaster Nippon Broadcasting System, online shopping mall operator Rakuten made a surprise announcement that it had acquired a huge amount of shares in Tokyo Broadcasting System and went on to offer a merger proposal. While the two Internet companies justified their M&A strategy on the grounds of “integrating the Internet and broadcasting services,” Yahoo! Japan, the largest Internet portal in Japan, has chosen to stand apart from these business rivals. Instead of getting too involved with one single TV station, it has adopted a sort of omnidirectional diplomacy. Inoue Masahiro, President and CEO of Yahoo Japan, discusses the company’s strategy.

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“Stay Neutral, Get as Many TV Programs as Possible”

Your rivals in the Internet business have been trying to buy up broadcasting companies. Why does Yahoo Japan adopt a completely different strategy?

Inoue: We have no interest in acquiring a specific broadcasting company. From the users’ point of view, I think everyone wants to watch various programs on different TV stations. If we acquire one particular TV station, we would become a competitor with other TV stations and would be unable to obtain plenty of interesting programs for our users. I think it is in our best interest to stay as neutral as possible. We already have business ties with various TV networks and we are gradually offering something entertaining to our users, such as collaborating TV programs with websites.

How do you regard the move by livedoor and Rakuten which are trying to force a linkup with a particular TV company through M&As? Some people think they were trying to catch up with your company, the industry leader, by acquiring a TV station.

Inoue: If they want to outpace us, they need to attract people to access their website. If they fail to achieve, one obvious strategy in this age of expanding Internet business is to borrow the strength of TV, which has a wide range of viewers. However, from the viewpoint of a TV company, there is little merit in binding itself to one particular Internet business partner. If we run TV programs on the Internet, it would be wiser to circulate them on various websites. Since we attract lots of Internet users, some people obviously think it would be a good idea to join hands with us.

“‘Broadcasting / Telecommunications Marriage’ – a Fuzzy Concept”

What do you think of the idea of integrating broadcasting and telecommunications services, and what sort of image do you have in mind?

Inoue: I just do not understand the meaning of “integrating broadcasting and telecommunications services.” Broadcasting, of course, means transmitting information to a vast number of recipients all at once using radio waves. Telecommunications means transmitting information back and forth between two points using phone lines or fiberoptic cables. I have no idea what it means to realize a marriage of broadcasting and telecommunications services. Would running TV programs on the Internet constitute such a marriage? I do not know. Instead of talking about integration, I think we first ought to talk about what our users actually want. If integration means merging an Internet business with a TV company, then such an approach has already failed in the United States, as was shown in the case of Time Warner and America Online (AOL). TV broadcasting is becoming increasingly interactive, with or without the Internet. It is difficult to see how an Internet company and a TV broadcasting company could merge as a business concern.

What is Yahoo Japan’s strategy for working with TV companies?

Inoue: We have been doing a lot of things together without going into this who-buys-who business. The opportunity for (high-speed, large-volume) broadband service is widely available now in terms of hardware, enabling us to run music and movies on the Internet. Japan has become one of the top countries in broadband infrastructure. Actually, the Internet business has not limited itself to



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merely running TV programs these days. There are a number of example of synergy-creating collaboration between Internet companies and TV broadcasters who have broadened their respective customer bases just by going about their own business. Running content associated with TV dramas and other TV programs on the Internet has made things more interesting, and I think this is one way to go.

It seems that various TV companies are all suddenly trying to do the same thing.

Inoue: Well, we have been talking about this for a while as potential business projects. As broadband service has become common and the number of users has increased in a big way, an increasing number of people are playing with the Internet while watching TV. From the viewpoint of TV stations, the Internet has obviously expanded to a desirable size.

Will Yahoo Japan go in for independent content production, like creating its own movies and news programs?

Inoue: We try not to produce our own content as much as possible. I think it is a good policy not to compete with the media and other content-providing companies. In the content production field, there are lots of things to cover, and we do not have enough human talent as well.

There are moves to link up Internet advertising and TV commercials. What is your view on this?

Inoue: I do not see much need to link Internet ads to TV. The objective of a commercial is to promote awareness of a company or its products. There are people in the advertising industry who think the most effective way to get the message out is to skillfully assign an advertising budget to four major media: TV, newspapers, magazines and radio. I think the way to go is to add the Internet to the mix, and channel advertising money into the five media categories. Instead of putting all commercials on the Internet, I think it is more effective to advertise through other media as well. It is not necessary to duplicate a TV commercial on the Internet because you can do different things with Internet ads. A TV commercial should aim at the effect of visual motion on the entire screen as well as sound. As the Internet is still mostly used in an office environment, it would be ill advised to add sound to the ad. Unlike a TV commercial, an Internet ad should make use of its ability to display information in depth.

“Three Choices of Strategy to Pick for Growth”

The Internet industry seems to be making a major effort to expand business through M&As. On this particular point, it looks as if Yahoo Japan is trying to keep a low profile.

Inoue: I would not deny that M&As are an important tool for expanding a company. Yahoo Japan always keeps three strategies in mind when we branch into a new business. One is M&As. To be sure, M&As give you a short cut in terms of time, but they cost money. The two other strategies involve doing things all by yourself and linking up with a third party. We decide which strategy to take by considering the type of business we want to get into. The biggest headache about M&As is to find the right target company. If you are a big company, it is difficult to find the right company to buy or a company that you can afford to buy. Neither Yahoo Japan nor (its parent company) SOFTBANK has ever been involved in a hostile takeover. The problem is (even if you can pull it off) it would be terrible if the merged companies cannot get along well with each other afterward.

When it comes to Internet shopping, you have allowed Rakuten to take the top spot.

Inoue: The battle is still on, and we are pushing ahead. The biggest problem our Internet shopping mall faces is that we do not have the product range that Rakuten has. You can hardly compete if consumers cannot buy at Yahoo Japan what they can get at Rakuten. We have to change this situation. Competition will get underway after the number of stores goes up on our site. You can then offer better prices and better services, and this will suit the consumer well. Take clothing for instance. Few consumers will be content to shop from only one store. Instead of joining hands with one single company, we would like to offer our services acting as a medium or contact point between multiple consumers and multiple stores.

How are you proceeding with your online financial business?

Inoue: What we want to focus on in our Internet bank (a venture set up jointly with Aozora Trust Bank) is the settlement of online transactions. We have no plans to engage in other types of banking business such as expanding lending to small and medium-sized businesses. The other type of financial product we are involved in is the life/non-life insurance agency business and the securities agent business to enable users to open accounts. We had better leave it to experts to handle the difficult job of developing new financial products. Advertising is a main business pillar at Yahoo Japan. To go into other businesses would involve competition with our advertisers; so it is necessary to make a separate decision for each business sector. As spending on advertising has increased in a big way in the financial business, we will try to avoid competing with clients who place advertisements on our site.

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