

“The Marriage” of Broadcasts & Mobile Phones – Investing in Toy Makers to Strengthen Content –

Interviewer: Kitamoto Ichiro

Index Corporation is Japan's largest provider of mobile phone content such as ring tone melodies and e-commerce sites. Looking ahead in this age of broadcasting telecommunications integration, the company has successively taken strategic measures aimed at the “marriage” of broadcasts and mobile phones. Specifically, it has formed a capital alliance with four key commercial TV networks to bolster its links with most of Japan's major commercial broadcasters. In a surprise move, it has also announced a plan to become the largest stockholder in the holding company of two big toy manufacturers – Takara and Tomy – with the aim of ensuring the inclusion of a variety of characters in its content business. The founder and chairman of Index, Ochiai Masami, speaks about the company's strategy.



Photo: Index Corporation

TV Networks' Invest in Index to Enhance Ties

Index has allotted ¥20.5 billion in new shares to four commercial broadcasters – Fuji Television Network, Tokyo Broadcasting System (TBS), Nippon Television Network (NTV) and TV Asahi –, CS broadcaster SKY Perfect Communications and two publishing companies. What is the main purpose of the capital increase?

Ochiai: We made the decision mainly because terrestrial digital broadcasting for mobile phones is to start next spring. The memory capacity of mobile phone handsets will expand immensely with the introduction of models with hard disks. Such a development will put TV networks' sites in an extremely strong position among websites for mobile phones. The latest capital increase stems from our efforts to get ready for the advent of a giant memory-capacity age. We sought investment from major broadcasters across the board with the primary aim of bolstering cooperative links with them. From now on, we will undertake a variety of joint projects. It was the perfect timing because broadcasters are increasingly intent on forming alliances with IT businesses, which are rich in technologies for using mobile phone content. The latest move has also been prompted by Internet



portal site operator livedoor's attempt to take over radio network Nippon Broadcasting System (NBS), citing the “convergence of broadcasts and telecommunications” as its main purpose. Its initiative has made TV stations more proactive about the integration of broadcasting, the Internet and mobile phones.

Index is to hold shares in Fuji TV and TBS as well. What are the circumstances behind the cross-shareholdings?

Ochiai: This has been triggered largely by the takeover battle between Fuji TV and livedoor for NBS. Livedoor at one

stage eyed taking over Fuji TV beyond its initial intent to acquire NBS, making Fuji strongly nervous. As part of the efforts to fend off the takeover bid, Fuji proposed a cross-shareholding with our company. A similar offer came from TBS as well, which tends to be the target of takeover bids because of its limited number of “stable” stakeholders. Originally, Index formed capital alliances with Fuji and TV Asahi in 2000 before we went public. We thought it would be difficult to enter into capital alliances with their rival broadcasters – TBS and NTV, but livedoor's takeover bid raised strong concerns among broadcasters as a whole, making it easier for us to strike capital linkup deals with all four key TV networks.

Tie-ups with Terrestrial Digital Broadcasting

Specifically speaking, what kinds of new services are you going to offer?

Ochiai: We are thinking of links between terrestrial digital broadcasting and mobile phone sites. We will work out the specifics with each broadcaster. For instance, although I cannot reveal details, Mercurio, a joint venture we set up with Fuji TV in April is trying to develop services that will allow viewers to interactively participate in TV programs via their mobile phones. Index

Photos : Index Corporation



A mobile phone remote control service for TV (left). Index has also developed a translation device for dogs in cooperation with a toy manufacturer and a mobile phone company

has acquired the right to distribute video images of the 2006 Soccer World Cup games through mobile phones in Japan, which almost timed to coincide with the launch of terrestrial digital broadcasting for mobile phones. We are holding talks with TV broadcasters who will air World Cup programs with a view to linking the distribution of highlight scenes and TV broadcasting. Within several years, TV stations may start directly distributing video images for mobile phones, which will be charged with an e-money system called “OsaiFu Keitai” or Wallet Phone service. The integration of broadcasting and telecommunications will progress steadily.

In addition to major TV stations based in Tokyo, there are numerous local TV stations in Japan. Are you planning to team up with those stations as well?

Ochiai: We are receiving a great number of inquiries from local stations and our staff are responding to requests from various parts of the country. Financially feeble local stations face the problem of raising the huge amount of investment required for the switchover to terrestrial digital broadcasting. They strongly hope to recover the investment as much as possible by developing and offering new services. The mobile phone, I believe, holds the key to meeting their demands because it has a high affinity with TV broadcasting. Compared with Internet content for personal computers, the mobile phone makes it easier for service providers to collect subscription fees,

thus widening the scope of new business areas. You can easily calculate the profits accruing from mobile phone services. We have already begun cooperating with local TV stations to create mobile phone sites. I see the big possibility of succeeding in the area of terrestrial digital broadcasting if we make full use of local tourism and other information.

Active Use of Popular Characters

You have decided to become the largest stakeholder in the holding company to be created by Takara and Tomy in March 2006, which belong to a different industrial sector. What is the main aim of the decision?

Ochiai: Among content providers for mobile phones, there are numerous affiliated companies having powerful content, such as Bandai’s subsidiary Bandai Networks. Meanwhile, independent firms like us and Cybird have yet to acquire enough content. Initially, we had no business relations with content providers. So we proposed mobile phone-based new business plans to TV stations to develop and secure a full lineup of content. Forming capital alliances with TV stations is one way to make sure of their content, but we also would like to form strong ties with toy manufacturers, who possess a lot of popular characters. We intend to actively use such popular

characters as the “Licca-chan” doll and the “Choro-Q” miniature car of Takara and Tomy for mobile phone content. At the same time, we plan to jointly develop new characters and IT-based toys. The merger between Takara and Tomy creates the nation’s largest toymaker. By solidifying on base, we intend to develop into a content conglomerate through the acquisition of game providers.

World Regional Holding Companies Eyed

Index is pushing global operations in the field of mobile phone content.

Ochiai: In Europe, we have acquired mobile content provider 123 Multimedia and a French soccer team as well. In China, we have bought two content providers, including Shenzhen Skyinfo Telecom Technology. Japan has led other countries in the advanced utilization of mobile phones, but the application of mobile phones is spreading widely on a global basis. While the growth of mobile content has begun to slacken in Japan, growth potential is still strong in the rest of the world. The number of mobile content providers is increasing abroad, and some US venture businesses are trying to boost ties with Hollywood film studios and major music labels. Content providers are now locked in a fierce competition on a global scale to secure mobile content. Under such circumstances, we intend to bolster our international foundation. To achieve this goal, it is important to provide content that suits local needs because these differ by region. It is no easy task to work out region-by-region strategies in Tokyo. We are therefore planning to set up regional headquarters and decentralize our authority from now on. **JS**

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