

A Sea-Change

In fiscal 1996, for the second year in a row, the rapidly expanding mobile telecommunications market fueled overall growth in the electronic communications industry.

Growth in the conventional telephone market, which accounts for the lion's share of total traffic, has been stifled by lowered rates. But the explosive surge in the mobile communications market has pulled the rest of the industry up with it, producing overall projected growth of 10%. Total fiscal 1996 sales by category I electronic communications enterprises is estimated at ¥11.86 trillion, an 18% increase over the previous fiscal year (see graph).

An open battle

On the domestic front, players in the long-distance telecommunications market continue to fight over their share of the finite pie, and prices will continue to fall. Long-distance companies are offering businesses deep-discount services of 20-25% off with payment of a fixed fee. And in October 1996, category II electronic communications enterprises without infrastructure were able to take advantage of the dismantling of the public telephone service monopoly. Their entry into the long distance domestic market is expected to prompt further erosion of phone rates.

The cellular telephone market has attracted increasing numbers of customers over the past few years. This momentum continued throughout fiscal 1996, with over 16.91 million portable telephones in use by the end of November 1996. PHS (personal handy phone system) services, first offered in July 1995, initially had difficulty competing with portable telephones, but have gained large numbers of users since February 1996. PHS makers increased sales incentives to dealers which were reflected in lower retail terminal prices, which, in turn, attracted new customers. At the end of November 1996, PHS service users numbered 4.62 million. The combined number of PHS and cellular phone units now tops 20 million, firmly establishing mobile communications as a means of communication for individuals that ranks alongside that of the 60 mil-

lion conventional phones in current use. Profits by mobile telecommunications businesses, particularly among relative late-comers to the market, are being squeezed by the cost of capital investment for digitalization and expansion of usage capacity, sales incentives, and reduced per-customer rates due to price wars.

The international telecommunications market is seeing double-digit growth due to heavy demand for international communications with Asia. Lower phone rates and the introduction of bulk discount services for businesses are cutting profits, however. Although phone rates have already fallen dramatically, calls originating in Japan are still more expensive than those originating from abroad, putting further downward pressure on phone rates. An AT&T subsidiary, for example, has taken advantage of this price differential to launch its own discount international telecommunications service from November 1996.

The electronic telecommunications industry is thus seeing an expanding market, but also the development of cut-throat price competition in all market segments except the local conventional phone market.

Ad revenue cited

In fiscal 1996, the broadcasting industry was expected to have continued to expand for the second year in a row. This smooth market growth is fueled by strong advertisement revenues generated by non-satellite private broadcasting stations, which comprise three-fourths of the industry.

Japan's broadcasting industry owes its growing revenue and profits to steady advertisement revenue generated by the non-satellite broadcasting industry, and the fact that the industry is dominated by several large players, in contrast to the electric telecommunication market. By the end of fiscal 1995, the industry was an over-¥3 trillion market, with ¥3,383 billion (up 6.2% from the previous year) including satellite broadcasting and cable television.

Although some market segments hit



Lower terminal prices sees to speedy increase in number of mobile telecommunications subscribers.

hard times in fiscal 1996, the overall market was expected to have continued to produce higher revenues and profits because of strong growth in non-satellite private broadcasting stations. Key stations in non-satellite TV broadcasting will see record business revenues.

In fiscal 1995, the emerging markets of satellite broadcasting and cable TV saw two-digit growth both in numbers of new customers and in business revenues. Although these are small markets, they are expected to become influential multimedia players. BS satellite broadcasting reached 10.07 million viewers by the end of November 1996 as the business topped its 10 million customer mark.

Year of digitalization

1996 was a year of massive transformations in the structure of the electronic telecommunications and broadcasting industries.

In the electronic telecommunications industry, 14 years of negotiations culminated in an agreement reached in December 1996 to break up, reorganize and reformulate the management of NTT, Japan's largest telecommunications company. Also in 1996, the rapid growth of the Internet as a leading

telecommunications tool shook up the telecommunications infrastructure, as symbolized by the initiation of NTT's Open Computer Network Services (OCN) in December. In the field of broadcasting, 1996 marked the first year of digitalization and internationalization.

Under the new agreement, NTT will be split up and reorganized into three smaller companies—a long distance telecommunications company and two local telecommunications companies, one for Eastern Japan and the other for Western Japan—all housed within NTT as a pure holding company. This agreement allows the company to remain competitive in the international arena in the face of revitalized telecommunications businesses abroad. Greater competition among local telecommunications companies, however, must wait for the Ministry of Posts and Telecommunications to draw up new point-of-interface rules on phone lines. Other hurdles include the fact that a pure holding company is not yet an established entity in Japan, and requires special exemptions under the current tax system.

The Internet, accessed worldwide by about 130 million users, is estimated to have over 5 million users in Japan, most

of them dialing up from home. By the end of August 1996, there were over 1,100 service providers in Japan. Prodded by the establishment of NTT's OCN, more and more Category I electronic telecommunications businesses are drawing up plans to get into the Internet business. These capital-rich businesses are expected to become central players in the establishment of new data telecommunication network services.

In broadcasting, PerfecTV, managed by four trading companies, has become the first digital multi-channel broadcasting company in Japan, initiating a 70-channel broadcasting service through telecommunications satellites in October 1996. In 1997, several other companies plan to launch their own digital multi-channel broadcasting services, each with 100 or more channels, including DirecTV Japan to be operated by Hughes Corporation and the rental video business Culture Convenience Club, and JskyB by News Corporation and Softbank.

Global media king Rupert Murdoch's indirect purchase of 21.4% of TV Asahi's stocks and his announcement that he would participate in Japan's non-satellite private broadcasting indus-

try dealt a symbolic blow to the formerly insular domestic broadcasting industry. Murdoch's purchase was a "black ship" of international media capital for this segment of the industry, whose stocks have long been held by a stable group of domestic shareholders. (*News Corp. and Softbank Corp. announced in March that they would sell all their Softbank/News Corp. Media Co. stock in TV Asahi to Asahi Shimbun Publishing Co.)

In 1997, the rapidly expanding mobile telecommunications market may see slower net growth as the number of cancelling customers increases. Of key importance, then, will be the ability of these companies to retain their current customers. PHS services must also differentiate themselves from portable phone services by developing their capacity to send data faster.

The internationalization and digitalization of the broadcasting industry is part of a worldwide trend. Lowered barriers to market entrance will undoubtedly transform Japan's market from one dominated by a small number of players to an internationally competitive market.

Since its initiation last October, PerfecTV has attracted a variety of businesses from a diverse array of industries, from newspapers and transportation companies, to amusement industries such as electronic games and *karaoke*, and English conversation schools and cram schools.

Finally, home televisions and computer monitors have increasing access to digital media such as the Internet, computer networking, television games, and CD-ROMs. Because there is a limit to the number of hours per day that an individual will spend at a TV monitor, we can expect that competition over viewing share by various media will become increasingly fierce.

Japan's information and communications industry has entered a highly competitive era. The times require businesses to be able to provide not so much the infrastructural services as specialized and well-differentiated goods and services to customers.

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