Warner-Pioneer: Record Business

By Takashi Suetsune

American criticism of Japan over trade and economic problems is reaching an alarming new pitch, with even the "mercantilist" mentality, social systems and cultural traditions of Japan becoming targets of complaints. Some Americans go so far as to assert, perhaps half-jokingly, that the Japanese language itself is a "nontariff barrier" at the root of the "Japan Problem" and that it is obstructing Japan's internationalization.

Behind such criticism is, of course, the enormous trade imbalance in Japan's favor in merchandise trade between the two countries. It is hardly surprising, therefore, that most of the problems in bilateral trade are laid at Japan's doorstep.

But the overall trade gap is to sectoral trade imbalances what the forest is to the trees. It is often forgotten that the United States is running very strong surpluses in certain sectors of bilateral trade.

A case in point is the recorded music industry. This is one area the United States dominates; yet Japan is hardly in a position to complain, still less counterattack. The reason for this is simple: All U.S. records of popular songs are sung in English. Japanese translations or adaptations will not do. English is the essence of the product. Japan is no match for the United States in the so-called "Western record" market here. Indeed, direct competition is largely irrelevant.

Last year. sales in Japan of audio records reached ¥342.9 billion ($2.45 billion at the rate of ¥140/$), with foreign records accounting for 28%. Of these Western records, 25% originated in the United States. Exports of Japanese records to the United States are negligible. The bilateral trade in this particular area is far and away in America's favor. Thus, in striking contrast to its overall trade deficit with Japan, the United States maintains an unshakable advantage in the Japanese record market.

Warner-Pioneer Corporation, which has an office in the Aoyama district of Tokyo, is a wholly owned U.S. subsidiary selling American records in Japan. The company is now headed by a Japanese–Tokugen Yamamoto, 62, who joined it as managing director 10 years ago. The parent company, the Warner Group, was the first major foreign record-producing firm to set up a wholly owned subsidiary in Japan. But Warner-Pioneer started in 1970 as a joint venture, as its name suggests, with Warner holding a 50% stake and Pioneer and other Japanese interests chipping in the rest of the capital.

A capital tie-up was the only feasible option open to the Warner Group at the time, because foreign firms were prohibited by Japanese law from establishing wholly owned subsidiaries in Japan. Later, however, the capital ratio was changed to 51% for Warner and 49% for Pioneer as domestic restrictions on foreign direct investment were eased. In April of this year the Warner Group acquired all of Pioneer's shares in the joint venture, thus taking complete control of it.

It is interesting to note that around that time in the United States, Time Inc. and the Warner Group were moving toward their merger. The attempt, of course, was a hot topic in the media because it came at a time when the media industries including the entertainment industry were being reorganized on a global scale. And there were fears that the U.S. entertainment industry might be taken over by European interests.

Entertainment giant

Such fears proved unfounded, however, as the much-touted merger between Time and Warner materialized on July 31. The megamerger pushed up combined sales of the Time-Warner group to $8.7 billion, making it the world's largest media and entertainment business conglomerate. Of course, the group ranked first in record sales as well.

Seen in this context, the acquisition of


Warner-Pioneer President Tokugen Yamamoto

the Pioneer stake by the Warner Group would seem to have something to do with the Time-Warner consolidation. But Warner-Pioneer President Yamamoto dismisses speculation that the birth of a wholly owned Warner subsidiary in Japan is part of the group's global marketing strategy. Yet the fact remains that competition in the foreign record market here is hotting up.

One-and-a-half years ago, Sony Corp. purchased CBS Records, a rival to Warner. The move naturally was a matter of keen concern to Warner-Pioneer, which held a large share of the Japanese foreign record market. In fact, Warner-Pioneer purchased Alpha Moon, a record company based in Japan, around the same time that Warner acquired the remainder of Pioneer's stake in the joint venture.

In addition, the Warner Group set up a new company, WEA Music, which is scheduled to start operations in November. Thus the group now has three subsidiaries in Japan. Obviously, its strategy here is to expand its share of the foreign record market through these companies.

Yamamoto brushes aside speculation that Warner-Pioneer's share might be reduced as a result of the entry of two new subsidiaries. "On a company-by-

company basis that may be possible, but we'll be responsible for sales of all three companies," he says. "So on a consolidated basis our share will increase, and that's how the head office in the United States looks at the new companies."

At the time of its inception, Warner-Pioneer had sales of only ¥900 million. By contrast, sales for this year are estimated to reach ¥32 billion (about $228.5 million). And even larger sales—¥40 billion—are predicted for next year. Thus the Japanese market holds out great promise for the Warner Group and probably for other companies as well. It is said this growth potential is the major reason why Pioneer agreed to sell its holdings to Warner. The speculation is that Pioneer plans to enter the market on an independent basis, not as a joint-venture partner.

Pioneer, which used to be an audio equipment maker, tied up with the Warner Group to branch out into the phonographic record business. Pioneer now seems set to stake out its own position in the record market, which is said to hold promise for the future.

Yamamoto, however, does not quite agree with the view that record production is a "growth industry." Part of the reason, he says, is that singing artists cannot be produced like mass-production goods, and it is simply impossible to increase the number of talented singers in a short period of time. In his view, the music industry has been able to achieve more or less constant growth primarily because the format of records has continued to change over the years.

Specifically, the phonographic record changed to the cassette tape, then to the compact disk. Demand for recordings was given a new impetus every time the product format changed. Thus the advent of the digital audio taperecorder (DAT) will create a new demand for recordings. Yet all this while, the content of many recordings has remained essentially unchanged. The same songs have continued to sell as the type of recording has changed. Yamamoto believes it is largely this "replacement demand" that has kept record sales growing.

Big five labels

The belief that record production is not a growth industry in the usual sense of the term is based on another fact. Most of the companies operating in the market for foreign records in Japan are controlled by their parent companies abroad. In addition to the Warner Group and CBS Sony, there are now three other major companies in Japan: Polydor (Philips of the Netherlands), Toshiba (EMI of Britain) and Victor (BMG of West Germany). These five companies are known as the "Five Major Labels."

According to Yamamoto, the foreign record industry in Japan is more or less stabilized under the leadership of the Big Five. Up to a certain degree they cover different sectors of the market, however. While the European firms focus on classical music, the American companies concentrate on contemporary music.

In this market, the Japanese technique of improving a foreign product and selling it in large quantities does not work. The leading artists, or singers, are invariably native speakers, usually of English. Those who have a hit in the United States can almost always repeat their success in Japan. But the reverse is not true of Japanese singers.

Japanese artists can imitate foreign artists but cannot match them when performing in another language, no matter how hard they try. There is, in fact, no Japanese singer who can command a worldwide audience as does, say, Madonna. There are, of course, many Japanese singers who are famous at home, but they have practically no following in the United States. This is not because companies in Japan are not trying hard enough to sell their products to the United States. Business in this area is simply a one-way street.

This is not the case in the instrumental field, including both traditional instruments such as the violin and piano and new instruments like the synthesizer. There are indeed not a few Japanese instrumental artists whose records are hits in the United States. But there are no vocal artists who are successful in the U.S. record industry.

As Yamamoto puts it, the reason for this is two-fold—language and pronunciation. "A Japanese singer, no matter how well he or she imitates a native speaker, cannot create the same atmosphere that is created by the original pronunciation," he says. "A Japanese artist singing in English can produce a hit record in Japan, but not in the United States." The story may be different for performers such as opera singers, Yamamoto says. But even in this field, Japanese stars are not having much success abroad.

Why is it that American records sell so well in Japan? The answer, as Yamamoto sees it, lies in the similarities in the musical atmosphere of the two countries. Classical music, though Japanese love it, originated in Europe, whereas contemporary music, largely the product of American artists, makes Japanese feel greater affinity for the United States than for Europe. This, he believes, reflects in part the fact that exchanges of people between Japan and America are more extensive than those between Japan and Europe.

More important, however, is the fact that the people of the two countries share a certain sense of solidarity, a deep friendship, despite a host of continuing bilateral problems. This, he says, is the case especially with young people in the two nations, who apparently share more common values than the older generation.

Yamamoto, who looks young for his age, has the sensibilities of a young man. He says young people's feelings must be taken into account in marketing new records. He attends almost every concert or performance given in Tokyo by visiting artists from the United States so that he can stay tuned to new trends in music.

This probably explains, at least in part, why Warner-Pioneer's 300 employees are mostly young people. Their average age is only 32. Of course, all the staff, from the president on down, are music lovers.

Yamamoto has not always been an all-round music enthusiast, however. Before he joined Warner-Pioneer, for instance, he did not always like contemporary music such as rock and pop. Having majored in civil engineering at university, he might well have chosen a different career. It was largely by chance that he entered the music industry. After studying at Harvard University, he joined the Radio Corporation of America (RCA). During his 26 years with RCA he took charge of record marketing in Asia and the Pacific, using Japan as a base. Incidentally, his office in Warner-Pioneer is used also as the secretariat for Harvard alumni in Japan.

Warner-Pioneer's employees, including the president, are all Japanese, although it is owned 100% by an American company. Most foreign enterprises in Japan have top executives sent from their head offices overseas.

In the case of the Warner Group, authority is delegated completely to local management. Yamamoto believes complete localization is essential to success in Japan. "American companies getting into the Japanese market are subject to no legal restrictions. The key to success, therefore, is whether the company concerned can put management completely in the hands of Japanese nationals," he says. "American companies are well aware of this. Japanese companies have different ways of dealing with trade unions, for instance. In order to succeed in the Japanese market, foreign firms must understand the Japanese mentality."

Copying problem

The Warner Group, he notes, has subsidiaries around the world, and these overseas affiliates are all managed by local nationals. "That's a very efficient way of doing business abroad," he says. Localization does not, however, obviate the need for top management to maintain close day-to-day contact with the head office in the United States. Yamamoto himself keeps in touch with the head office by telephone on a daily basis. This puts him in the unenviable position of having to stay in the office late into the evening, because of the time lag. Very often he does not get home until midnight.

Yamamoto is concerned about the question of copyright protection—a question of immediate importance to the record industry. Though the United States holds a dominant position in Japan's foreign-record market, Japan takes the lead in the global market for hardware such as recording machines and other reproduction systems. The ownership rate of this equipment is higher in Japan than anywhere in the world. The problem for the record industry is that hardware is being used extensively to copy records.

In Japan the public can freely record performances and records, since such recordings are not subject to legal restrictions. In the United States and other Western countries, however, record rental is prohibited or severely restricted so as to protect copyrights. Not so in Japan. There are said to be anywhere between 6,000 and 10,000 rental shops in Japan, and records rented by these outlets can be freely copied.

A total of 15 million recording devices are sold each year in Japan, and an estimated 500 million to 600 million blank tapes are sold. Many, if not all, of these tapes are used for copying. No wonder Western record companies are seriously concerned about this situation.

The copying problem will likely become even more serious after the commercialization of the DAT system. This is because DAT will make it possible to record live performances broadcast via satellite without impairing the sound quality. Thus individuals will be able to make perfect copies. The problem will not only get more complicated, but the very value of copyrights will be brought into question.

This problem, though aggravated by the widespread use of audio equipment, is not confined to Japan; it is a global problem. According to Yamamoto, Japan is in a position to take the initiative in implementing countermeasures, because the ratio of audio equipment ownership in Japan is the highest in the world.

Yamamoto fears that record companies could be driven out of business if hundreds or even thousands of copies can be made from a single CD record. This is indeed a fear that grips the whole recording industry.

Takashi Suetsune is a Tokyo-based freelance reporter.