

# Foreign Companies—Vital to Cable Television's Growth

By Hayden Stewart

As the multimedia age dawns, Japanese television viewers can start looking forward to an endless variety of programming—both domestic and foreign. They may even be able to enjoy interactive services such as video-on-demand and home shopping.

The consensus among executives of foreign-based companies is that the multimedia age should herald new business opportunities, but what is initially necessary is to modernize the nation's struggling cable television industry, which in 1993 lost approximately ¥20.9 billion, mainly because few people lived within cable-accessible areas and even fewer subscribed to the limited variety of programming.

Despite these figures, cable television promises to become a profitable business in Japan. The number of subscribers is growing by over 50% annually. Experts predict that this figure could even increase as Japan's government is currently moving to deregulate the industry and private companies are responding with ambitious investment projects.

Foreign companies like Satellite News Corp. are at the center of these investment projects. A few months ago, Satellite News launched BBC World, a 24-hour news, current affairs, documentary, and entertainment channel based in the United Kingdom. According to Tsuji Kenjiro, executive managing director, Satellite News should sign up 2 million viewers for BBC World in the near future.

Satellite News is not an anomaly. Most of the world's largest program-



TCI project administrator Jack Monore and Yamaoto Kazuhiko, assistant general manager of Sumitomo Corp.'s Cable System Dept., inspect television cable routings in Suginami Ward, Tokyo.

mers and cable television operators have recently either entered the Japanese market or announced plans to improve existing subsidiaries. Executives with these firms predict strong sales. As cable television has long been a successful industry in other countries, they say, foreign companies have developed products and services which Japanese firms do not offer.

## Cable or air-borne broadcasting?

Cable television—known as CATV in Japan—long received little attention in this nation, where a tradition of air-borne broadcasting extends back to the dawn of television. According to a spokesman with the Ministry of Posts and Telecommunications (MPT), this is because Japan is crowded. In urban areas, it is very expensive to lay cables, which must run along electricity poles, cross railroad tracks, and go over rivers. By contrast, an air-borne broadcasting

station (such as Tokyo Tower) is suited to densely populated areas, where it can reach many people.

For these reasons, says the spokesman, the government constructed approximately 14,000 stations for broadcasting by radio waves. CATV was merely supplemental—it was installed in rural areas where air-borne broadcasting was not cost-effective.

Geography favored CATV in the U.S., argues the spokesman. Because the U.S. is sparsely populated, it needed cable television. There are only about 3,000 American

stations for air-borne broadcasting.

On the basis of different geography and tradition, the U.S. and Japan reacted differently to developments in the 1980s. During this decade, broadcasters began to offer viewers a number of original services like movie, news, and sports channels. Viewers could access these channels in two ways. One method was direct satellite broadcasting: sending programs from satellites to dishes on the outside of a viewer's home. The other method was cable television: an operator receives the signals from satellite and transfers them to a viewer's home via a cable. In the United States, companies soon embraced cable television. Indeed, over 98% of Americans now live in cable-accessible areas and 62% subscribe to an operator.

By contrast, Japan has invested less in cable television. Most operators in this country still re-transmit basic television services to rural areas. From an international perspective, Japan has less than

200 "urban-type" CATV operators, who can supply about 20% of all Japanese homes with movies, sports, news, and other original channels. Less than 5% of all homes patronize these operators.

## Regulations

Geography is complicating efforts by companies to build more urban-type cable television stations. In order to lay cables, operators must obtain permits from local governments and the Ministry of Construction, as well as negotiate with railroads and power companies. Until recently, however, regulations were an even greater burden, executives say.

Firstly, regulations limited foreign investment. One rule prohibited foreign-based companies from purchasing more than 20% of an operator's or programmer's equity. Another regulation prevented operators from offering overseas programs via foreign-owned satellites.

Secondly, regulations kept operators small. MPT guidelines advised operators against recruiting customers outside a fixed geographical zone. In Tokyo, for instance, separate companies were obliged to operate in each of the 23 wards.

MPT policy aimed to encourage operators to offer programs that would reflect hometown concerns, create local jobs, and generate local tax revenue. In turn, MPT believed, local governments would support CATV and help operators to obtain the necessary permits for laying cables.

Whether or not this occurred, insiders claim that MPT's small-is-beautiful policy also created unprofitable operators.

William Kelly is the president of Turner International Japan, an affiliate of Ted Turner's U.S.-based programming empire. For more than 10 years, his company has been offering CNN Japan's first 24-hour news channel. According to Kelly, MPT's policy failed because operators could not attract enough subscribers to cover their expenses, let alone invest for the future. "The quality and variety of programming was low," he says. "And, at the same time, the cost of hardware, construction, and installation

has been high."

One Tokyo-area operator reports that his ward contains about 220,000 homes. Of these homes, he must recruit approximately 40,000 subscribers (18% of all homes) in order to make a profit. But such penetration rates are rare in Japan. Only 20% of Japanese operators are profitable.

With few operators turning a profit, "The CATV industry has been starved for investment until recently," concludes Kelly. Most Japanese still do not live in cable-accessible areas. And programmers were similarly unenthusiastic about introducing new products to this market. Says Kelly, in order for CATV to succeed, companies must offer a wider variety of quality programming at a cheaper price and then properly market these services.

As MPT is taking steps to deregulate Japan's CATV industry, programmers and operators are finally moving in the right direction, Kelly believes. The ministry has removed its guidelines against operators serving large geographical areas and given foreigners the freedom to purchase up to a one-third stake in these companies. Pundits also expect that MPT will soon allow operators to access foreign-owned satellites. Japan's private sector is responding with ambitious plans to build modern facilities and increase the quality of programming. "Japan is now shaping up to be a growth market," says Kelly.

## Foreign programmers

Foreign companies are playing a vital role in these investment projects. Having developed CATV products and expertise sooner than Japanese companies, foreign-based operators and programmers are well positioned to develop CATV in this country.

Although regulations still limit the equity which they may hold in a domestic subsidiary, foreign programmers are aggressively entering the Japanese market through joint ventures. Satellite News, for instance, is a venture between main partners Japan's Nissho Iwai (50.02%) and the U.K.'s BBC Worldwide Television (19.99%).

Like Turner's Kelly, Satellite News' Tsuji believes that programmers must increase the quality of programming in Japan. "We are partly a reaction to the limited variety of programming today," he says. BBC World will provide international news, current affairs analysis, business and financial updates, and documentary series 24-hours a day. Claims Tsuji, "Except for NHK, Japan's other broadcasters provide mostly entertainment."

Satellite News Corp. currently offers bilingual service during peak hours and plans to broaden this service in the future to attract a large Japanese clientele. It may also introduce an entertainment channel—BBC Prime, which its U.K.-based parent recently launched in Europe.

*Foreign-based companies like Turner International are improving the quality and variety of programming in Japan. Turner International introduced CNN, a 24-hour news channel, over 10 years ago.*



As BBC World Television eases into the Japanese market, other foreign-based programmers are expanding their current operations. Turner International has already received acclaim for CNN. At the end of last year, it also launched TNT and Cartoon Network, a movie and animation channel for family viewers.

TNT and Cartoon Network is Japan's first 24-hour channel for the whole family. Says President Kelly, "It is Hollywood in your home." In the morning, it offers cartoons; in the evening, it contains movies and other programming for everyone. These movies are arranged around themes, Kelly adds. On Elvis Presley's birthday, for instance, TNT and Cartoon Network featured many of the rock star's old movies. Turner International is currently preparing Japanese soundtracks for several thousand hours of broadcasting.

In addition to Turner International and BBC Worldwide Television, other foreign-based programmers are pushing into Japan's CATV market with original programs like MTV, a U.S. music video channel, and ESPN, a U.S. sports channel.

As operators begin to access foreign-owned satellites, foreign programmers will dig even deeper into Japan's CATV market. Says one operator, "We plan to introduce Hong Kong's Star TV and other programs from Asian countries."

## Operators

In order to succeed, CATV operators must bring this wider variety of programming to all parts of Japan at a reasonable price. In this respect, foreign companies are also playing a vital role. Through joint ventures with Japan's major trading houses, foreign-based operators are helping domestic operators to modernize their existing facilities and build new facilities also.

This January, for example, Itochu and Toshiba launched a venture with two U.S. companies—Time Warner and U.S. West—along with Time Warner Entertainment Japan, a subsidiary owned by all four companies. The new company, TITUS Communications Corp., will invest ¥40 billion to establish CATV operators throughout the

country.

But the largest venture to date is between Sumitomo and Telecommunications Inc. (TCI)—also based in the U.S. Last December, the two firms announced a joint venture company—Jupiter Telecommunications. TCI owns 40% and Sumitomo 60%. According to Sumitomo, "TCI was looking for a foothold in the Asian market, while we wanted TCI's technical and management know-how."

TCI is a multi-system operator (MSO)—a CATV company which owns many systems and reduces their individual costs by centralizing many functions. Nishimura Yasushige, president of Jupiter Telecommunications, and Adam Singer, president and chief operating officer of TCI International, believe that MSO-style management is capable of rationalizing Japan's many small debt-ridden companies.

Sumitomo has already transferred six of its Tokyo-area CATV operators to Jupiter, which also plans to build new cable systems in adjacent regions. Says Nishimura, these companies can cut their overheads by centralizing financial and governmental functions, while partially centralizing marketing and sales.

Throughout Japan, Jupiter hopes to ultimately build 20 new stations and take over Sumitomo's equity in 31 stations. The result will be economies-of-scale and falling individual costs for each operator.

TCI will also supply Jupiter with foreign-made equipment. "It is better than Japanese equipment in terms of versatility," says Nishimura, "As systems architecture and design are being frequently updated, this is an important advantage."

Nishimura is even confident that laying cables will be easier in the future. Because cable television is receiving a lot of attention in the media, he says, power companies and railroads do not want to be blamed for hindering CATV's development.

Economies-of-scale, superior hardware, and a growing awareness of CATV well make it possible to attract more customers with lower subscription rates. In order to receive CATV today,

one must initially pay about ¥30,000 upfront, ¥3,500 for basic services, and an extra charge for each pay channel. Nishimura speculates that "Perhaps we could reduce start-up costs to ¥10,000 and discount pay channels through packaging."

Jupiter ultimately hopes to command 20% of Japan's CATV market with a total capitalization of ¥50 billion. Already TCI and Sumitomo have cooperated in building one U.S.-style optical fiber coaxial cable system. Says the operator, "TCI supplied us with systems architecture, detailed design, equipment and technological advice."

## Cable comes of age

Foreign investment—by operators and programmers alike—is helping to invigorate Japan's docile CATV industry. Operators can increasingly offer a wider selection of programming at a cheaper price. Says the TCI/Sumitomo-affiliated operator, the next challenge is marketing: "We must educate people about the advantages of modern cable television. Our subscribers can enjoy 36 channels (including standard television services and one regional program channel). We believe that this is an epoch event."

Most insiders are optimistic. Jupiter's Nishimura, for one, believes that 25% of Japanese families will subscribe to original programs through urban-type operators within three years. On MPT's view, it will take only six or seven more years before an equal percentage of Japanese and Americans subscribe to CAT—over 60%.

One thing is for sure: As cable television develops in Japan, foreign companies will play an integral role and profit nicely from its success. Says TCI International's Adam Singer, "We believe that given time, the strength of our partner, the right regulations, and appropriate marketing, cable in Japan has the potential to be TCI's most valuable international investment." ■

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