

The Video Software War

By Yukio Ohmori

In November 1990, Media International Corp. (MICO), which had been launched in Japan as a planning and survey firm the previous July, received a capital boost and, according to schedule, began full-fledged operations as a business enterprise.

Capitalized at ¥6.57 billion, MICO is a conglomerate of 47 leading Japanese companies in various areas—25 in finance, including banks, securities companies and nonlife insurance companies; nine equipment manufacturers; three trading companies; and the rest in telecommunications, aviation, distribution, printing and sports. As such, MICO appears very much like a trading company charged with the task of achieving national goals in the international software business.

MICO has set itself the three objectives of contributing to world culture, becoming one of the world's leading media organizations, and playing an active role in the international software market. Its lines of business are as follows:

- Joint production of software with other countries.
- Investment in movie and software production companies.
- Purchase and sale of video software.
- Planning and organization of large-scale international events.
- Building of an international network.
- Utilization of high-definition television.

The establishment of MICO, perhaps the most unique venture in Japan at the present, caused a great deal of fuss during the latter part of 1990. Commercial broadcasting companies reacted strongly because the publicly financed Japan Broadcasting Corp. (NHK) had played a leading role in promoting the new company, even though it had refrained from directly providing funds or personnel for the venture.

The National Association of Commercial Broadcasters in Japan declined to cooperate in the project at all, arguing that NHK was exceeding its mandate as a

public broadcasting service and turning to commercialism. The association also claimed that the venture would undermine the dual system of broadcasting in Japan based on commercial stations on the one hand and NHK on the other, and that MICO would monopolize the international software market and trigger higher prices. Commercial broadcasting stations in Tokyo, and the large newspaper companies with which they have tie-ups, agreed with the association's view and did not hide their concern that NHK was trying to build up a dominant position in the increasingly competitive media industry.

Keen interest

The activities of MICO naturally are attracting keen attention. Recently it was reported from New York that the venture, in cooperation with an affiliate of NHK called NHK Enterprises Inc. and several finance companies, had entered into negotiations with the Mount Film Group, a U.S. movie picture company, to acquire the broadcasting rights for the group's productions in Japan. Moreover, the companies financing MICO include Sony Corp., which purchased Columbia Pictures Entertainment Inc. in America for a huge sum, and Matsushita Electric Industrial Co., which bought the U.S. entertainment giant MCA Inc., the parent company of Universal Pictures, for an even bigger sum.

The establishment of MICO, however, should be seen not as a departure from public service and a turn to commercialism by NHK but as an attempt by NHK to prepare for the future. The three main trends in the decade leading up to the 21st century are almost without doubt going to be the growing importance of information, the further progress of internationalization, and more innovations in the field of telecommunications, including new media systems and multiple channels, made possible by the seeming-



A launching party of Media International Corp. or MICO, a conglomerate of 47 leading Japanese companies.

ly unlimited development of technology. If businesses do not take these trends fully into account, they will find it difficult to survive in the years to come.

In particular, broadcasting companies must realize that the shortage of video software is going to become a major problem and that they must prepare for this by acquiring software and establishing channels for this purpose. It is only natural that leading firms in the hardware industry, like Sony and Matsushita, are branching out into the software business and that trading companies are desperately trying to get their finger in the pie, too.

NHK should be congratulated for developing a long-term strategy to tackle this problem. Commercial broadcasters, perhaps too complacent in the knowledge that Japan's economy is continuing to expand, have demonstrated a complete lack of the determination and foresight needed in a time of dramatic change.

Unless commercial broadcasters cast off this complacent attitude, they will find themselves struggling behind the times, because television, which was able to



Putting together a television program. Japan could have scores of new TV channels in the not-too-distant future.



The headquarters of the publicly financed NHK, which has played a leading role in promoting MICO.

achieve its development in the limited field of mass communications, is going to be swallowed up by the burgeoning video information industry. The same is true for advertising companies and the movie industry, which backed out of the MICO venture because of their dealings with the commercial broadcasting stations.

The emergence of the MICO venture reflects the present situation of the broadcasting industry in Japan. After the enactment of the Broadcasting Law and the Radio Law in 1950, Japan's broadcasting industry achieved steady, even spectacular, growth, with the publicly financed NHK securing its revenue from viewer reception fees and the commercial broadcasters relying on income from advertising. The growth of the industry matched that of the Japanese economy as it recovered from the war to become one of the most powerful economies in the world. The important turning points were as follows:

- 1951: the beginning of commercial radio broadcasting.
- 1953: the beginning of black-and-white TV broadcasting (NHK in February and Nippon Television Network Corp. in August).
- 1960: the beginning of color TV broadcasting.
- 1969: the beginning of FM radio.
- 1973: implementation of the cable television broadcasting law.

-1989: the beginning of satellite TV broadcasting by NHK.

-1990: the beginning of commercial satellite TV by Japan Satellite Broadcasting Inc. (JSB), supported by the five commercial networks.

The 1950s was the age of black-and-white TV, which took over from medium-wave radio. In the 1960s, color TV took over. And in the 1970s, cable television received recognition as a form of broadcasting with a social role to play. It was at about this time that people began to realize that new technologies were going to greatly expand the field of television. In the 1980s multiplex systems appeared, and the curtain opened on satellite broadcasting.

Information gap

At the same time as new media systems and new channels began to appear, the government was quite aggressively promoting an increase in the number of conventional, ground-based commercial broadcasting stations. Under the slogan "closing the information gap among regions," the government declared that in principle each district should be served by four commercial TV stations, and eventually achieved its target of having each key region served by five commercial stations. In January 1991, the government gave its approval for a sixth station in metropolitan Tokyo.

As of the end of March 1991, there were 109 commercial broadcasting stations in Japan, and new ones continue to appear. Forming networks under the five main stations in Tokyo, these broadcasting stations consume a huge amount of software. Since television basically is a form of entertainment, the commercial networks constitute the biggest advertising medium in Japan. In 1990 spending on TV advertisements increased by 9.7% over the previous year to reach more than ¥1,604.6 billion. (\$11.5 billion at the rate of ¥140/\$). For comparison, advertising in newspapers reached ¥1,359.2 billion (\$9.7 billion), in magazines ¥374.1 billion (\$2.67 billion), and on radio ¥233.5 billion (\$1.67 billion).

But how much longer can these ground-based TV channels, including NHK, which operates two nationwide channels (one general and the other educational), maintain their dominant position? Already conventional television is being labeled ground-based TV, on the same footing with cable TV, BS (broadcasting satellite) TV and CS (communications satellite) TV.

Of course, ground-based TV, with its long history, enjoys a firm foothold in the living room. According to the monthly June 1990 *Databook* of the Organizing Association for International Audiovisual Software Fair (reorganized into the International Multimedia Association in April 1991), there were 66.85 million television sets in Japan as of March 1990, with a household diffusion rate of 99.3%, and there were 196.4 sets for every 100 households, which shows that many households like to have more than one. So conventional television still stands out as the most popular among the forms of media available.

Nevertheless, the remarkable diffusion of videocassette recorders and the steady development of cable TV strongly suggest that the growth of ground-based TV has reached a peak and now faces a downhill slope.

According to a survey by NHK, the national diffusion rate for home videos as of November 1990 was 78.2%, a significant increase over the figure of 62.3% registered two years before. The *Databook*

mentioned above provides some interesting figures for March 1990:

- Diffusion rate for home videos: 66.8%;
- Size of rental video market: ¥328.1 billion;
- Videotape sales: ¥82.8 billion;
- Size of videodisc market: ¥40.7 billion;
- Total number of videotapes: 57 million, of which movies accounted for 51.2%;
- Average price of video software: ¥5,476;
- Number of video rental stores: 13,400;
- Number of shops handling video software: 33,400.

Moreover, these figures are increasing year by year.

As for cable television, according to the Ministry of Posts and Telecommunications there were 47,337 systems in Japan as of March 1990, including many smaller facilities in areas with otherwise poor reception. The ministry has not yet released the figure for March 1991, but it probably exceeds 50,000. The number of subscribers in March 1990 was 6,172,278, which works out at 18.6% of the households subscribing to NHK nationwide.

Of these, urban cable TV systems with more than 10,000 subscribers, with more than five independent broadcasting channels and with a bidirectional function were operated by 60 companies for some 830,000 subscribers as of March 1990. Some 30 companies newly joined the business during 1990 and the total number of operators is estimated to have topped 100 at the end of March. Urban cable TV is expected to play a prominent role in the coming age of multiple channel television.

Private satellites

The development of these new media systems has been slower in Japan than in Europe and the United States. Nevertheless, the deregulation of the telecommunications business in 1985 has led to the growing use of private communications satellites. In expectation of the diffusion of the space cablenet system, 30 companies have already appeared to supply programs to cable TV stations around the country via communications satellite.

As the trend toward multiple channel

broadcasting gathers steam, particular attention is being paid to developments in CS broadcasting. Basically, BS television is an extension of ground-based television, with NHK operating two channels and JSB one channel via the *BS-3a* broadcast satellite. The *BS-4* satellite, to be launched in 1997, is scheduled to have transponders for eight satellite broadcasting channels.

For BS television to develop, it will require an extremely large stock of video software. NHK's two channels operate for 24 hours a day, and JSB, which has had difficulty gathering video software since the day it was founded, offers "paid television for 24 hours a day with no commercials." JSB has already used most of its paid-up capital of ¥26 billion (\$185.7 million) for purchasing software, and its capital increase of ¥16 billion (\$114 million) at the end of March 1991 will probably go the same way.

The large number of channels on communications satellite television, which will begin in the first half of 1992, or maybe as early as the end of 1991, is going to create an even greater software problem.

Anticipating that the development of hardware was going to remove the boundary between broadcasting and telecommunications, the government revised the law in June 1989 to make it possible for radio and television stations to use communications satellites. In January 1991 six commercial radio stations obtained licenses to broadcast via communications satellite, and will make their debut in October as PCM stations devoted to music.

CS television is not far behind. The technology for such broadcasting was completed in 1990, and the Ministry of Posts and Telecommunications is scheduled to issue an ordinance in the first half of this year, after which it will begin accepting license applications. In the next three or four years three firms—Japan Communications Satellite Corp., Space Communications Corp. and a new one expected to receive approval within 1991—plan to put six satellites into stationary orbit, each one with 30 transponders. If half of the transponders on

each satellite are given over to television, there will be nearly 100 new channels.

Communications satellite broadcasting probably will develop in the direction of specialized channels, in the same way as the cable TV stations in urban areas cater to special needs. Whatever happens, there is bound to be a serious shortage of video software.

Conventional ground-based television could find itself in an extremely difficult position, as new ventures looking for business opportunities make inroads into the industry through satellites, through cables on the ground, and through the package software business. There are now from 600 to 700 firms producing programs in Japan, but except for the 40 or so that belong to the Association of All-Japan TV Program Production Companies (ATP), most of them are unreliable. And even the ATP companies exist as part of the existing commercial broadcasting business, so they cannot be expected to become a new source of software.

Television in Japan stands at a major turning point. Building on its 65-year history as a publicly financed broadcasting company, NHK has deliberately established a corporate grouping of related organizations and affiliates and taken the lead in forming MICO, and it is establishing regional companies in key districts around the country to create software and organize events. This should be seen not as NHK turning to commercialism but as its strategy from a long-term perspective for survival in the years to come.

Commercial broadcasters also are setting up program libraries and strengthening their relations with networks in the United States. But caught up in stiff competition over sales and audience ratings, their overall recognition of the danger lying ahead is weak. If they do not pay more attention to television's role as a means of mass communication in the future, and become more willing to cooperate with NHK, they will surely regret it. ■

Yukio Ohmori is a critic specializing in the television and telecommunications industries.