

The Advertising Industry

By Nobuyuki Kurihara

Growth in advertising spending has been slowing in Japan since 1980, with year-to-year increases falling to single-digit levels in the four years through 1983 (final 1984 figures are not yet available), according to estimates by advertising agency Dentsu Inc. Behind the slowdown is a marked deceleration in advertising in the mass media such as television and newspapers. To expand turnover, advertising firms have moved to strengthen their participation in major events (e.g. planning for Tsukuba Expo '85 pavilions) and new media such as CATV. They are also expanding their international operations in line with rising industrial investment abroad.

Advertising expenditures in Japan totaled ¥2,782 billion (\$11.1 billion) in 1983, up 5.9% over the year before. This growth rate is almost unchanged from the 5.8% recorded in 1975, the year after the first oil crisis. The rate of increase for 1984 is believed to have been equally low, in part because of slowing consumer spending. Many now think advertising has entered a period of structurally slower growth, as have many other Japanese industries.

Advertising spending in the four major mass media (TV, newspapers, magazines and radio) totaled ¥2,115.3 billion (\$8.5 billion) in 1983, a 6.4% gain over the preceding year. These four media account for 76.0% of total advertising outlays. Their share, however, has dropped noticeably

from 78.4% in 1965, and even the 77.3% posted in 1975. In contrast, advertising spending related to direct mail, event planning and other areas have increased, more or less offsetting the drop in mass media billings.

Of the four big media, only magazines registered two-digit growth of 11.1% in 1983. This is attributable to the successive launch of numerous new magazines aimed at particular categories of readership, a development which appeals to both readers and advertisers. With consumer spending becoming more diverse and individualized, advertisers believe that such magazines have greater advertising appeal than conventional publications. The same goes for television commercials which can be broadcast in particular regions during selected time bands.

In the past, advertising agencies placed primary emphasis on the mass media. How to respond effectively to such changing consumer preferences will be one of the most important challenges facing them in the years ahead.

Oligarchy

While overall advertising spending has tended to slow, major advertising agencies have continued to expand their turnover. This has further accentuated the trend toward oligarchy. There are now about 3,500 advertising agencies in

Japan, with a total work force of some 60,000. Of these firms, however, only 120 are members of the Japan Advertising Agencies Association (JAAA). This shows how extremely small most of the agencies, including self-owned ones, are.

Dentsu, the world's largest advertising agency, did ¥719.7 billion (\$2.9 billion) of business in 1983, up 7.2% over 1982 and accounting for 25.9% of total advertising spending in Japan. Hakuhodo placed second with ¥290.1 billion (\$1.2 billion), its share of the total advertising market reaching the 10% level for the first time. Hakuhodo was followed by Daiko Advertising, Tokyu Advertising, Dai-ichi Kikaku, Yomiko Advertising, Asahi Tsushin Advertising, McCann-Erickson Hakuhodo, Asahi Kokoku-sha and Dai-ichi Advertising.

Most of these agencies registered higher growth rates than did the industry overall. As a result, the combined turnover of the ten largest firms reached ¥1,518.3 billion (\$6.1 billion) in 1983, up 8.0% year-on-year and accounting for 54.5% of total volume, up 1.0 percentage point.

The growth of billings handled by major agencies attests to their strong overall performance, including their strengths in marketing and sales promotion. Moreover, as the combined share of the top 10 agencies in the four major mass media has remained virtually unchanged, most of their growth has come in other areas, such as sales promotion, cultural programs and sport events. The emphasis on event planning in particular reflects a new current in the advertising industry.

Today, automobile companies sponsor world soccer championships and amateur baseball tournaments. Other companies raise their profile with tennis and golf titles. Musicals and classical music concerts are also sponsored by major corporations. And all these events are managed by advertising agencies. Companies try to improve their image through such events, while the agencies consider them a part of corporate communications. This has created a pressing need for know-how on event management.

The biggest event of 1985 in Japan will be the Tsukuba Expo '85 to be held for six months beginning in March at Tsukuba Science City in Ibaraki Prefecture, north of Tokyo. Twenty-eight private pavilions, most of them displaying the products of business corporations, will be erected. Advertising agencies are in



Japan's leading advertising agency Dentsu Inc. and Young & Rubicam Inc. of the U.S. agreed in 1981 to form a joint venture company.

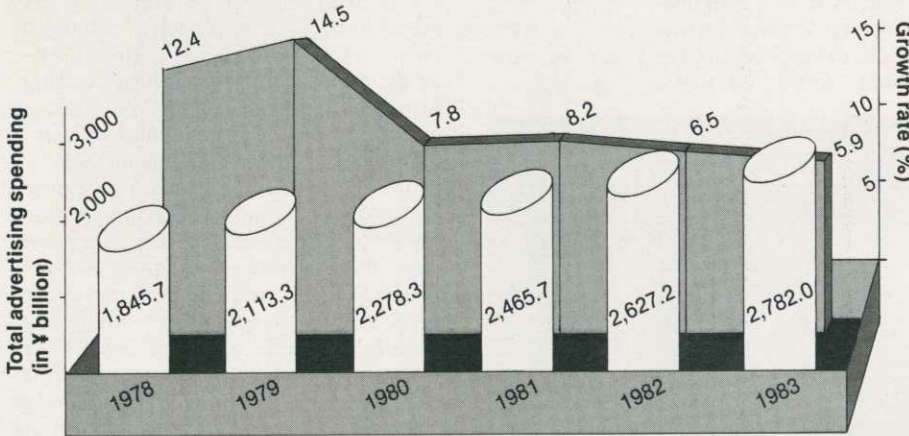
Table 1 Spending in Major Countries

Total advertising spending (in \$ million)		Per-capita advertising spending (in dollar)	
1	U.S.	66,580.0	285.75
2	Japan	10,571.9	213.71
3	Britain	6,474.7	194.90
4	W. Germany	5,381.3	190.58
5	France	4,140.1	179.00
6	Canada	3,669.9	155.15
7	Brazil	3,329.7	149.79
8	Italy	3,180.0	135.33
9	Australia	2,327.2	131.26
10	Netherlands	1,877.0	115.41
			114.17
			89.21

Table 2 Affiliation between Japanese and Foreign Advertising Agencies

Japanese advertising agencies	Type of affiliation	Foreign advertising agencies
Dentsu Inc.	joint venture	Young & Rubicam (U.S.)
Hakuhodo Inc.	business tie-up	SSC&B: Lintas (Britain)
	joint venture	McCann-Erickson Worldwide (U.S.)
Daiko Advertising	joint venture	Grey Advertising (U.S.)
	business tie-up	Foote, Cone & Belding (U.S.)
Tokyu Advertising	joint venture	Ogilvy & Mather (U.S.)
Dai-ichi Kikaku	capital tie-up	Doyle Dane Bernbach (U.S.)
Yomiko Advertising	joint venture	Dancer Fitzgerald Sample (U.S.)
Asahi Tsushin Advertising	capital tie-up	BBDO International (U.S.)
Orikomi Advertising	joint venture	Ted Bates Worldwide (U.S.)
Kyodo Advertising	joint venture	Leo Burnett (U.S.)

Advertising Spending in Japan



charge of planning and managing these pavilions. Dentsu alone is responsible for 18. With each pavilion estimated to cost an average of ¥3 billion (\$12 million), agency turnover will be about ¥1 billion (\$4 million) per pavilion, excluding construction costs. Thus Dentsu alone should earn some ¥18 billion (\$72 million) just from the Tsukuba exposition.

Each major agency now has a division in charge of event planning. In January 1983, for instance, Dentsu established In-

ternational Sports and Leisure Marketing in Switzerland to promote marketing activities for Inter-Soccer 4, including World Cup Soccer and events related to the International Olympic Committee.

At the same time, advertising agencies are also doing their best to reflect consumer attitudes more accurately in their marketing activities. Hakuhodo has set up the Hakuhodo Institute of Life and Living, while Dentsu has created a department specializing in life-style-related

information. Agencies are striving to adjust to small but significant changes in consumer behavior against the background of the growing social role of women and the aging of Japanese society.

The advertising industry, meanwhile, faces two even greater challenges. One is to respond effectively to the development of new media. The other is to deal with the growing trend toward international advertising.

New media competition

The emergence of new media signals a shift away from the mass media to more target-specific types of information transmission. In this sense, new media embody a fresh response to the individualization of consumers. In Japan, various new media have already made their debut. NHK (Japan Broadcasting Corporation) has launched teletex and satellite broadcasting services. CAPTAIN (character and pattern telephone access information network) system, the Japanese version of videotex, entered commercial service in November 1984, and construction is about to begin on a multi-channel, multi-directional CATV system.

Commercial television arrived in Japan in 1953. At the time, Dentsu was the most active in what was then a new medium. The agency sent personnel to the networks to take charge marketing and help establish their business. That is how Dentsu was able to snare a larger share of the television market than any other agency and to lay the foundations for its ascent to the position of number one advertising agency in the world. While it is still not entirely clear how the new media will develop, Japan's advertising agencies all agree that they will occupy an important place in the communications industry.

Fifteen advertising agencies, including Dentsu and Hakuhodo, are participating in CAPTAIN as information providers. The task of the information provider is to purchase space from a CAPTAIN operator and use it to feed information over the system. Dentsu and Hakuhodo are both providing information relating to consumers' daily lives. But while CAPTAIN is already in commercial operation, information is still supplied free of charge.

Advertising agencies are also involved in CAPTAIN by designing the formats used to present printed data on the television screen. The question of how to present information in a readily understood form is of crucial importance to end users. For this reason, information providers have been placing orders with advertising agencies for the formats they should adapt.

Yet the most important of the new

media as far as advertising agencies are concerned may ultimately prove to be CATV. Moves are afoot to start up CATV operations in various parts of Japan. International Cable Network (ICN), the first organization to start an interactive CATV system in the country, will enter service this year. Advertising agencies are moving actively to set up new companies to supply programming for CATV networks.

Hakuhodo, for instance, not only has a financial stake in ICN, but also helped found Japan Visual Soft Network in January 1984. This is a joint undertaking with NHK Service Center, trading company Marubeni Corp. and Tohoku Shinsha, a film distributor to TV networks. Similarly, Tokyo Advertising has established Japan Program Supplier.

Dentsu, for its part, already supplies programs to 26 CATV networks. These include music programs, corporate PR movies, and "informercial" programs combining a commercial message with information. Dentsu has set up Nihon Cable TV Consultant Co., in league with C. Itoh, a general trading company, and Nippon Network Service (NNS), the nation's largest CATV network. Dentsu is also part owner of Media Workshop together with Televiman Union, which plans and prepares TV programs. Media Workshop provides education and training for new media technicians. In addition, many advertising agencies have created internal committees to ready themselves for the new media age.

Dealing with internationalization

In May 1981 Dentsu and Young and Rubicam (Y&R), the largest U.S. advertising agency, stunned their competitors when they announced a business tie-up. The industry's two biggest agencies agreed to establish a network of joint subsidiaries in strategic markets around the world. To that end Dentsu-Y&R was incorporated in Tokyo in November the same year. Since then, joint firms have opened shop in New York, Los Angeles, Melbourne, Kuala Lumpur, Hong Kong, Singapore and Bangkok.

J.W. Thompson, another major U.S. advertising agency, started Japan's advertising industry down the road to internationalization when it established a wholly owned subsidiary in Tokyo in 1956. In 1960 McCann-Erickson and Hakuhodo set up McCann-Erickson Hakuhodo. Y&R was also operating independently in Japan around that time. But with the exception of McCann-Erickson Hakuhodo, these companies found it extremely difficult to do business with anyone in Japan except the Japanese subsidiaries of major U.S. clients. Though



Advertising agencies are heavily involved in Tsukuba Expo '85.

the Japanese market is technically open to U.S. and European advertising agencies, it has been difficult for them to adapt to Japanese business customs, and business has been slow to expand.

In America and Europe, advertising agencies make it a rule to avoid doing business with more than one client in the same industry. An agency handling advertising for Ford, for example, will not work for GM. Yet Dentsu prepares ads for various Japanese auto firms, including Toyota, Nissan, and Honda. Dentsu has business connections with more than 2,000 sponsors, and, on a smaller scale, the same holds true for other advertising agencies. The handling of ads for several competing corporations has not resulted in the leakage of trade secrets. But it has proven difficult for foreign agencies to follow suit, just as American and European admen often find the complex distribution system in Japan an obstacle to efficient marketing.

Japan ranks second in the world in terms of advertising spending after the United States, according to the International Advertising Association (IAA). In 1982, U.S. advertisers spent \$66.5 billion while in Japan the figure was \$10.5 billion. Britain was next at \$6.4 billion. In terms of per capita advertising spending, however, Japan was in 12th place. And it was even further down the list—in 26th place—when it came to advertising as a percentage of GNP. In this sense, there is ample room for advertising spending in Japan to increase.

American advertising agencies, engaged in fierce competition at home, find Japan an alluring market. The tie-up between Dentsu and Y&R has prompted other major U.S. agencies to join with

Japanese agencies in an attempt to exploit the Japanese gold mine. At present, all 10 of the largest U.S. agencies have bases in Japan.

At the same time, though, Japanese advertising agencies are being urged by their clients to expand abroad. Overseas accounts contribute less than 1% of Dentsu's total turnover. This is symbolic of how single-mindedly Japanese advertising agencies have concentrated on the domestic market.

Today, Japanese agencies face a growing need to expand their activities abroad in line with the increasing internationalization of corporate activity. More and more manufacturers are turning to local production in foreign countries rather than relying on exports as they have done in the past. Japanese advertising agencies, too, are under pressure to provide well-thought-out services for these clients.

To date, Japanese agencies have had to rely on foreign agencies because they lack know-how about overseas advertising. They are trying to serve Japanese corporations through the international networks of their foreign partners, while supporting the activities of American and European agencies in the Japanese market. Of course, in view of the "one sector, one firm" principle observed by foreign agencies, this is likely to mean the establishment of new joint-venture networks like Dentsu-Y&R.

As collaboration with foreign agencies spreads to such new areas as corporate identity, public relations and sales promotion, the moves to promote communication activities on a global basis are sure to gain momentum. The day may not be far off when Japan's advertising agencies finally take their place on the world stage. ●