

Changing Picture in Video Kingdom

By Kazuhisa Maeno

Japan's video industry today presents a confusing picture of both robust growth and lowered expectations. Many of the widely heralded new products in the field have yet to live up to their reputations. Yet the video-cassette recorder (VCR), the old industry standby, is still booming.

One out of every two families in Japan now owns a VCR. According to video industry statistics, the ownership rate of VCRs, only 33.4% at the end of 1985, rose to 43.0% at the end of 1986. It rose another 10% in 1987, finishing the year at 52.1%. That put VCRs in fifth place in the home electronics race after color televisions at 99.6%, radio cassette recorders at 71.2%, transistor radios 59.1% and stereo sets 56.1%.

Helping push up the ownership rate was a sharp 12.2% drop in VCR exports in 1987 from the year before. In order to make up for the slump, a result of the yen's sharp appreciation, VCR makers stepped up their sales efforts at home.

According to the Electronic Industries Association of Japan, the nation's VCR production in 1987 stood at 27,469,000 units, of which 6,331,000 units were shipped to the domestic market, an increase of 30.5% over the preceding year. Those figures compare with the grand total of 49,000 units produced in 1974, the year of the VCR's debut. Today, more than 130 times the 1974 production are sold on the domestic market (Fig. 1).

Needless to say, VCR prices have dropped sharply over the years. In 1979, an average machine cost ¥186,700, nearly twice the monthly starting salary of a university graduate. Mass production brought the average price down to ¥85,000 in 1987. Today, VCRs have displaced color televisions as Japan's best-selling consumer electronics product, and make a notable contribution to the nation's expanding domestic demand.

The scramble among VCR makers for market share is intense. Matsushita Electric Industrial Co. leads with a 24.5%

market share, followed by Hitachi at 15.5%, Victor Co. of Japan 15.5%, Sharp Corp. 10.5%, Toshiba Corp. 10.0%, Sony Corp. 8.0%, Mitsubishi Electric Corp. 7.5% and other companies 8.5%.

While the market share of the top echelon of makers has remained stable, Mitsubishi Electric has been making conspicuous gains among the companies ranking below sixth since it signed on U.S. pop star Madonna to do its television commercials. This sales strategy has been a great hit with the young.

VHS vanquishes Beta

In fact, Mitsubishi is threatening to oust Sony from sixth place. Sony's video fortunes have been in decline due to what proved to be a disastrous decision on recording systems. There are presently two video recording systems in use in Japan, Beta and VHS (video home system).

The Beta system was developed by Sony, while the VHS was a joint invention of Matsushita and Victor. Sony was first on the market in May 1975. It took Matsushita and Victor 18 months to catch up. They finally introduced the VHS sys-

tem in October 1976, a year in which the Beta system held 61% of the VCR market.

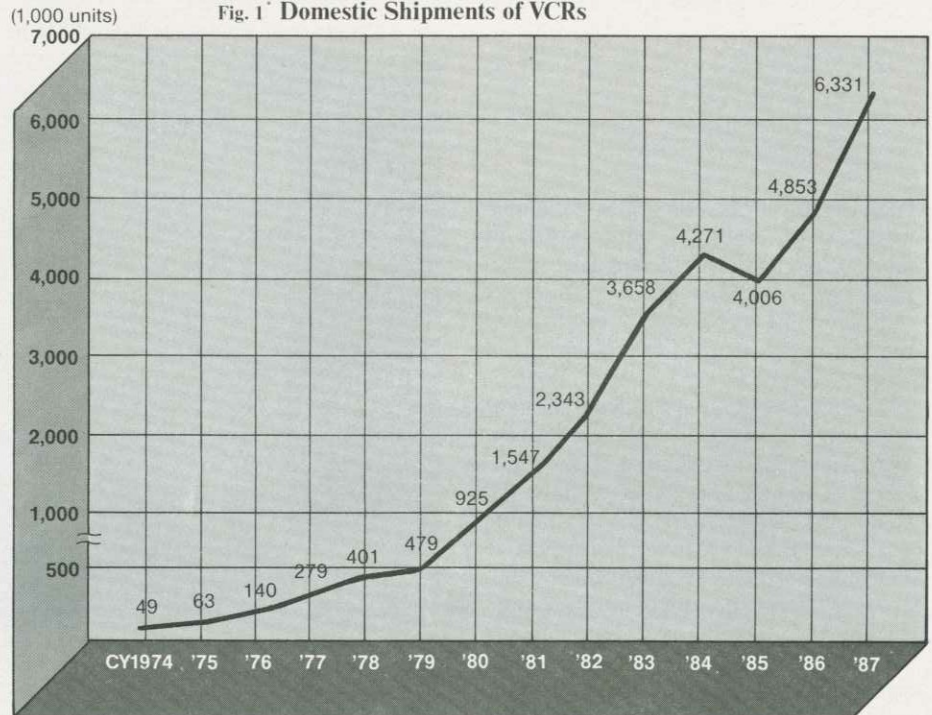
Yet while it may not have looked that way at the time, it was the beginning of the end for the Sony system. Beta's market share shrank gradually, and in 1987 accounted for only about 4%, or 1.4 million units, of total VCR production of 32 million.

Today, of the 170 million VCRs that have been shipped all over the world, only 20 million are Beta. The remaining 150 million are VHS. Acknowledging the Beta system's total defeat, Sony in January 1988 announced that it would start marketing VHS systems alongside its Beta equipment.

Why was the Beta system so soundly defeated by VHS? Industry insiders attribute it to the success of Matsushita's "long-hour strategy" of extending recording and playback time from two hours to a maximum of four. Today the difference in recording/reproducing time has further widened to three hours between the VHS's maximum of eight hours and the Beta's five hours. The longer recording/playback time was apparently what the public wanted. Two hours may have



Fig. 1 Domestic Shipments of VCRs



Note: "Video movies" (VCR decks incorporating video camera) are included in the figures for the years before 1984.

been enough for recording television dramas and documentaries, but television broadcasts of feature-length movies can run much longer. Beta was unable to compete.

Another reason for Beta's defeat was the successful strategy of VHS makers in expanding market share by concluding OEM contracts. Victor signed OEM contracts with virtually every prominent consumer electronics maker in Europe, while Matsushita and Hitachi concluded OEM agreements with leading makers in the United States. Sony and Sanyo Electric Co. of the Beta camp, on the other hand, were able to get OEM contracts with only one manufacturer and one department store in the U.S. It is said that this difference in the number of OEM contracts is the real explanation behind today's 8:1 diffusion ratio.

The final clincher was software. There are far more videocassettes available for VHS systems than for Beta machines, and the greater the selection of software, the greater the demand for hardware to view it. And the more VHS hardware that is sold, the greater the need for compatible software. This benign cycle has picked up speed, until in today's world market, and particularly in the U.S., Europe and Japan, more than 90% of videotapes sold are VHS.

One of the most important lessons of the VCR war is that no matter how good the hardware may be, it will not sell without readily available, compatible software. In the end, marketing is more important than technology in the information business.

As for sales of videocassettes, the key to the VHS victory, in Japan they ballooned from ¥44 billion in 1984 to ¥120 billion in 1987, a nearly three-fold increase in just three years. Video software sales will likely exceed ¥155 billion (about \$1.19 billion at the rate of ¥130/\$) in 1988.

The popularity of videocassettes is further stoked by rental video shops, which now number more than 13,000 throughout Japan. As if that was not enough, nationwide supermarket chains and nonstore rental video stands also loan out cassettes. Even a major film manufactur-

er publishes a rental video catalog and rents tapes through the photo-finishing shops under its umbrella.

Yet another channel is mail-order sales. Readers of magazines published by Kodansha and Shogakkan publishing houses can order tapes, while the Toho, Nikkatsu and Daiei motion picture companies have joined forces in a mail-order sales company named "Cinema Club" which markets such old-time film masterpieces as "*Akatsuki-no Dasso*" (Escape at Dawn) and "*Kato Hayabusa Sento-tai*" (Kato Fighter Squadron) in sets of five for ¥50,000 (about \$385). Cinema Club has already sold 5,000 sets.

Falling rental fees

Videotape makers have their own distribution channels. Pony Canyon Distributors and Victor's Japan AVC sell video software produced respectively by Pony Canyon and Victor. Pony also markets videotapes of American and other foreign motion pictures through tie-ups with American film companies MGM, RCA Columbia and Herald. Japan AVC also handles Hollywood movies produced by Paramount, Universal, 20th Century Fox and others.

There are also about 200 wholesalers exclusively handling prerecorded videocassettes, led by Nippon Onko, Cosmos and Nankyu Video. Seikodo, a phono-

graph record sales company, and book distributors Nippan and Tohan are also wholesalers of rental tapes.

The rental video shops which order from these many companies increased by 4,000 during 1987 alone. It is not uncommon to find three shops within a 100-meter radius of one another. This profusion of outlets is driving down rental fees. The average fee, formerly ¥1,000 for two days, fell to ¥500 last year, and since the start of this year has dipped below ¥400 (about \$3). In some shops in Nagoya fees are already down to a mere ¥70 (Fig. 2).

Wholesale prices for tapes of foreign movies average ¥12,000. At that rate, a cassette has to be rented out 40 times at ¥300 a time just to recover costs. Industry observers are predicting a shake-out of rental video shops this year with many of them expected to go bankrupt.

In reverse proportion to the expected drop in the number of rental shops, industry analysts expect the copying of rented videocassettes on VCRs to increase. It takes two VCRs to copy a videotape, but prices have fallen so far these days that many video enthusiasts purchase two machines just to copy rented tapes for their private collections. And needless to say, there has also been an increase in unscrupulous merchants who make pirated editions from rented tapes.

According to a recent survey by a vid-

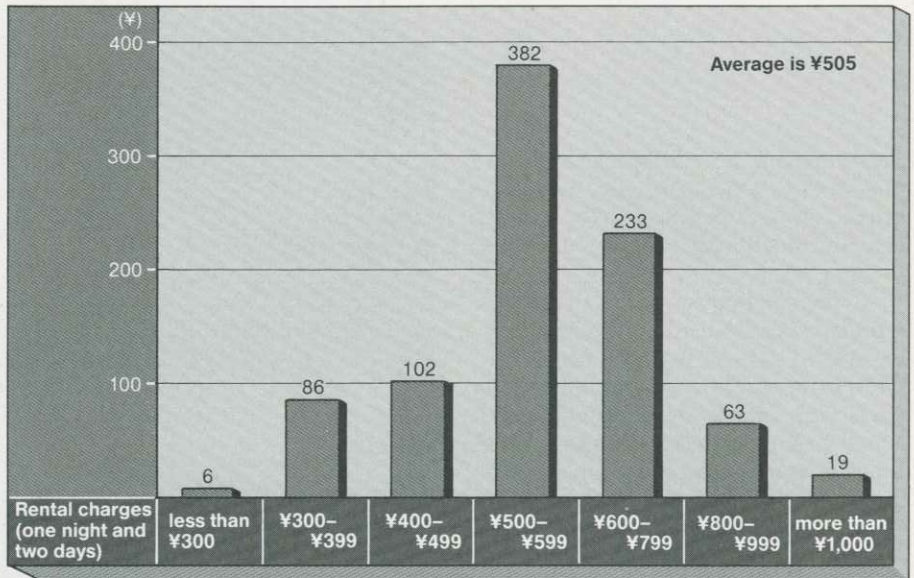
eo copyright protection and surveillance organization, ¥60-70 billion worth of pirate tapes have been marketed in Japan. Pirate editions are so numerous that even the surveillance organization has not been able to get a grasp of the whole picture.

Meanwhile, VCRs and videotapes have been finding more diverse applications. Travel agencies, for example, show videotapes of tourist attractions to potential customers, while marriage consultants use videotapes to introduce prospective marriage partners. People are using videotapes to prepare their autobiographies and record wedding ceremonies and receptions. The scope of video is expanding from entertainment to business, and this all means greater prosperity for the industry.

Threat from NICs

Yet a shadow has begun to fall on the worldwide march of Japanese-made VCRs. VCR machines manufactured in the Asian NICs of South Korea, Hong Kong, Taiwan and Singapore are finding ready takers around the world, and are even working their way into the Japanese market. The strong yen has greatly boosted the competitiveness of NICs products, so much so that a store exclusively marketing NICs products has opened in Gifu Prefecture. The store, owned by Tokyo-based Invix, is called "NICs Super Shop."

Fig. 2 Number of Videotape Rental Shops and Standard Rental Charges



Source: Japan Video Association and Organizing Association for International Audiovisual Software Fair

It could soon have 10 franchise stores throughout Japan. It sells Korean video machines for playback only for a low ¥24,800 (\$190), and videotapes go for just ¥450 (\$3.5) each.

How will the VCR industry change in the future? In the hardware field, analysts expect polarization between sophisticated, expensive machines and inexpensive units with only limited functions. Technological innovations will result in high-definition S-VHS and ED Beta machines offering imaging as good as that of one-inch professional VCRs on half-inch machines for home use. Functions will be upgraded and operations simplified through the use of bar codes or video displays. Digital circuits, meanwhile, will bring high-fidelity quality to speech and music. VCRs will be vastly improved, and more expensive.

Higher prices, conversely, will create a need for cheap machines stripped of all but their basic functions and retailing for

less than ¥50,000. The introduction of these low-priced VCR machines, either playback-only models or otherwise, will make it possible for the average family to own two machines, inevitably encouraging more copying at home. So-called video movies, incorporating video camera and VCR deck in a single unit, will also increase in popularity.

On the software side, the Copyright Law will be strengthened to prevent the manufacture of pirate editions. Even the display of pirate editions on a store shelf will be an offense, closing a loophole in the existing law, under which simply displaying pirated tapes does not constitute an infringement of "distribution rights." The revised law is expected to be passed by the Diet and take effect this autumn.

Diversification is also sure to continue. As one harbinger of change, the Japan Public Relations Association, representing the PR departments of local governments all over Japan, last year instituted for the first time a "video division" in its PR competition.

Scientists estimate that the amount of information transmitted by voice and sound is only 64 kilobits for every 10 megabits transmitted by pictures. VCRs, it would seem, are perfectly suited to today's information-oriented society.

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