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<th>Beyond the economic slowdown - broadcasting industries in Japan</th>
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<td><strong>Author(s)</strong></td>
<td>Ono, Yoshikuni</td>
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Paper No. 41
BEYOND THE ECONOMIC SLOWDOWN
- BROADCASTING INDUSTRIES IN JAPAN -

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Yoshikuni Ono
Japan Media Communication Center
BEYOND THE ECONOMIC SLOWDOWN
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[The Economic Crisis and its Impact on Asian Broadcasting Industries]

Two years have already passed since collapse of the Thai baht, which triggered the Asian currency and economic crisis. Economic globalisation and mutual dependence meant that the crisis affected not only Thailand - but extensive parts of Asia, including Indonesia, Malaysia, the Philippines, and South Korea.

These countries had previously attracted international attention as emerging markets that were achieving growth rates of nearly 10% per annum. But in the time of late 1997 these countries were in profound crisis, experiencing a collapse in their currencies and stock markets, numerous corporate bankruptcies and spiralling unemployment. The crisis fuelled social turmoil in Indonesia and brought about a change of government. Indonesia had its first democratic election at the end of May. Professor Paul Krugman of the Massachusetts Institute of Technology says the Asian miracle was an illusion. And if we look at what has happened, it may be difficult to deny this assertion.

The governments of the region responded by imposing tough financial and fiscal reforms, which have been criticised for even sacrificing the national livelihood. These countries were more or less able to escape the worst during 1998, and they are increasingly viewed as being on the path to recovery in 1999 (Fig. 1, 2).

The Asian Development Bank says South Korea and Malaysia can expect positive growth this year, while Thailand, the Philippines and Indonesia are expected to break out of minus growth. The Bank's prognosis is that the Asian economies will pick up, but it will take some time yet before they stabilise again.

Some people blame the currency and economic crisis on the flight of one trillion dollars from the Asian stock Markets. The flight dealt an
unprecedented blow to all economic sectors. The broadcasting industries were no exception; they were directly affected.

While the situation varies slightly in each country, the crisis led to massive cuts in government subsidies to broadcasters (sometimes as much as 50%), and drastic declines in the other source of revenue: advertising.

The broadcasting companies and organisations have had to engage in rigorous restructuring. They have cut staff and wages, and urged many employees to take early retirement. They have also reduced airtime, stopped buying foreign programmes, and cut their advertising charges and the high fees that they paid to actors and personalities. Broadcasters are also selling off affiliates, going private and delaying plans to launch full-scale satellite broadcasts (Fig. 3).

To give you some definite examples -

South Korea's KBS are now, in response to demands from the IMF, negotiating with the labour unions on downsizing. They have already cut the budget by 30%, the number of staff by 25%, and furthermore, they want to cut wages and salaries by 15 - 20%.

Elsewhere, the Singapore-based JET was forced to close down operations in March because of a drastic fall in advertising revenue. JET was established four years ago by the Japanese broadcaster TBS and some other Japanese companies. It had aired English and Chinese language versions of popular Japanese programmes.

Many broadcasters in the Asia region can boast histories that go back about half a century. Their histories were ones of growth and expansion. For the first time they are being forced to downsize in order to survive.

While everybody looks forward to an early economic recovery, the painful path will have to be travelled on for some time yet, perhaps several years to come.

Broadcasters are overhauling their operations; the emphasis is on transparency and accountability. The hope is that they will revive in the
near future as broadcasters that will have strong ties of trust with their public.

[Going Digital Amid Recession]

The Japanese economy has been sluggish ever since the bursting of the real estate and stock market inflated bubble in the early 1990s.

Japan was also buffeted by the Asian economic crisis; it experienced minus growth in 1997 and 1998 (Fig. 4).

The economic miasma is also having a negative impact on the broadcasting industries. It is taking the form of a decline in advertising income. Over the last ten years the amount of money spent on advertising has accounted for about 1% of GDP; TV advertising accounts for more than 30% of the total; and people in the industry expect that this trend may continue. Nearly 5.8 trillion yen ($48.3 billion) was spent on advertising in 1998, a decline of 3.5% compared to 1997. About 1.95 trillion yen ($16.2 billion) was spent on TV advertising, a drop of 2.9% (Fig. 5, 6). If we look at five major commercial broadcasters in the Tokyo area, we see all but one has experienced a drop in advertising revenue; two have seen a decline in profits as well. The other broadcaster experienced little change in income but suffered a fall in profit. Economists predict that the decline will continue for the next few years.

This has forced TV stations to postpone the building of new office facilities and to review their new investments. They are having to overhaul operations by cutting executive salary and benefits packages and by hiring less people.

The biggest headache for broadcasters, however, is trying to proceed smoothly with digital broadcasts, which will require massive amounts of investment.

Technical advances mean the introduction of digital broadcasts is a worldwide trend. Britain and the United States already started digital terrestrial broadcasts last year. At the NAB annual general meeting in Las Vegas in April, the president of Sony America, Howard Stringer, said broadcasters must go digital or die.
Let's consider the benefits of digital broadcasts -

First, the compression feature of digital enables multi-channel broadcasts; we will have three to ten times the amount of channels we have compared to analogue broadcasts.

Second, digital brings us clearer pictures in the form of High Definition Television.

Third, digital can bring about interactive services by fusing together broadcasts and telecommunications.

Fourth, digital opens the way to new services like data broadcasts.

And fifth, digital makes editing and modifying easier (Fig. 7)

I will digress here for a moment and mention a new type of pen that is available in the United States. The pen contains ink that is mixed with your DNA. There's a small trend now to sign important documents with this type of pen.

The pen is actually a by-product of digital technology, because finger prints and photographs are no longer a fail-safe means of proof. Digital technology can easily alter fingerprints and photos.

[The Timetable for Digitalisation]

Japan's Ministry of Posts and Telecommunications has come up with a schedule to digitise all TV broadcasts in Japan. It believes digital technology will be the advance soldiers of next century's information and telecommunications revolution.

In terms of television, people in Japan currently have access to terrestrial broadcasts, broadcast satellite-based (or so-called BS-based) services, communications satellite-based (or CS-based) services, and cable TV. Terrestrial TV is by far the predominate TV medium in Japan (Table 1).

The communications satellite-based services are already being digitised and offering multi-channel formats.
The Ministry of Posts and Telecommunications want to launch digital BS services in December 2000, followed by digital terrestrial services in the major cities from 2003; with all TV broadcasts including cable TV going digital by 2010 (Fig. 8).

The problem, however, is where are broadcasters going to get the vast sums of money needed for digital? And will the broadcasters be able to cope with such outlays?

[Switching Terrestrial Broadcasts Over to Digital - The Response from the Commercial Broadcasting Sector]

The Japan Centre for Economic Research expects the nation to experience minus growth until about 2002. Until then any economic up-swing will probably be of an ephemeral nature. The commercial broadcasting sector as a whole will have to spend 560 billion yen ($4.7 billion) on facilities and equipment to switch terrestrial services over to digital. Each commercial station on average will have to spend 4.5 billion yen ($37.5 million); the figure for stations in Tokyo and other major cities will be 15 billion ($125 million). Even the smallest regional TV stations will have to spend the equivalent of four to five years' worth of profits (Fig. 9). The National Association of Commercial Broadcasters in Japan expects that many stations will go into the red during 2000 or 2001. The commercial broadcasters say the costs are far beyond what they can afford - the commercial broadcasting industry currently invests 80 billion yen ($667 million) a year - and they have asked the government to foot some of the bill. They say if the government can't do this, they will have to delay the introduction of digital broadcasts until there is a definite economic recovery (Fig. 10).

[The Response from NHK]

The terrestrial TV broadcasts in Japan are carried out by commercial broadcasters and the public broadcaster, NHK.

As I mentioned earlier, the commercial broadcasters are facing the prospect of falling corporate revenues because less money is being spent on advertising. The commercial broadcasters will have a hard time...
trying to find the funds to go digital. NHK, however, has seen a steady increase in its revenue, despite the recession. In the 1998 financial year, NHK had 35 million subscribing households, which provided an income of 633.7 billion yen ($5.3 billion) - an all time high. NHK can't expect much more in the way of subscriptions for terrestrial services, but it has seen a 670,000 increase in the number of contracts for satellite broadcast services. Today nearly 10 million households subscribe to NHK satellite broadcast services (Fig. 11).

NHK is also trying to cut costs and restructure itself. It has set aside about 360 billion yen ($3 billion) for going digital. This is a huge sum when you consider NHK's capital investments have been in the range of 60 billion yen ($500 million) per annum over the past decade. NHK should be able to comply with the Ministry of Posts and Telecommunications timetable for the commencement of digital terrestrial broadcasts. Nevertheless switching terrestrial TV over to digital will require huge expenditures, which will bring little in the way of profits in the short-term. This is the situation for both NHK and the commercial broadcasters, and it explains why they're not overly enthusiastic about the task.

[A Difficult Start for Digital BS Services]

Broadcast satellite-based digital services are supposed to start late in 2000, ahead of the digital terrestrial broadcasts. NHK and JSB, or WOWOW, are currently providing BS services. They were launched ten years ago, and today one third of Japanese households are subscribers. Six other entities will join the BS sector. Digital compression technology will vastly increase the amount of channels. Each transponder will be able to provide two HDTV channels or six standard TV channels (Fig. 12).

The five major commercial broadcasters in the Tokyo area have each set up companies capitalised at 20 to 30 billion yen ($167 to $250 million). They've been able to get input from trading companies, as well as telecommunications and computer companies. These five concerns will provide unscrambled Hi-Vision (HDTV) broadcasts relying on advertising to provide income.

While production costs for Hi-Vision are more expensive compared
to standard TV programmes, programming budgets are actually $1/10$ to $1/20$ of the terrestrial services. But less is being spent on advertising during the current recession. The question is whether these companies will be able to attract people with a special and diverse range of programmes amid the severe financial constraints. The start of digital BS services probably isn't going to be easy.

[Communications Satellite-Based Services Mostly in the Red]

Sky PerfecTV and DirecTV are the two platforms for communications satellite-based services. They are providing a total of 225 fee-charging digital channels. But they've only been able to come up with 1.5 million subscribers; the great majority of channels are running at a loss (Fig. 13). Since this year the dismal business situation has forced six concerns to hand in their licences for 9 channels; 15 concerns have licences, but aren't providing services on 16 channels.

The communications satellite-based services have brought winds of change to the broadcasting industry; the multi-channel feature has enabled the entry of many newcomers. But the industry is being forced to reorganise and rationalise according to its own market principles. The launch of digital BS services will make the competition even hotter, and will probably force more companies out of business.

[Cable TV Industry Needs Help to Go Digital]

As of March 1999 there were 14 million cable TV subscribers in Japan. Forty percent of terrestrial channel viewers and 30% of BS channel viewers receive these services via cable. BS and terrestrial are slated to go digital from 2000 onwards. If cable doesn't follow suit, subscribers will miss out on the high definition picture quality and interactive services.

The Ministry of Posts and Telecommunications want the major cable companies in the cities to switch over to digital by 2005, with the rest following suit by 2010. But there are 720 cable entities, and the vast majority of them are very small establishments; and nearly 60% are in the red (Fig. 14).

To go digital, each cable company will have to invest about 10 billion
yen ($8.3 million) on optical fibre cables to hook up each household.

In the current financial year, which lasts till March next year, more than 70% of cable companies are worried to end up in the red. The industry alone just won’t be able to come up with the money for the necessary facilities and equipment. The Posts and Telecommunications Ministry is encouraging mergers and tie-ups, and it is also offering tax breaks. Once cable TV goes digital people will be able to enjoy better picture quality as well as Internet and telephone-linked services (Fig. 15). But the cable companies are already in tough times and the demand that they invest more money is something they won’t be able to solve on their own for the time being.

[A Tentative Summary]

I’ve given you an idea of the problems of going digital from the broadcasters’ perspective. But if we look at the issue from the viewers’ - that is, the public’s perspective - there are also many problems (Fig. 16).

First, although going digital is a worldwide trend brought about by technical innovation, and while it promises all sorts of possibilities, it has been something that has been egged on exclusively by bureaucrats. The voice of the public has hardly been heard.

Second, going digital is going to put a big financial burden on viewers as well.

To give you a better idea -

When BS services switch over to digital, people will need a converter tuner for their analogue receiver. The tuner will cost tens of thousand yen (few hundred dollars). If you want to enjoy high definition picture quality, then you will have to invest in a Hi-Vision receiver. The Hi-Vision receivers don’t come cheap; they cost over 300 thousand yen ($2,500) each. Although a fully digital HDTV receiver is no yet on the market, they say it will cost 1 million yen ($8,300).

The recession has led to corporate restructuring and unemployment. Japan’s unemployment rate stands at 4.8%, the worst figure since 1945. In this tough time, the average family isn’t likely to
spend a lot more money just so they can watch television.

Third, there’s been very little in the way of public relations to educate the public on what going digital will mean. The Electronic Industries Association of Japan found in a survey that only 41% of people are aware that TV broadcasts are going digital. The public will have to understand digital in order for it to spread. If the public isn’t interested, broadcasters will have to continue the analogue services in tandem with the digital services - an expensive proposition for broadcasters that they can’t be expected to bear for long.

So I hope I have given you an idea of the many difficulties facing the launch of digital TV services in Japan.

Japan is trying to go digital amid a dismal economic situation, broadcasters decision to a huge sum of investments, and the ambitions plan of the Posts and Telecommunications Ministry. I can not say at this stage how things will ultimately turn out. But I can at least say that mega-competition will occur not only amongst broadcasters, but also between broadcasters and other groups like communication and computer companies by digitalisation. Naturally there will be winners and losers. So we can expect a dramatic shake up in broadcasting industries (Fig. 17).

In the Asia region, which has suffered from economic crisis, we see that South Korea, China, Taiwan, Thailand, Malaysia, Singapore, India, Australia and New Zealand are among the places with plans to introduce digital TV; and they are watching the developments in Japan.

Digital is being likened to a Big Bang in the broadcasting sphere. It could be the trigger for all sorts of possibilities in the future. I think the question of whether digital TV will be a success in Japan will depend on whether TV broadcasters and people fully understand the significance and possibilities of digital technology. Japan is now in an economic recession. But I am sure the Japanese will display the spirit and effort to get Japan back on the path to recovery in the near future. I am also certain that the broadcasting industries in Japan will be able to cope with the problems that they face and be able to go fully digital by 2010.
Beyond the Economic Slowdown
- Broadcasting Industries in Japan -

Yoshikuni ONO
Japan Media Communication Center
Economic Growth Ratio

Southeastern Asia

- Malaysia
- Philippines
- Thailand
- Indonesia

GDP, resource: ADB

Figure 1
Economic Growth Ratio
- NIES -

Figure. 2

GDP, resource: ADB
Measures being taken by TV stations

- cut stuff
- cut wages
- urge many employees to take early retirement
- reduce airtime
- stop buying foreign programmes
- cut advertising charges
- cut programme production cost
Economic Growth Ratio in Japan

Figure 4

GDP, source: IMF

(estimated)
Figure 5: Comparative Expenditure for Advertising by Media (1998)

- TV: 34% (1.95 trillion yen, $16.2 billion)
- Newspaper: 20%
- Magazine: 7%
- Radio: 4%
- Others: 35%

Total: 5.8 trillion yen ($48 billion)
Figure 6

Growth Rate of TV Advertising Expenses

Source: NAB

(estimated)

12.0\% 10.0\% 8.0\% 6.0\% 4.0\% 2.0\% 0.0\% -2.0\% -4.0\%

97 98 99
Benefits of digital broadcasts

1. Multi-channel broadcasts
2. Clearer pictures
3. Interactive services
4. New services like data broadcasts
5. Easier editing and modification

Figure 7
### TV Broadcasting in Japan

<table>
<thead>
<tr>
<th>Service</th>
<th>Number of Subscribers</th>
<th>Public or Private</th>
<th>Access</th>
<th>Source of Fund</th>
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<td>Terrestrial TV</td>
<td>Households 45,000,000</td>
<td>Public Private</td>
<td>Free</td>
<td>Receiving fee</td>
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<td>Advertising sales</td>
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<tr>
<td>Satellite TV</td>
<td>BS 15,000,000</td>
<td>Public</td>
<td>Free</td>
<td>Receiving fee</td>
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<td>CATV</td>
<td>CS 1,500,000</td>
<td>Private</td>
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**Table. 1**
Proposed Digitalisation in Japan

- CS
- BS
- Terrestrial
- CATV

- the three designated areas
- the others

Figure 8
Switching over to Digital
- Terrestrial Broadcasts -

The commercial broadcasting sector as a whole:

will have to spend 560 billion yen ($4.7 billion) on facilities and equipment to switch terrestrial services over to digital.

* Average: 4.5 billion yen ($37.5 million)
Total Digital Investment
360 billion yen ($3 billion)

Δ Receiving fee from 35 million households
Δ Income: 633.7 billion yen ($5.3 billion)
(1998)
Figure 13

**Communication Satellite-Based Services**

- 2 Platforms provide 225 channels
- Subscribers, 1.5 million
- Mostly in the Red
- Competition will become even hotter with the launch of digital BS
Cable TV Industry
Needs Help to Go Digital

CATV

△ Subscribers: 14 million
△ 60% of operators are in the red
△ Digital investment:
   10 billion yen per operator
△ CATV industry needs help to go digital

Figure. 14
Issues from Viewers

- Bureaucrat-oriented policy
- Big financial burden
- Lack of public relations on digital
Figure 17

Economic Situation

Digital

Government

Broadcasters
AMIC 8TH ANNUAL CONFERENCE
Asia: Information Poor to Information Rich: Strategies for the 21st Century
1-3 July 1999
Chennai, India

DAY THREE

3 July 1999
WOMEN POWER IN THE WORKPLACE

By

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