

Nishioka, Yoko

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## Stability and Possible Change in the Japanese Broadcast Market: A Comparative Institutional Analysis

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# **Stability and Possible Change in the Japanese Broadcast Market:**

## **A Comparative Institutional Analysis**

Yoko Nishioka

Komazawa University

### **1. Global trends and OTT-V development in Japan**

Over the past twenty years, the convergence of telecommunications and broadcasting has become a critical issue. Countries have rearranged their legal environments and deployed broadband networks to prepare for this convergence. Recently, new competition has complicated the picture, as new types of media have begun providing over-the-top video (OTT-V) services, Netflix being chief among them. These new services may drastically transform the traditional market structure. After seeing the success of the British Broadcasting Corporation (BBC), the Japan Broadcasting Corporation, a public broadcaster known as NHK in Japan launched an OTT-V service in Japan. However, there were no major projects by private broadcasters until the “TVer” project, initiated by five key terrestrial broadcasters in 2015. TVer was actually established to improve usability and combat illegal viewing, not to aggressively seek profits. However, signaling a change, “AbemaTV” began as a joint effort between an IT venture and a key terrestrial broadcaster. Since 2016, it has provided a new OTT-V service based on the existing ad-supported terrestrial TV

business model. AbemaTV has been drawing relatively positive attention among the recent broadcasting projects.

This paper analyzes the players in the Japanese broadcast market and their relationships to determine why they have been slow in developing OTT-V services. This analysis is conducted through “comparative institutional analysis” (CIA), focusing on the “institutional arrangements” in the Japanese broadcasting industry.

## **2. Review of literature**

Research regarding the development of OTT-V was first discussed in 2013. Waterman, Sherman and Wook (2013) explored how “TVeverywhere” functioned as a price discrimination device for slowing multichannel video programming distributor (MVPD) disconnections. In recent years the far East Asia market, especially Korea, has been analyzed from various new service perspectives. Among them Lee, Park, Lee, and Brown (2014) identified the pay TV market size contributed to Internet Protocol television (IPTV) diffusion by regression analysis. In terms of ecosystem, Kima, Kimb, and Namc (2016) utilized the theory of the niche to analyze the competition in the Korean video platform market by comparing traditional pay TV and OTT.

There are few studies regarding OTT-V analysis in the Japanese market. Sugaya (2017) analyzed competition between multichannel markets utilizing set-top boxes (STBs) and OTT-V markets, and pointed out the different degree of barriers to entry between the two markets.

As for research utilizing CIA for the telecommunications industry, Nishioka and

Sugaya (2014) revealed how Japan's legislative framework for telecommunications had evolved toward a convergence of communications and broadcasting.

### **3. Research Method**

CIA developed under the new institutional economics (NIE) to analyze why various markets have different institutional arrangements, even for the same economic matters. Institutions are described as the "equilibrium[s] of the game," evolving endogenously through the interactions of economic agents in game domains based on evolutionary game theory (Aoki, 2001). While multiple equilibriums are possible in games, equilibrium actually occurs with path dependence, which means that different institutional arrangements develop in different economic-societal environments. Recognizing institutions as equilibriums also explains aspects of the mechanisms of institutional change. For example, institutions tend to resist change because of equilibrium's tendency toward inertia. In other words, institutions are "durable," and institutional change tends to progress gradually as long as destructive environmental changes do not occur.

Furthermore, CIA includes the concept of "institutional complementarity," in which institutions interlink in various ways and form overall institutional arrangements. Interlinked institutions require "co-evolution" to change, which makes them durable. Therefore, this paper examines the Japanese broadcast market's capacity for change by determining what "institutions" and "institutional arrangements" have been formed in the expanding broadcast domain by game players - broadcasters. This paper will find

out institutions by mainly looking at the program production and distribution system, and business customs in the broadcast industry domain.

#### **4. Analysis**

##### **Overview of the Japanese broadcast market**

In February 1953, the Japan Broadcasting Corporation, a public broadcaster known as NHK in Japan, started operating as a non-commercial broadcasting service. A private broadcaster, Nippon Television started broadcasting later the same year. Since then, terrestrial television has been central to the Japanese broadcasting industry.

Broadcasters' total sales were 3.8759 trillion yen in FY 2014 (Figure 1), and they have remained at about the same level since, while the share of terrestrial-based broadcasters has been increasing by even a small amount. Terrestrial private broadcasters accounted for 73.0% of the market among private broadcasters in 2014, but the ratio of revenue from sources other than broadcasting has been growing, averaging 51% among five key terrestrial broadcasters in 2015. Those broadcasters have tried to make up for shrinking advertising sales with other sales, such as movies, events, goods, and program exports (Yamaguchi, 2016).

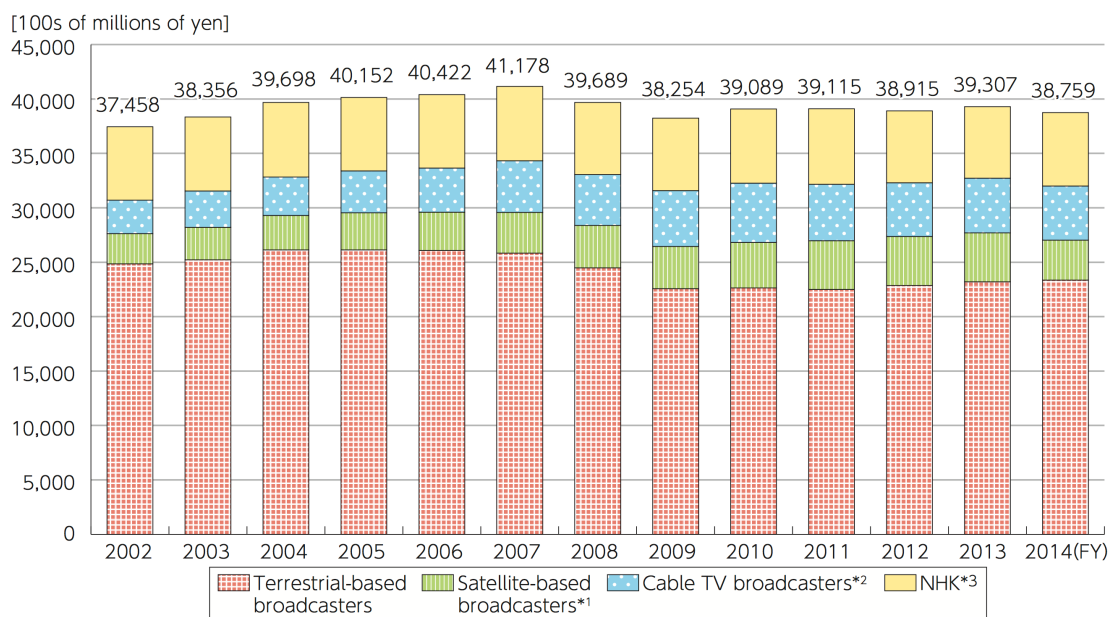
There are 127 private broadcasters in Japan, including terrestrial and satellite, mostly operate as network affiliates divided into five networks with key stations based in Tokyo. They cooperate in terms of gathering news, producing programs, and selling advertising, although they are not necessarily financially related. These key stations play important roles in running networks, and they are highly influential.

In Japan, no strict cross-ownership regulations of newspapers and broadcasters allow each key broadcaster to be affiliated with a national newspaper. Therefore, TV news show commentators are most often from those related newspaper companies.

NHK depends on reception fee revenues and operates terrestrial television and radio and satellite television. Receiving fees are collected from every household and business with TV receiving equipment.

The share of cable television among private broadcasters is 16% and that of satellite is 11%, and IPTV is categorized within cable television. In 1955, the first cable television station was formed at Ikaho Spa for the retransmission of terrestrial broadcasting. Cable television had been installed where the reception of terrestrial television was poor because of mountains and islands. Those cable television stations were usually small and financially weak, because they were originally set up only for the retransmission of terrestrial signals with local capitals. However, in the 1980s, cable television started providing multi-channel services in urban areas and gradually expanded their service menus to include Internet access, IP telephones, and mobile phones.

Satellite television has two types of platforms. One is using broadcasting satellite (BS) and the other is using communications satellite (CS). Satellite service first started in 1984, with BS being offered by NHK to remedy the poor reception of terrestrial television. BS offers viewers free channels, including NHK and terrestrial broadcaster affiliates, as well as several paid thematic channels, and the penetration of BS is still growing (Figure 2). There are two types of CS services using different satellites with more than 250 thematic TV and radio channels. The number of CS subscribers peaked in 2012 at 2.385 million.



Fiscal year		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Private broadcasters	Terrestrial-based broadcasters	24,863	25,229	26,153	26,138	26,091	25,847	24,493	22,574	22,655	22,502	22,870	23,216	23,375
	Community broadcasters included in total above*4	139	141	140	140	144	148	150	123	116	120	115	124	127
	Satellite-based broadcasters*1	2,769	2,995	3,158	3,414	3,525	3,737	3,905	3,887	4,185	4,490	4,510	4,491	3,661
	Cable TV broadcasters*2	3,076	3,330	3,533	3,850	4,050	4,746	4,667	5,134	5,437	5,177	4,931	5,030	4,975
NHK*3		6,750	6,803	6,855	6,749	6,756	6,848	6,624	6,659	6,812	6,946	6,604	6,570	6,748
Total		37,458	38,356	39,698	40,152	40,422	41,178	39,689	38,254	39,089	39,115	38,915	39,307	38,759

(Note 1) Figures for satellite-based broadcasters represent operating revenues from satellite-based broadcasting services.

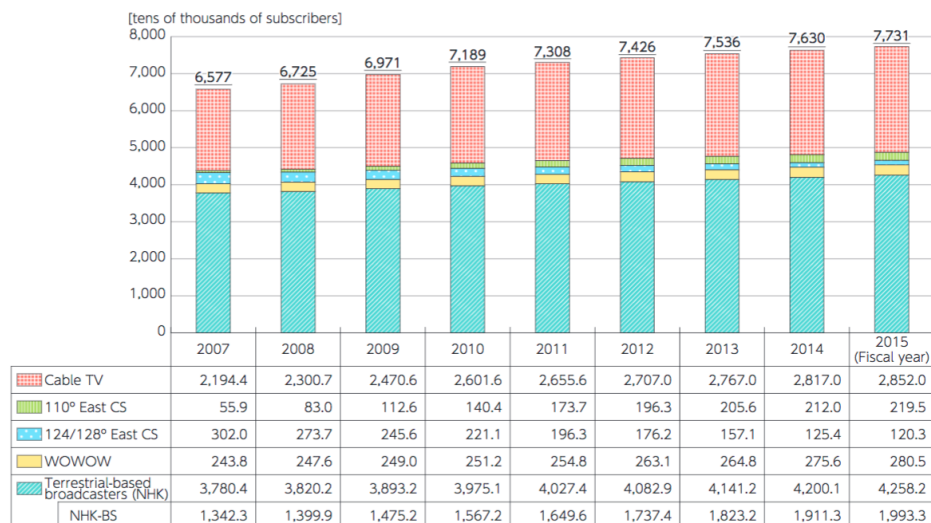
(Note 2) Cable TV broadcasters until FY 2010 were business enterprises providing independent broadcasting services with facilities licensed under the former licensing scheme (under the former Act on Cable Television Broadcasting. Note that facilities registered under the former Act on Broadcast on Telecommunications Services included those that use the same broadcasting method as facilities licensed under the former licensing scheme). From FY 2011 on, cable TV broadcasters were registered business enterprises with wired telecommunication facilities providing independent broadcasting services. (Both exclude business operators using IP multicasts.)

(Note 3) Figures for NHK represent ordinary operating income.

(Note 4) Community broadcasting operators that also provide cable TV broadcasting services are excluded.

Figure 1 Transitions in and breakdown of the broadcasting sector market size (total sales)

[Source: MIC (2016) White Paper: Information and Communications in Japan]



(Notes) NHK terrestrial subscribers are the number of all NHK subscription contracts.

NHK-BS subscribers are the number of NHK satellite contracts.

WOWOW subscribers are the number of WOWOW contracts.

124/ 128° East CS subscribers are the number of Sky PerfecTV premium service contracts.

110° East CS subscribers are the number of Sky PerfecTV contracts.

Cable TV subscribing households are the number of subscribing households to business enterprises providing independent broadcasting services with facilities licensed under the former licensing scheme, until FY 2010, and to registered business enterprises with wired telecommunication facilities providing independent broadcasting services, from FY 2011 on. (Both exclude broadcasts using IP multicasts.)

Figure 2 Subscribers to broadcasting services [Source: MIC (2016) White Paper:

Information and Communications in Japan]

## Production and distribution of broadcast programs

The Japanese content market earned 11.4722 trillion yen, 54.4% percent of which was attributable to video content, about 40% to text-based content, and less than 10% to audio-based content in 2014 (Figure 3). The video content segment, worth 6.2426 trillion yen, includes terrestrial TV programs, worth 2.8056 trillion yen; game software, worth 1.2211 trillion yen; satellite and cable TV broadcast programs, worth 905.2 billion yen; movies, worth 675.3 billion yen; videos, worth 421.6 billion yen; and original Internet videos, worth 213.8 billion yen. Broadcast programs in total valued at 3.71 trillion yen and they consist of



59% video content, while terrestrial TV programs make up for 45% of the video segment. Terrestrial TV programs are the core of the Japanese content market, with a market three times the size of the satellite and cable TV program markets. It seems to reflect the existence of five terrestrial networks, and they have a much greater budget than satellite and cable TV program productions. In addition, there is a minimal ethnic market in Japan.

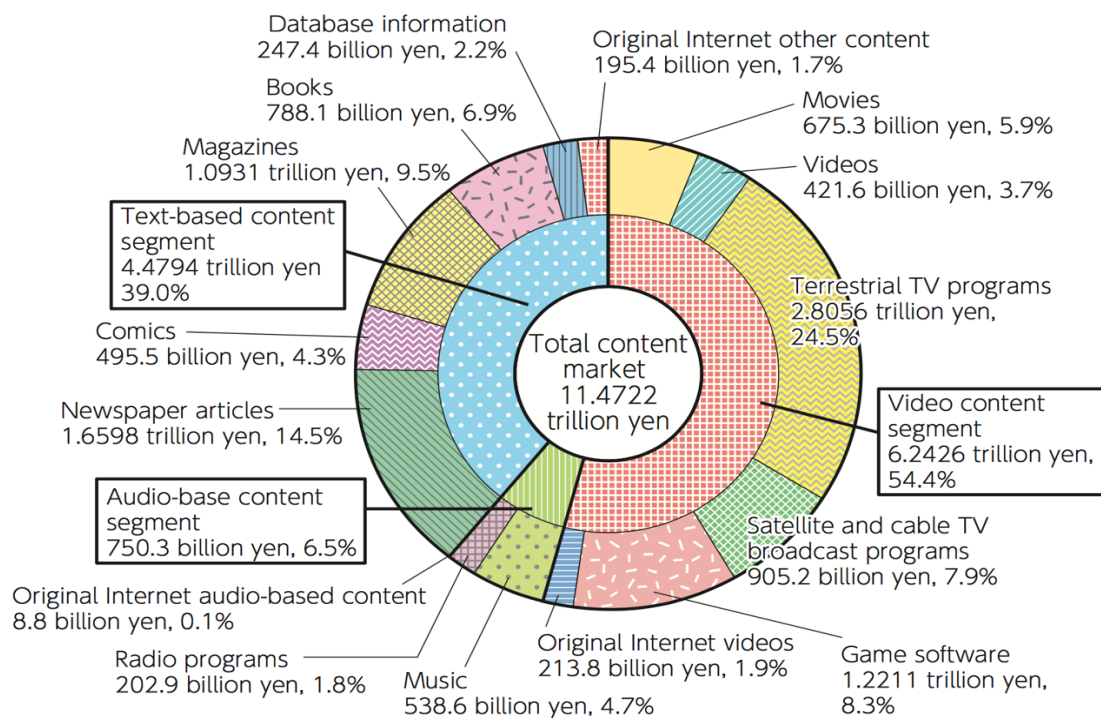


Figure 3 Breakdown of Japan's content market (2014) [Source: MIC (2016) White Paper: Information and Communications in Japan]

Five key broadcasters based in Tokyo produce and control these terrestrial programs for the national terrestrial networks, creating more than 90% of the programs by themselves. In contrast, local broadcasters, except major stations in the capital area, produce only about 9% of all programs broadcast by their stations (Murakami, 2015).

Key broadcasters collect advertising sales and produce TV programs that represent their networks. Meanwhile, local broadcasters send those given programs to local viewers and receive some part of the advertising fees earned by key broadcasters, and those programs are distributed strictly within the networks. This is the business model and custom developed and maintained in the Japanese terrestrial broadcast industry. Considering this business model, local stations have not been highly motivated to produce programs seriously. Actually, they produce only short local news programs and take part in information programs produced by key broadcasters.

The major free BS channels are affiliated with key terrestrial broadcasters, and there are many small independent thematic channels. The free BS channels affiliated with terrestrial broadcasters, as well as the Internet, play an important role in the cross-media strategies of TV networks. In addition, there are thematic subscription channels for both BS and CS, and those satellite channels are sent through cable television systems.

Cable television retransmits terrestrial and satellite channels and provides viewers with a few original channels, which are usually low-budget information programs about community news and events, such as local festivals.

Television programs are often produced by or in cooperation with program production companies, and most are small and financially weak. Because most terrestrial programs are produced and controlled by key stations, the primary clients of production companies, there is no substantial TV program market to which the production companies can sell their programs. Therefore, TV program productions are placed in a subordinate position to key broadcasters, and they often give up the program copyrights to them.

#### **4. Overall institutional arrangement and possibility for change**

In the Japanese broadcast market, the business models of each broadcast media which are interdependent among them which has been institutionalized. Terrestrial broadcasters have been central in the institutional arrangements through the history. Both cable television and satellite television started as remedies for the poor reception of terrestrial broadcasting. Key terrestrial broadcasters in Tokyo are essential providers of content to the Japanese content market. They play a central role in the TV networks as key stations. Not all local affiliates are financially connected to key stations; actually, those local stations rely on them in terms of business based on continuous business relations. Major free BS channels are affiliated with key terrestrial broadcasters and those BS channels often complement terrestrial programs. Cable television re-transmits the terrestrial channels and BS channels to attract potential viewers for free to their subscription service and to provide CS thematic channels for a fee. From the viewpoint of terrestrial and BS broadcasters, cable television functions well as an outlet for their programs for viewers suffering from poor reception. Local terrestrial broadcasters, cable television broadcasters, satellite broadcasters, and key terrestrial broadcasters play different roles that all depend on each other.

Besides local terrestrial broadcasters and cable television and satellite broadcasters, key terrestrial broadcasters hold influence over other related players. Although the actual programs produced by terrestrial programs rely on outside production companies, key terrestrial broadcasters hold a superior position over program production companies by controlling the overall program market. In addition, five key broadcasters work with affiliate national newspaper companies for news shows. Considering that program production

companies actually have practical abilities in program production and that newspaper companies are supposedly better at gathering news than broadcasters, current business customs allow key terrestrial broadcasters to avoid and control potential major competitors effectively in terms of the development of OTT-V, which can be realized without broadcast channels.

Each of the above business customs has been taken for granted over time, which means each has been institutionalized, and we can observe the intricate institutional arrangement developed around key terrestrial broadcasters who are superior to the other players in the broadcasting market. The current institutional arrangement, where institutions are inter-linked, is rather complete for existing broadcasting businesses and it requires co-evolution for change. Especially, terrestrial broadcasters have been positive in maintaining the existing ad-supported broadcasting business model and reluctant to pick up OTT-V, which would dismiss the value of broadcasting licenses and privileges. That is why the Japanese development of the OTT-V market has been slow. At the same time, they need reliable measures of their advertising sales losses and changes in viewer habits. AbemaTV, an ad-supported Internet television service, would be a good compromise for key terrestrial broadcasters. Therefore, AbemaTV is the Japanese response in the OTT-V era. For the further development of OTT-V in Japan, it seems that the more positive involvement of terrestrial broadcasters would be required.

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