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The Structure of the Filmed Entertainment Industry in Japan: Under the Influence of Blurring Boundaries

by Yoko KAGAMI

Introduction

The development of digital multimedia technology has certainly made a rapid change in many industries' structures around the world.[1] The economic, social, cultural and political structures are gradually integrated by the technology developments. It is particularly influential to the so-called "content business", which relates movies, VCR, TV programs, games, music, books, newspapers, magazines and internet businesses worldwide. Those industries in Japan are without exceptions. To make the best use of the multi-use media, everyone could offer one piece of content to different audiences. Once the content is a kind of a production of commercialized cultural artifacts, which understood in the broadest sense from designer clothing and household objects to recorded music and television programs, they have always a possibility for rapidly becoming one of the new leading edges of contemporary capitalism.[2] Therefore, this technology development often provides such circumstances as no other set of industries has seen so rapid a change in regulation, technology and structure as telecommunication, information, and entertainment industries. That is to say, the borders between those industries and their related peripheral industries have continually blurred. The speed and intensity of this convergence seems to be unusual. Under the unpredictably evolving business environment, how does the paradigm of inter-organizational relations change with a number of established companies facing an influx of newcomers who take advantage of new technologies? How do we grasp the characteristics of industry structure in such circumstances as the competitive pressures, which pervade any industry, drive convergence? The purpose of this paper is to make a survey for these complicated situations in Japan for further research of these unforeseeably changing industry environments.

* Yoko KAGAMI, Ph.D. is a full-time lecturer in corporate strategy and its theory in the Department of Business Administration at Komazawa University, Tokyo, Japan.

Blurring Boundaries

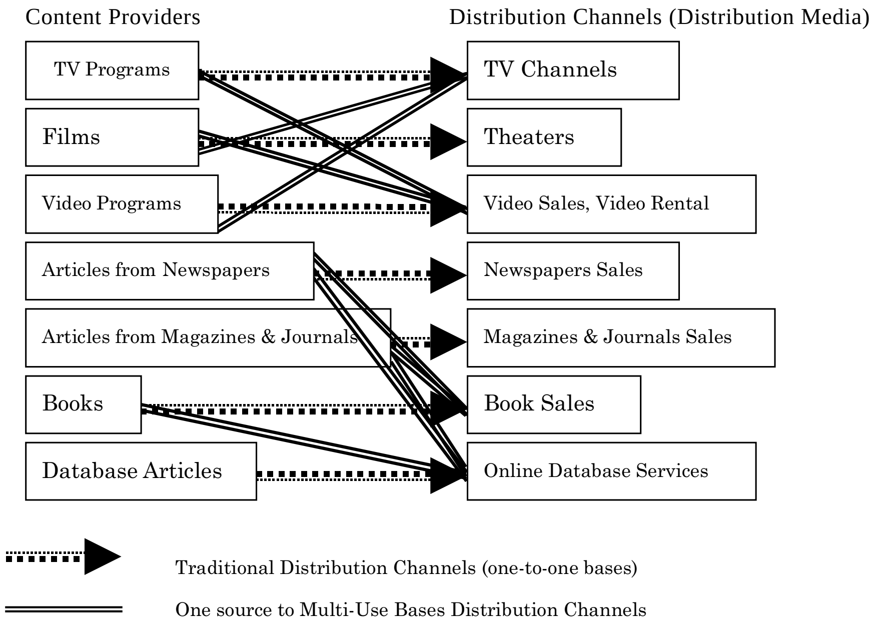
Technology development of digital multimedia causes the convergence of the entertainment, information, telecommunications, cable and computer industries or other sub-sectors, which encompasses all the other sub-sectors. For example, in the 1990s the entertainment industry was reported three key phrases in order to grow.[3]

(1) Digitization is the technology;
(2) Integration is the strategy;
(3) Globalization is the business imperative.

The telecommunications and cable companies are in a frantic race to these three concepts and install the fiber optic cables, which are capable of carrying broadband, multi-channel digital signals. Meanwhile, the computer companies are positioned to supply the hardware and software required to drive the multimedia experience, and the entertainment and information companies are positioned to supply the content.[4] Taking an example from feature film production, distribution and exhibition, and the studio's businesses have grown to include television production and distribution, broad-casting, video, pay TV, cable networks, telecommunications, satellite systems, radio, film processing, theme parks, retail stores, publishing and music. The core content holders to be utilized in multi-industry seem to be a king of almost all industries.

However, there is a further point, which needs to be clarified. It is of great importance to understand the differing strategic positions of the content providers and the distribution channels as well as of those who wish to control them and those simply looking for a good return on investment in a growth market. In other words, we need to clarify the players who take the different strategic positions. One is the player who is seeking to dominate the industry by being "content providers": producers and manufacturers of films, music, television and video programs, computer games and information. The other is who seek to dominate the distribution channels and delivery formats: cinemas, television and radio channels, computer games platforms and on-line services. The relationships among those are indicated in Figure 1. And there are two further dimensions. There are those players who are seeking to dominate both content and channel, and there are non-entertainment conglomerates who, apparently, seek to dominate neither – their strategy is to create shareholder value by buying, growing and selling entertainment assets[5]. They appear to have no long-term interest in entertainment but is asset traders looking for a good return on investment in a growth market.

Figure 1 Relationships between Content Providers and Distributors



Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications (1998). *Complete Research on Media Soft*, p.23, Translated and partly revised by the author.

Table 1 Size and growth of entertainment software 1992-1997

Country	Currency	1992	1993	1994	1995	1996	1997
France	FF	17,700mil.	+9%	+20%	+29%	+40%	+51%
Italy	Lire	1643bil.	+8%	+18%	+29%	+41%	+52%
Germany	DM	10,385mil.	+3%	+6%	+18%	+25%	+32%
Spain	Ptas	203bil.	+3%	+11%	+18%	+25%	+32%
UK	Pound	2432mil.	+6%	+12%	+15%	+16%	+17%
USA	Dollar	19,366mil.	+4%	+9%	+16%	+22%	+27%
Japan	Yen	1812bil.	+4%	+10%	+15%	+19%	+24%

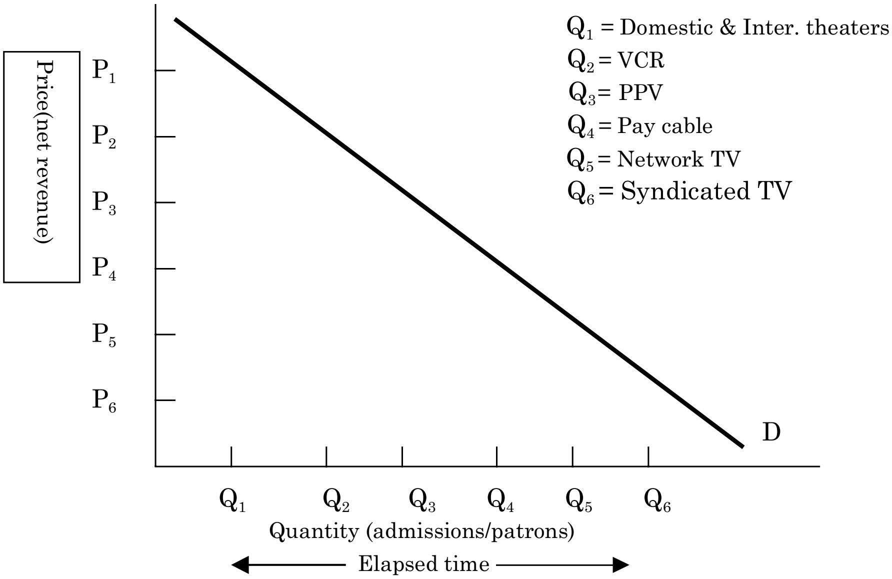
Source: Entertainment Software (1994). *Euromonitor Market Direction Report, London.*

It is possible to see the global market for entertainment software, which includes content providers, distributors for the content as indicated before. The growth with sales by value on the rise in all major markets is shown in Table 1 as follows. According to their reports on 1994, traditional media such as books, newspapers and broadcasting were expected to grow at an average 5-7% for the next few years. On the other hand, the new multimedia related software and on-line services looked set to grow at more than double this rate. These forecast growth rates are considered to be the prime driver in the massive number of mergers and acquisitions, strategic alliances and joint ventures, which are causing the rapid re-configuring of traditional industry sectors during the end of twentieth century and still now.

Barry R. Litman also mentioned these phenomena such as new succeeding technologies, which are pay cable, VCR, pay-per-view, and now fiber-optic video-on-demand have arrived, the studios welcome them with open arms and adjust their exhibition sequence accordingly to maximize the present value of profits across the many new exhibition windows.[6] There is a good reason for the studios to welcome the new technologies. The underlying economic theory behind "windowing." According to this theory, the firm with substantial market power can maximize profits by segmenting consumers into clearly distinct groupings, with different elasticities of demand, and charging them their "reservation price," that is, the highest price that they would be willing and able to pay for this product rather than just the single equilibrium price that the firm would normally determine under the standard theory of monopoly pricing.[7] Litman continues that in the context of the motion picture Industry, the customer classes correspond to the different exhibition windows and the profit maximizing objective of the distributor is to sequence these windows according to whichever customer class is willing to pay the next highest price (or net contribution to revenue).[8] This situation is depicted in Figure 2.

As shown in Table 2, actual situations concerning "content" in a broad sense are expressed as "one source to multi-use." One piece of content will be utilized as versatile materials. For example, "content-A" is first released in media-A as a window strategy, secondly utilized in media-B as second window strategy, then, continuously multi-utilized in media-C and media-D.

Figure 2 "Windowing Model" for Motion Pictures



Source: LITMAN Barry R. (2000). "The Structure of the Film Industry", p.101

Table 2 Framework for the Actual Use of One Piece of Content

	Media-A	Media-B	Media-C	Media-D	Media-E
Content-A	MarketA-1 (1st Window)	MarketA-2 (2ndWindow)	MarketA-3 (3rd Window)	MarketA-4 (4th Window)	
Content-B		MarketB-1 (1st Window)	MarketB-2 (2nd Window)	MarketB-3 (3rd Window)	
Content-C	MarketC-2 (2nd Window)	MarketC-3 (3rd Window)	MarketC-1 (1st Window)		
Content-D				MarketD-2 (2nd Window)	MarketD-1 (1st Window)
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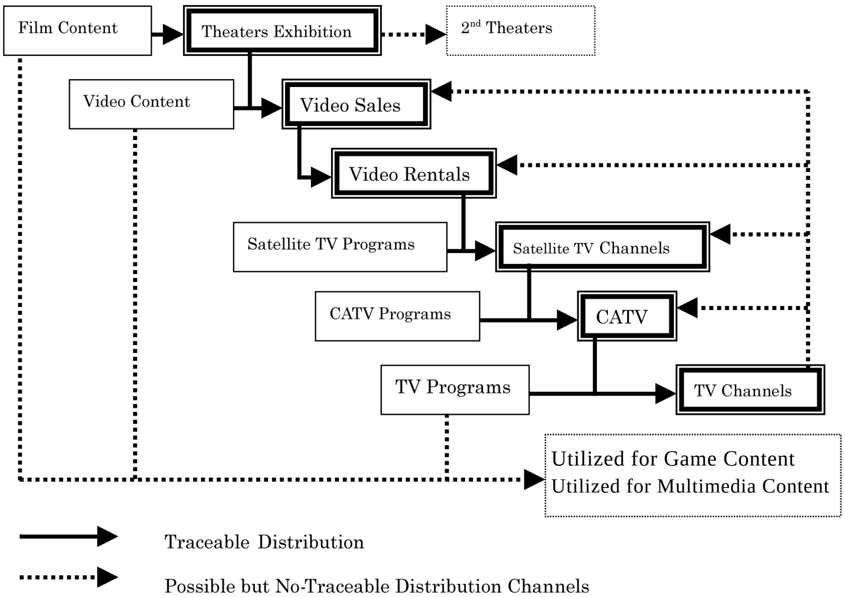
Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications (1998). *Complete Research on Media Soft*, p.31, Translated and partly revised by the author.

Film content in the entertainment industry shows us one of the typical examples of multi-used content structure. Figure 3 shows the structure of "one-source to multi-used" cases. The players in the film are raised as follows; film studios, music companies, broadcast and cable television, and suppliers of interactive platforms through the Internet. Those players sometimes move around one piece of film content as if it is the money tree that the goose that lays the golden egg. As a framework of investigation, the structure and strategies of the players will be presented in the following section.

Figure 3 One-Source to Multi-Use Structure and Content Classifications



Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications (1998). *Complete Research on Media Soft*, p.32 Translated and partly revised by the author.

Structure of Film Industry in Japan

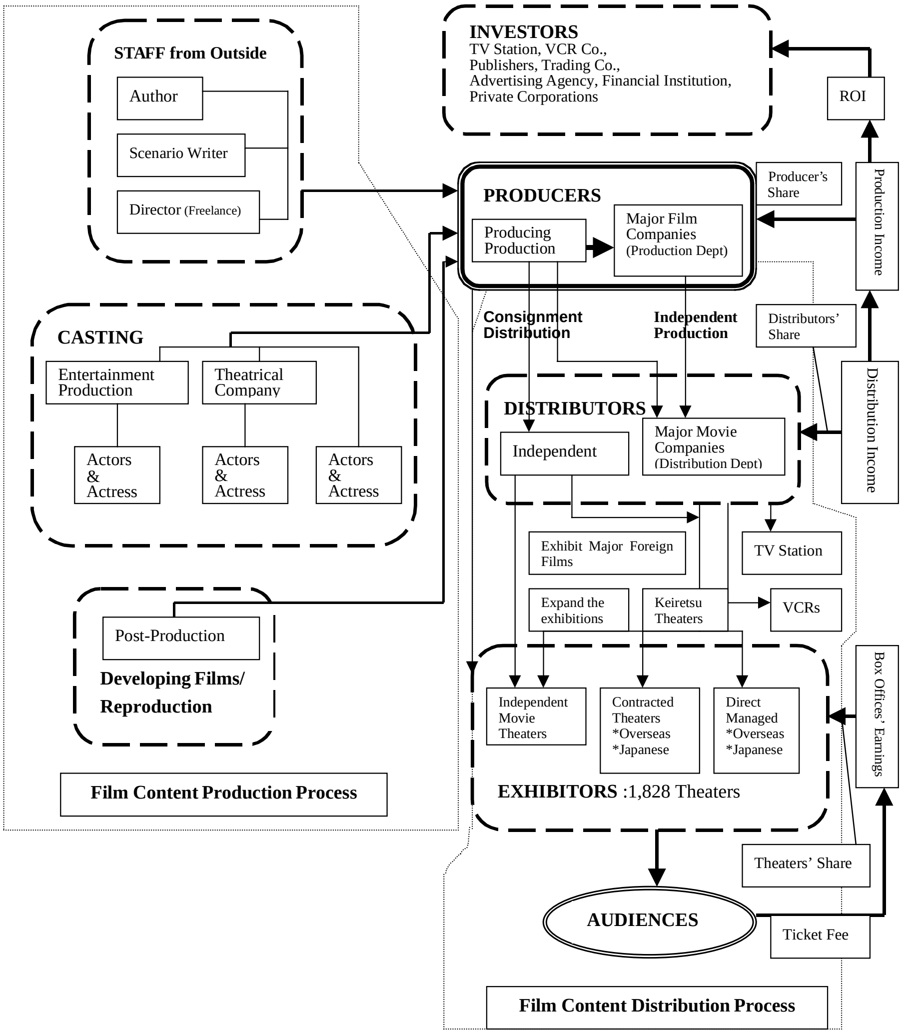
Commercial films produced in Japan have focused on showing in the local theaters. The numbers of theaters in Japan is growing year by year. The number of the screens this year reaches almost 2,230 screens, which is the increase of 237 screens compared to last year. The growth of the screens is contributed by the cinema complex, such as Warner-Mycal, AMC, UCI, Virgin, which are mostly from the United States. Moreover, periodically discounted prices, improvement in the facilities in the theaters have made audiences from young to adult come back to see the movies. These movements are considered mainly because of the effect of cinema complex located in the suburb area as well as in the center of a city. More than half of he films exhibited in the theaters are products imported from overseas. Therefore, inevitably on the number of audiences and the net income overseas movies have largely exceeded Japanese movies. Major productions holding distribution channels all over this country originally had played a big role in making movies in Japan. However, recently instead of major productions, movies produced by independent productions are gradually increasing. This trend is considered as advancing toward differentiation or specialization between the roles of production and distribution. As the United States, Japanese film industry tends to move to differentiate as functional. As follows, Figure 4 and Figure 5 are the structure of film Industry and film content market and its size in Japan.

Role of Cinema Complex in Japan

Especially in the year of 2001, the role of cinema complex in Japan resulted in getting a great deal of attention. According to the chairman of Toho Co. Ltd., Mr. Matsuoka[9], most of the audiences made the best use of the advantage of cinema complex, which holds plural screens in each theater. Both the domestic film called “Sen to Chihiro no Monogatari (The story of Sen and Chihiro)” and the american film called “A.I.” had the benefit of synergy effects such as the audiences felt like seeing the other movie next time since they were easy to feel the atmosphere of movie-goers to see the both. Success of a film served as the stimulus for the other film. Cinema complex has only the opportunity since they have plural screens at the same place.

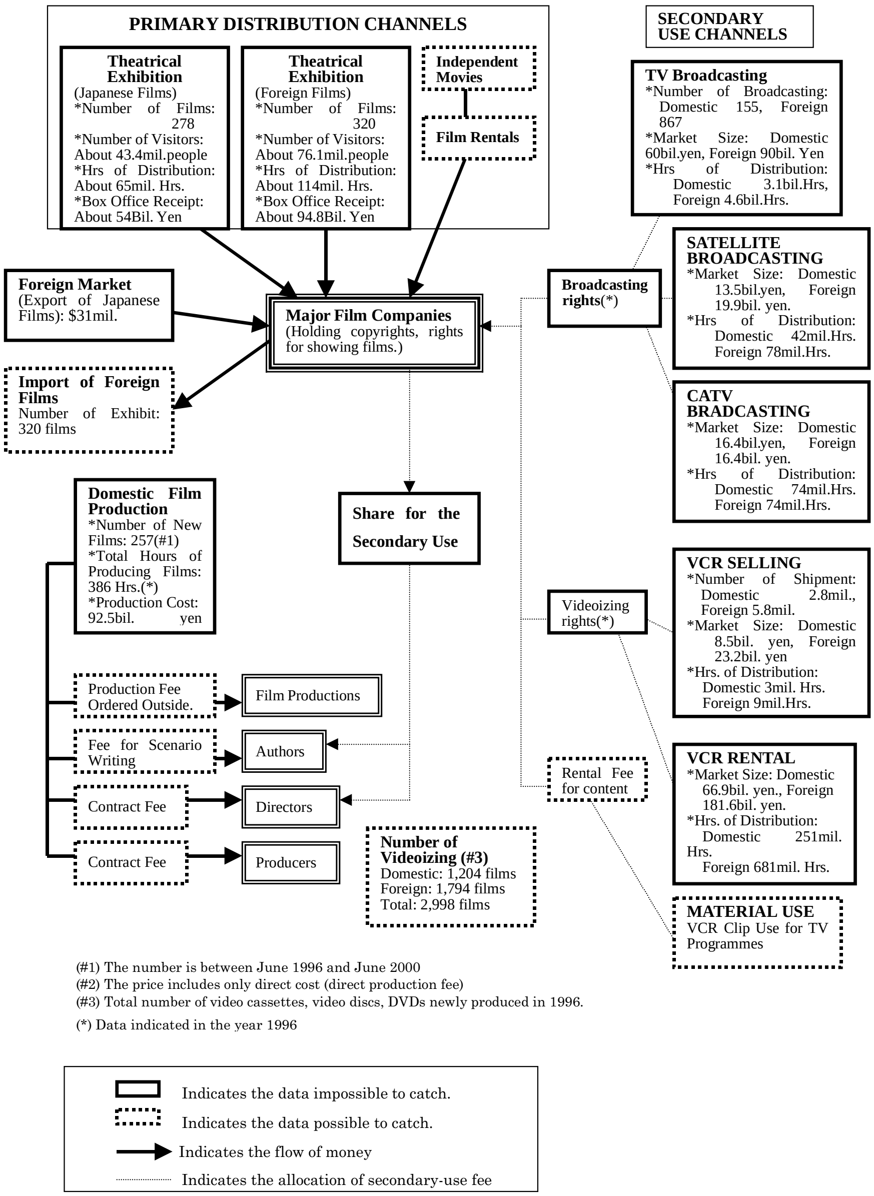
The first cinema complex in Japan came from the United States in 1991. That is Warner Bros. International Theatres. They have just surpassed its 106th multiplex, currently has more than 950 screens in 7 territories outside the United States, including the United Kingdom, Japan, Australia, Portugal, Spain, Italy and Taiwan. One of the pioneers of multiplexing in the international marketplace, Warner Bros. is a world leader in the design, construction, development and operation of multiplex cinemas. Warner Bros. International Theatres is undergoing a period of dynamic expansion with its strategic partners. Their policies to go businessoutside the United States are only alliances with local players. The partners they selected worldwide are as follows: Village Roadshow in UK, Australia and Taiwan, Village Roadshow and Focus in Italy, Mycal Corporation in Japan, Lusomundo S.p.A in Portugal, Lusomundo and Sogecable in Spain.

Figure 4 Structure of Film Industry in Japan



Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications (1998). *Complete Research on Media Soft*, p.32, Translated and partly revised by the author.

Figure 5 Structure of Film Content Market and its Size



Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications (1998). *Complete Research on Media Soft*, p.32, Translated and partly revised by the author.

President of Warner Bros. International Theatres, Mr. Orches told us[10] that their business for the international theatres in 2001 represents almost 50% of their total revenue. Therefore, Japan is an important country in their developing program. Before the cinema complex came to Japan, people living in local area in Japan has a fewer opportunity to visit theatres to see the movies than the people living in the center of the cities. Now, as cinema complex is enlarging on the outskirts of the cities tied-up with a large-scale suburban shopping store, the number of audiences is drastically increasing. In that sense, there seems to be a big opportunity to meet the needs around this country. As Mr. Orches said, especially in Japan they have a national building program for 72 locations in next five years, and working on 33 locations right now. Mycal gives all the names of new projects and they go out and analyze whether they think it is a good location. In addition, their strategy to globalize the theatrical exhibition only goes for joint-venture or collaborations with local companies. The reason for this collaboration strategy is just a simple as to get local knowledge and help them get through the planning issues. Without the local partners, it is definitely difficult to expand the business outside the United States. In order to keep the good relationships with local partners for a long time, they make an effort to find “a nice fit.” For example, in Spain and Portugal, they choose the media group, because they are media company, while there are lots of similarity and lots of different plans. In other words, they share resources, share expenses to hope to generate profits and finally to create synergies between all divisions.

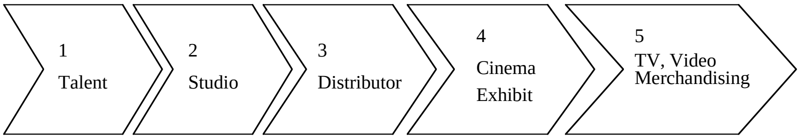
In Japan emergence of cinema complex results in increasing the number of moviegoers even in the suburb. This is considered to be the synergy effects on plural screens, shopping centers, and the technologies mainly from the United States. Those synergy effects have certainly become diversified for our way of spending weekends or holidays.

Functionally Differentiated US Film Industry

In the US, film studios are one of the best users of the new technology, such as interactive digital multimedia throughout the world. In other word, film studios are the great content providers, pumping the American dream into their cinemas, televisions and VCRs. These companies dominate the global entertainment industry due to the mass attractiveness of the medium to consumers worldwide. The major Hollywood studios are not what they once were[11]. From being legendary Los Angeles-based dream factories solely dedicated to the creation of cinema entertainment for the masses, they have become involved in a vast range of business activities beyond just movies. While the names of the studios are recognizable, the ownership structure has changed radically, underlining the advantages that corporate strategists saw in economies of scale and scope.[12]

The studios have always been vertically integrated. As Figure 6 in the following shows the value chain in the film products market, the studios owned Stage 1, 2, 3 and 4 of the chain in the 1920s and 1930s.

Figure 6 Value Chain in the Film, TV, and Video Markets



First to leave the chain was Stage 1 as the talent found its power outside the studio system, which resulted in forming a strong organization as the talent guild in Hollywood. Then, Stage 4, the cinemas, were generally spun off as property assets by the end of the 1960s, leaving the studios with Stage 2 and 3, and organically grown video and merchandising in Stage 5.[13]

It is only the 1980s that they have moved to re-integrate vertically as a different intention as mentioned in the following section. They have moved and have sought to acquire assets further down the value chain.[14] From feature film production, distribution and exhibition, the studios' businesses, have grown to include television production and distribution, broadcasting, video, pay TV, cable networks, telecommunications, satellite systems, radio, film processing, theme parks, retail stores, publishing and music or even more. It is said that history is being repeated in the recent entry of the film studios into the interactive entertainment business. Just as in the early 1980s, when Hollywood slowly woke up to the immense revenue generating opportunity created by the advent of the VCR, so the majors have realized that huge sums are and will be spent in consuming interactive entertainment on CD-ROM. It is also true that computer game can now out-gross a blockbuster movie, and the studios want a slice of the revenue stream. They also believe that the technological trend towards greater realism and cinematic quality plays to their strengths – enabling them to exploit their vast creative talent base and the huge marketing value of their rights.[15] The studios' strength in the movie business is built on distribution power and they are trying to establish a similar dominance in multimedia. Therefore, the media companies, which survive, will have to develop content – films, TV programs, books, music – and find outlets or distribution systems for those products. Technological development will have the greatest long-term impact since it will lead to an enormous proliferation of channels, allowing operators to create services targeted on ever-narrower segments of the population and permitting on-demand interactive access for subscribers.

Under these circumstances, the value chain in the long term will be dramatically changed. The entertainment company makes a product, loads it onto its mainframe server located in one place in the world, promotes its existence and waits for the consumer to come and access it, paying their fees direct to the entertainment company. In time the distributor will be integrated and both the retailer and the television/radio broadcaster will be cut out of the distribution chain. The map of cross sector alliances is extensive, while acquisitions are the key driver within one sector, which is entertainment. Competitive advantage may lie with those companies, which can become both content providers and owners of distribution channels and delivery platforms.

Effective Collaborations

As Hollywood moves into the interactive digital multimedia era, a dual strategy appears to emerge. On the one hand, companies are growing organically by exploiting new uses for their own intellectual property rights assets and for the interactive software formats. At the same time, other corporations are making acquisitions to improve their competitive position by gaining ownership of a broader spectrum of assets and rights. Within the entertainment industry, acquisitions have driven structural change since 1988. Outside the entertainment industry, in telecommunications and cable distribution, strategic alliances are likely to be arranged following the recent example of NewsCorp's collaboration with BT and MCI.

The advantage of strategic alliances over acquisitions[16] is the ability to gain access to a wide range of technologies and markets at a low cost while keeping other options open. In such a rapidly changing business environment as the converging entertainment, information, telecommunications, cable and computer sectors, it is hardly surprising that the map of cross-sector alliances is so extensive. At the same time, the most significant activity within the entertainment sector is driven by acquisitions in the same sector. There should always be a 'value creation logic' to the alliance if it is to work and value is created through[17]: 1) access to new markets, 2) acquisition of technologies and skills, 3) achievement of economies, 4) spreading of risks, and 5) reducing competition. It is surprising in a way that not so many strategic alliances have so far been arranged in the entertainment industry or between entertainment and telecommunications.

In the establishment of widespread on-line services, many new players of medium size will emerge. Also in the Japanese film industry, as the technologies have advanced, the structure of producing and distributing movies has resulted in diverge from individual productions to major productions. These advanced technological services are likely to transform the current leisure and software retail structures and should be monitored. In any case, vertical integration and diversification will be considered cyclical not only in the US market but also in the Japanese film Industry.

NOTES

1. KAGAMI Yoko (2001). "A Framework for the Study of Content Businesses in Entertainment Industry – in the Context of Inter-Industry Alliances-," Komazawa Business Review, 33.
2. GRIFITTH M.W. and TAYLOR Bernard. "The Future for Multimedia – the Battle for World Dominance," *Long Range Planning, Vol.29, No.5*, Elsevier Science, October 1996, p.643.
3. Ibid, p.643.
4. Ibid, p.643.
5. Ibid, p.644.
6. LITMAN Barry R. (2000). "The Structure of the Film Industry: Windows of Exhibition," In GRECO Albert N. (eds), *The Media And Entertainment Industries*, p.99.
7. Ibid, p.100.
8. Ibid, p.101. Each quantity segment corresponds to a different exhibition window. The sequential order is theatrical exhibition (both domestic and international) followed by VCR, pay-per-view, pay cable, network TV, and syndication. When video-on-demand is fully operational in the next millennium, it can be expected to move to the front of the line, perhaps even challenging theatrical exhibition as the primary exhibition window and "launching pad."
9. *Nihon Keizai Shimbun* (2001). "Natsu no Eiga Zekkouchou. Cinekon no Eikyo Ookii. [Movies are hot in the summer 2001, Cinema Complex is quite effective.] September 17: 14.
10. The interviews with President of Warner Bros. International Theatres, Mr. ORCHES, were directly conducted by the author at Time Warner's Hollywood Studio, Burbank, USA, on September 11, 2000.
11. GRIFITTH M.W. and TAYLOR Bernard, p.645.
12. Standard and Poor's (1997) reported that distributors began returning to theater ownership in the1980s, and that they have ownership stakes in about 2,300 US screens or about 8% of the nationwide total. Also they said that vertical integration of production-distribution and first-run exhibition seems to have increased. In the 1930s and 1940s, vertical integration was the norm. Currently, the impact of vertical integration is reexamined its effectiveness to lower an admission price and to increase the profits for filmmakers and theaters. (BLACKSTONE Erwin A. and BOWMAN Gary W.. 1999. "Vertical integration in motion pictures," *Journal of Communication*, Oxford University Press, England, p.123.)
13. GRIFITTH M.W. and TAYLOR Bernard, p.645.
14. Ibid, p.646.
15. Ibid, p.647.

16. KAGAMI Yoko. 1999. “Strategic Alliances Revisited,”
17. DOZ Y. The role of partnerships and alliances in the European industrial restructuring, In K. COOL, D. NEVAN and I. WALTERS (eds), European Industrial Restructuring in the 1990s, Macmillan, London.

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