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Speakers

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AS ⇒Asa Suehira, Aniplex, Inc.

KO ⇒Ken Ohtake, President, Sony Music Publishing(Japan), Inc.

SM ⇒Sebastian Mair, Fujipacific Music Inc. (EMI Music Publishing Japan Ltd.)

Reporter

MT ⇒Midori Takayama, Recording Industries Association of Japan

A: Good morning ladies and gentlemen, and welcome to this session. My name is Alexander Abramoff. I was born, raised and educated in Japan, and I have been with the Japanese music industry for more than 30 years. I now run an entertainment consultancy in Tokyo called AIA International. It is my pleasure to MC this session today; the session entitled 'Japan Music Industries and Market Update 2008'. Through this session, we'll have an overview of the Japanese music market, and we'll have a close look at its digital scene. And then we'll talk about how active Japanese companies are overseas, trying to exploit their creative assets. We then will be taking plenty of time for a questions-and-answers session and we'll try to answer questions you may have on the Japanese music market.

Now in order to use our limited time efficiently, I would like to go straight to our speakers. Our first speaker today is Midori Takayama, senior staff (member) of the

Recording Industry Association of Japan (RIAJ), the governing body of the recording industry in Japan. Midori—will give us an overview of the Japanese music market.



MT: Thank you, Master of Ceremony and good morning everyone. My name is Midori Takayama from Recording Industry Association of Japan (RIAJ) and I'm working for the public relations department. Today my topic is an overview of the Japanese recording industry. And I hope this will be the starter for a later discussion or later presentation. So let me start.

This is the contents of my presentation. First, our profile and characteristics of the Japanese music market. I'll touch on some statistical data from the Japanese market, digital music and number of debut artists. CD rental shops and resale price maintenance system are very unique features of the Japanese market. And lastly I'll talk about the mobile market.

This is a profile of RIAJ. We were established 66 years ago, and became IFPI National Group 31 years ago. Our members (include) 45 record companies. And our activities are roughly divided into two groups. One is a trade association and another is a collecting society for record producers.

This is the characteristic of Japanese music market. I'll explain the first two things, resale price maintenance system, CD rental business a little bit more in detail later; low physical piracy. A high ratio of domestic repertoire on the physical production, our domestic repertoire amounts to 79%. As for the digital market, the distinctive feature is the mobile phone that is dominant.

This is the market size of the Japanese recording industry since 1990. We recorded the highest sales in 1998. The next year, from 1999 our physical products continued to decline. But our physical market, that is sound recording and music videos, plus digital music tend to be stable or slightly increasing for the last three years. Digital music now amounts to 16% of the entire music market.

Next page, I'll touch upon the digital music market. This is the transition of the digital music market in Japan. The bar chart shows quarterly figures. We started collecting the sales data from our members from 2005 and experienced a 50% increase for the last two years. You can see that 90% was sold via mobile phone in the digital field. The remarkable thing to say is the Japanese band called GReeeeen, achieved one million full ringtone sales via mobile phone, the first in the world. Sakai san will touch upon that later in his presentation.

This is the number of debut artists. Since 1999 we have been experiencing the biggest sales decline. As you could see (this in) the previous chart. In accordance with this negative sales growth, the number of new artists declined by 50% around 2000. However, we review the importance of new artists in our industry and reconsider the



cost of new releases in effective marketing of new artists, and try to let many new artists debut. But until now the number has totally recovered.

From now, I'll touch on two features of the Japanese music market. One is the rental shop. This is a transition of the CD rental market. And Japan is the only country that has legal CD rental shops. And you can see the number of CD rental shops is decreasing from this chart. However (The) floor space is not decreasing because of the change of store type. Two big CD rental chain companies with large capital opened stores all over Japan. That is because the floor shop is not decreasing.

We do not think the CD rental shop is favorable for us. But at the time of 1980 the first CD rental shop was opened in Japan, we did not have rental rights. The rental shop increased sharply in a short period, and reached more than six thousand in 10 years. We can't do anything because we don't have rental right. So we lobbied strongly and in 1985 we obtained a rental right and the right of remuneration. And we again last year negotiated with the Association of CD Rental Shops and won the rise of the fee.

This is another feature, the resale price maintenance system (PRMS). And these two charts show comparison of the top sales physical product retailers in the US and Japan in March 2006. Observing the US market, shops not specialized in music sell the majority of CDs but they have fewer catalogues compared to specialized shops. But thanks to PRMS in Japan, producers market a variety of new releases, and CD retailers buy a wide range of stock which supplies the consumers (with) many choices. We think this PRMS works (as) a healthy distribution of physical products.

My last part is the mobile market. You could see our challenges of mobile market which should be the driving force of our industry. Our survey of illegal mobile digital music shows a huge number of unauthorized music files are shared by its users through mobile bulletin board (BBS sites) in a form of similar ringtone and full ringtone. 83% of users know such illegal services and 37% are using it actually. Especially teens, 64% of lower teen and 57% of upper teens use the services. A considerable share of users find these illegal sites, illegal files by mobile search engines. 14% of illegal site users did uploading, not only downloading. Teens tend to download more full ringtones than ringtone from these illegal sites. Illegal downloads exceed legitimate downloads. We estimated that illegal downloading is about 399 million files a year. On the other hand, legitimate mobile downloads was 327 million. To tackle this tough situation and recover the digital market we have taken the following measures.

The first thing is enforcement. We have already sent over 140,000 infringement notices to BBS operators on mobile phone networks. Four cases have been (found) guilty under the penal code. One was 1 year prison (term) with 3 years suspension, and other 3 were a monetary penalty. The second one is technological measures. We have initiated

discussion with mobile operators to completely eliminate piracy. The third one is law amendment. At the moment, downloading from illegal sites is considered as private recording and legal under copyright law in Japan. In other words, private recording is admitted whether the source is legal or not. Which makes our enforcement quite difficult. We therefore are seeking an amendment of the law, downloading from illegal sources should be considered illegal. Lastly, I'll talk about the RIAJ campaign. We are going to conduct the biggest campaign that we have experienced and is supported by four government bodies, the Agency for Cultural Affairs, Ministry of Economic, Trade and Industry, Ministry of Communications, and National Police Agency. In addition, 5 music associations support (us), including MPA, which is the organizer of this session, and 3 mobile carriers as well.

That is all for my presentation. I thank you very much.

A: Thank you very much, Midori. Unfortunately for us, Midori has her next engagement and she has to leave the auditorium right now. So she will not be able to join us later for our questions-and-answers session. Why don't we give Midori another big round of applause? Thank you.

OK, our next speaker is Mahito Sakai of Sony Music Network, the propelling force behind Sony Music's digital activities in Japan. Mahito will talk about the digital scene of the Japanese music market.



MS: Thank you for the introduction Mr. Abramoff. Hello, my name is Mahito Sakai and I work with Sony Music Network, a subsidiary of Sony Music Entertainment Japan, Inc. that handles all of its digital music. Today, I would like to give a presentation that I hope will not only act as an introduction to Japan's digital music market but also answer some of the questions I frequently hear about this unique market.

First, let's start where Ms. Takayama left off by looking at the trend of digital sales. This is a chart showing Japan's download revenue for the past three years. The red shows mobile sales while the blue shows pc sales.

Note that sales is increasing dramatically, approximately doubling in the last three years and that mobile sales dominates the market.

Ok, so, we know that mobile comprises the majority of digital downloads but what specific services are there? And when did they start?

This slide summarizes the history of music download services that we have today. As you can see, PC downloads started early (1999) while mobile phone services didn't start until late 2002. Mobile services, however, commenced several new services within a very short period of time. I will go into detail on each service in a later foil but please note mobile services started with ringtones and ringtone videos, which are services based on partial tracks and later moved onto full tones and fullvideos. Also, there are

three carriers/operators in Japan: KDDI, SoftBank, DoCoMo. Please note that KDDI has always been a first-mover to challenge new service formats.

As I promised, let's go into further detail about each service. Starting with the partial track services. The ringtones are 45second parts of a track that are downloaded and can be used as the track that starts playing when your phone receives a call. The ringtone (video) is similar but is a portion of a video clip used as a ringtone. Cover art and lyrics are not included and pricing is determined by record companies.



Now onto the full track downloads. Here is a chart of Full Ringtone and Full Videotones and its features. An important feature of the Full Ringtone is that the Full Track not only can be played back but also can be used as a ringtone. Both include Cover Art and

Lyrics.

Lastly, ringback tones, which are partial songs that the caller hears when he or she calls you. Ringback tones in Japan are charged on a monthly basis. The file is not downloaded but set with the carriers.

Now that we have a better understanding of each service, I would like to show you how each format fairs in the market. We are now looking at a pie graph that breaks down the mobile digital music download in July to September of 2007.

Ringtones make up half of the download numbers but when we take a look at the revenue, Full Ringtones accounts for more than 50% of Sales. Obviously because Full Ringtones have a higher per unit price.

Now, here is a chart showing the number and percentage of phones that are compatible with ringtone and fulltone services. 95% of all mobile phones in Japan today are ringtone compatible but only approximately 50% are compatible with Full Ringtones.

Great, so now that we got a snapshot of the current market. The question that usually comes up next is, whats going to happen in the future? To answer that question, I think its useful to take a look at the recent trend of Ringtones and Full Ringtones. Here is a rough graph of download figures of the two services between July 2006 and December 2007. Notice the shrink in gap between ringtone and fulltones. Also, the chart I showed in the previous slide, showing only 50% of compatible fulltone phones also means there is significant room for growth in fulltone services as the number of its incompatible phones become compatible.

So what will happen in the future? As the trends show, I think ringtones are a mature market and I expect no change or gradual decline in the near future while Full ringtones continue to increase.

I think Ringtone videos are going to decline but Full ringtone videos are a bit tricky because they are highly dependent on the capacity of the phones and carriers (softbank

has yet to adapt this service). As for ringback tones, I see a healthy growth trend and I expect this to continue.

Next, I'd like to use specific examples to show how Sony Music has used digital music as a marketing tool. I chose Yuki as an example because she's a veteran Japanese artist that successfully integrated digital and physical product marketing. I won't go into details of each step but the marketing method was unique in that a solely digital single called "Biscuit" (where no physical CD) was released bringing fan interest to the digital music, and then using multiple versions of 2nd single "Hoshikuzu sunset" ringtones (introduction, buildup, tension, climax, emotional, ending) as "teasers" to create enough hype for a successful physical CD album. The Best Album "Five-star" was highly successful and charted number one soon after its release.

We looked at Yuki as a veteran artist so now let's check out a new artist, and see how digital music was marketed differently. Stephanie, debuted last year and is a good example of using tie ups with animation on TV, which is also common in Japan. The ringtone for the singles were released with the OA of the animation. Later, a 90 second animation version was released solely as a full ringtone (not in physical CD). The complete full track was released a week prior to the CD. This method was popular with the anime fans, and as a result, Stephanie's digital sales exceeded its physical sale and created a lot of buzz in the market. She was also nominated for best new artist of the year.

So, now that we have covered the specific mobile formats and how they are used as a marketing tool, I would like to move onto a question I hear often. "Why is Japan's mobile market so strong?" Compared to the US or other countries, 200yen for a partial track and 400yen for a full tone is expensive but the market is growing exponentially. WHY? Also, why does the Japanese consumer prefer mobile over PC?

Well, there are multiple factors that attribute to the strength of mobile, but I think the existence and role of Label Mobile, the largest content provider in Japan is one of the main key factors. What makes LM so special? It's a company established in 2001 and currently jointly owned by over 50 record companies.

Since the largest content provider is owned by record companies and not operators or phone manufacturers, it gives record companies more control over artist development and marketing hit titles in the digital world.

Label Mobiles focuses on single retail sales, whilst other CP's engage in a monthly subscription basis. Thus, easy for users to download single song. Also, holds the largest catalogue of music. Close connection with operators. They have frequent discussions to challenge new technologies and services. Not surprisingly, the Label Mobile site is #1 on all 3 official operator sites based on site traffic and sales volume.

A second factor I think is the low commission rate for consignment sales through the Content Providers. Usually, it's about 20-30%, including mobile carrier billing fees. (Compared to 40-50% I've heard in other foreign markets) And this low commission equates to higher profits to the record companies, management, artists, publishers dealing with the music being sold.

A third factor is Japan's advanced telecom carriers and phone manufactures that enable sophisticated mobile services that help music downloads. Most experts agree that Japan is the global leader in telecom, about 2-5 yrs ahead of Europe and US in most areas. Japanese carriers were the first to launch 3G on a large scale. And manufactures are constantly coming out with new and interesting functions. Many of the current phones include functions like, on-line roll-playing games like Final Fantasy, GPS applications, Quick Response code reader.

There are, of course many competitive advantages that are inherent to mobile phones and perhaps not unique to Japan but have undoubtedly helped the mobile market. I'd like to briefly touch on these advantages. Credit card payment for PC is a hinderance for teenagers, the core target age group of music downloading in Japan, since they don't use credit cards. Installation is necessary for PC applications but with mobile phone, there is no need to worry about compatibility with device. Broadband coverage has come a long way but there is much higher penetration with mobile phones. While PC's are becoming easier to use, the mobile phone is easier to carry and can be used anytime anywhere. Lastly, there is a very strong mobile culture in Japan. Mobile phones are not just a consumer products but tools for fashion and self expression. Do you have the latest model of the Docomo phone? Do you have a popular song as a RBT? Do you have a decorated mobile phone?

I'd like to close my presentation on a light note by showing pictures of heavily decorated mobile phones that are popular amongst teenage girls in Japan. Also known as "decoden." "deco" for decorated and "den" short for denwa which means phone in Japanese. I think it is a good example of how fanatic these teenagers are with their mobile phones.

I was very surprised when I first saw these decorations. These are not just your ordinary straps and charms but a whole new level of decoration. I don't think this one uses Swarovski crystals but I've been told that some of the decorations are so expensive that they cost almost as much as the actual phone.

Thank you for attending this seminar.

A: Thank you Mahito, that was excellent. Especially, I think we all liked the last photo. I think we have a very good understanding of the Japanese music market now.

Let's now try to shift our attention from Japan to outside of Japan and see how active Japanese companies are overseas trying to exploit their creative content. Japan has always been associated with its animated content, and Japanese anime is practically known in every part of the world. The word 'anime' is actually an international word such as 'judo' and 'tsunami'. And our next speaker is Asa Suehira, Director of Aniplex. Aniplex is one of the leading exporters of Japanese animated content, and I think his company well typifies how active Japanese companies are overseas in this area. And it should be interesting for us to hear from Asa who is at the very front line of such. Asa?

AS: Thank you very much. Today, I'd like to talk about Japanese animation known as 'anime'. And introduce its business structure and its opportunities. My name is Asa Suehira, and I'm in charge of international licensing for Aniplex. Aniplex is an anime distributor and an anime production company based in Tokyo, and have produced many successful titles worldwide. Today I would like to share some of my experience with you and hopefully today's presentation will be helpful for your future business.

So I'm going to be talking about anime today, and first I'd like to ask the audience if you have ever seen anime before? Could you raise your hands if you have seen anime? Good, so I guess everybody, not everybody, but a lot of people in here have seen anime. So I assume you are familiar with these titles. The top title, the top illustration is from Pokemon. The bottom left one is from Dragonball, and the right one is from Yu-Gi-Oh! And these three titles are the most famous properties from Japan and are extremely successful worldwide.

Pokemon is originally a Nintendo based video game then was released as anime. The first anime movie was released in more than 3000 theaters in the US. And the box office was an astonishing \$91 million. Pokemon's TV series was released on Fox Channel in the US, and Pokemon franchise has sold over 167 million units in video games, and ranks as the second best selling video game franchise of all time.

Yu-Gi-Oh! was originally a comic book then turned into an anime series. Together with this anime a trading card game was released and sold over 15 billion card games worldwide.

And another successful story from Japan was Dragonball. The TV series aired on Cartoon Network, and many products were released around its successful broadcast in the US. So anime is known as Japan's most successful cultural export. And most exports from Japan are cars or electronics. Japan was never able to be successful with exporting cultural elements such as movies or music. And anime has now become a familiar entertainment genre among kids around the world, and I'd like to briefly explain its business structure.

First I'd like to explain the market size in Japan. Anime's market is around \$2 billion in Japan. The movie business is around \$5 billion. But the \$2 billion market for anime is just the tip of the iceberg. The real business for anime is the anime derivative market where you (have) character business selling toys, video games, merchandizing, and this makes up to a \$20 billion market. On the other hand the movie business's derivative market is only about \$2 billion, and (so) you can tell that there are many opportunities with anime.

And here's one example of how a property can be exploited. Fullmetal Alchemist, one of Aniplex's most successful titles, was first launched as a TV series in Japan. And was released with many products such as DVDs, card games, video games, sound tracks and toys. If you look at the sales performance for Fullmetal Alchemist, this shows that the anime derivative product has a bigger share than the anime market. The key to anime is



to establish a brand and connect the audience with the character of the series. And once you establish this it is pretty easy to sell merchandize and toys around the character.

With this unique business structure of anime, anime consortium comprises of many companies such as an anime production company, the manga publisher, record company, broadcaster, toy companies. And each company has a strategy to release its own product, and this is reflected in creating the target audience, and strategic business plans.

A record company's role is to place an opening and closing theme song in the anime. If it was a 52 episode series, a record company would place a new opening and closing theme song per 13 episodes, and prepare four opening and four closing songs. And this will be enough to make a compilation album of the anime series. Also there is a big opportunity for placing music and video games and merchandizing products as well. Recently in Japan, slot game companies are making animated driven games. There is a big demand for using music and anime from the anime. Record companies and publishing companies are finding new markets to exploit their rights.

Here are some examples of successful anime albums comprised of tie-in songs. For Fullmetal Alchemist, it sold over 350,000 units in Japan. Since it comes with a DVD with extra footage from the anime, the product is able to sell at a higher price than normal CDs.

And shifting to international markets, the business structure is basically the same as Japan. In the US, the anime market share is approximately \$730 million, and the anime derivative market size is about \$2.6 billion. So I would like to explain how anime is brought overseas. There are basically two ways in bringing anime to the international market. One way is to find a master licensee in that territory. The master licensee will license out each right to a specific company. Another way is that the Japanese rights holder will directly license each right to a specialized company such as video distributor or broadcaster or merchandizing company. And by doing this the Japanese rights holder will be able to control the market more directly.

For Fullmetal Alchemist, Aniplex took a different strategy in bringing this title to the US. Aniplex distinguished (between) the animee market licensee and the derivative market licensee. For the anime market we've licenced to a massive licensee. And licensed each rights in the derivative markets separately. By doing this Aniplex was able to control the bigger market and bring in Japanese products to the US.

Relating to the music strategy for Fullmetal Alchemist in the US, we have many strategies for selling the tie-in songs. We determined that it would be very difficult for us to sell CDs as an independent product so we banded the CDs in the animated DVDs, and also placed tie-in songs in the video games as well. We've also brought artists from Japan to animated conventions creating a lot of promotional awareness of the series. So there are many opportunities for exploitation of products if planned carefully.

However, anime is not all optimistic. The market share for anime hit the peak in 2003 and is on the downside. In 2007, the DVD market is estimated to decrease by 20% of 2006's share. There are many reasons why anime is not showing growth recently. One of the reasons is the highly priced products compared to local products around the world.

Each anime is sold (for) around \$30 for 4-5 episodes, where American TV series are priced around \$60 for the entire season. Illegal downloads are also spreading rapidly allowing consumers to download episodes illegally and rapidly.

So these are the issues that anime companies need to face and need to act (on) promptly. But we believe that anime is a business that all entertainment companies can be a part of, and hopefully this presentation gave you some ideas in your future business. We look forward to working you. Thank you very much.

A: Thank you very much Asa, that was excellent, thank you.

Now, I would like to open up to the floor for a questions-and-answers session. In order for us to be able to answer a broader scope of questions, in addition to Mahito and Asa, I would like to invite two more people to this stage. Ken Ohtake, President of Sony Music Publishing, who is also a board member of the Music Publisher's Association of Japan (MPA of Japan). I also would like to invite Sebastian Mair of Fujipacific Music. Sebastian is replacing Haji Taniguchi of Avex Group Holdings who cannot be here because of his illness, unfortunately. Sebastian, we appreciate you being here with us today.

SM: The pleasure's all mine.

A: And before we start, Ken would you like to say a few words?

KO: Yeah. I think those three previous presentations were interesting enough for you to listen to. And that was very fruitful from my point of view as well. The Japanese music industry is quite distinctive. There is one time zone, one language, and still the world's second largest music market. There are maybe two reasons. Healthy growth of the digital market, and a variety of strategies...secondary usage such as anime. And also there is an increasing usage of gambling machines called 'pachinko'. If you go to the Riviera to see the actual pachinko machine at Nichion booth they'll give you some kind of reward when you win.



But there is another thing that we're a little bit struggling about (with). We are as the Music Publisher's Association with the help of the Japanese government, we are in the process of extending our copyright protection which is currently 50 years, and we would like to have it as long as 70 years, which is the standard of leading world zone countries. This is not only a kind of extension. We start using the word 'harmonization' with the rest of the world. Please kindly give us some support because the foreign pressure can move the Japanese government quicker and maybe more efficiently, thank you.

A: Thank you. Sebastian would you like to say a few words as well?

SM: Well, I don't really quite have an opening statement, as was mentioned I am kind of a last minute replacement here. But just to give you background: I'm a Canadian, but I've been based in Japan now for 12 years. As Alex introduced me, I'm primarily with



Fujipacific Music which is part of the Fuji Sankei Group. Fuji Television which is the largest television station in Japan, a sister company record label Pony Canyon which is one of the top 10 Indie record labels. On top of that, Fujipacific represents many catalogues such as EMI which of course is the world's biggest music publishing catalogue.

I also run my own company Music Solutions which is primarily a consulting and music branding company. We handle CDs for Starbucks Japan, the Hilton, the Ritz-Carlton, we have other partners and clients including A&R Worldwide, Ioda, Syn Entertainment which is production company partly owned by Simon Le Bon from Duran Duran based in Tokyo.

We do a lot of bookings in Asia, a lot on the mobile side as well. Our main project for the last few months has been...is actually a keitai mobile manga based by Avril Lavigne which incorporates her image as well as some music for the previous album. Avril was the biggest selling international artist last year in Japan, and has been the biggest for the last five years, actually. And one other thing, I'm also the cultural officer at the Canadian Embassy in Tokyo in charge of music. So I guess you can say that I wear a few different hats.

Q & A

A: Thanks Sebastian, you are doing so many different things.

Now, let's open up to the floor for questions. The lady over here, please. Microphone? Do you have a microphone?

Lady 1: I have a question for the anime chap. How much of the diminishing, let's say revenues, for anime or interest in it is about age? Because the traditional audiences for anime have been children.

AS: Right. Most of the anime produced recently are targeted towards more of the adult audiences. So most of the broadcasting for anime has shifted towards midnight, instead of 4 to 5 o'clock in the evening. And also the market trend is that kids are not buying DVDs, and adults are the ones who actually are buying DVDs. So anime companies are shifting their target audience more towards the adult audience. I don't know if that answers your question?

Man 1: Yeah, this is for Mahito. I was just wondering since you're part of an international company Sony, are they seeing the US market as a market that is going to develop the same way as the Japanese market or are they trying to...since you said that the Japanese market is years ahead, I was just wondering if they expect it to develop the same or is it much different? It is kind of a basic question.

MS: There was an informative presentation a few days ago by (Thomas) Hesse, he handles the Sony BMG digital side covering all markets outside Japan, including the US. One unique factor of the US side is that it is mostly based on PCs as opposed to the mobile side to Japan. So I'm not sure if you can actually apply some of the techniques or methods we've used in Japan and direct that to the US. But I also understand that there are a lot of common factors such as the technology used for digital music. I think the US is focusing on better broadband connection for the mobile and better phones with more functionality. That's going to broaden your usage in the US market and I think that that will help introducing more sophisticated services on the digital music side as well.

Man 2: This would go in regards to marketing and promotion of your artists' music, anime, all types of marketing in Japan. I've been made aware that your telephone technology has a feature where you can take a photo of an icon and it will lead you directly to a web site, and this just blows my mind away. And when they say that you are light-years ahead of the other markets, the phone technology is where that's all based upon. And I wanted to know if you can discuss this at greater length.

MS: I'm really glad you brought this up. OK I think this is known as a quick response code, otherwise known as a QR code. It is a two-dimensional bar code created by the Japanese corporation called Denso-Wave in 1994. Its contents can be decoded at a high rate and it is currently the most popular type of two-dimensional code in Japan. And as you mentioned it is highly used where a cell phone user starts its camera, and points it to this code on the right hand side it will automatically detect a URL. So at Sony Music what we do is we use the QR codes that link them to the artists' sites and put them on live fliers, posters, T-shirts or PC sites, anything that can connect them to the artist's mobile sites. I hope that that answers your question.

SM: These are being used in Europe I guess. I don't know if you are North American based, possibly? So in North America...I think they started using these in Europe the past six months. So I'm sure in North America probably by the end of the year.

Just talking about cell phones as well, especially in North America and Europe with the i-phone, and the hoopla around that. Being in Japan, my phone has been able to do this for the past year. So I guess with the i-phone being rolled out in Japan in the past, in the next year i-pods have really taken off. The i-phone itself has just been another knickknack per se. It's not really...don't quite know what's next (that is) going to have another 'i' in front of it to make it stand out in the crowd.

Lady 2: I've seen this thing in Switzerland, and I find if you have a big surface panel where you have that thing, people who do not use that function they just have this big square thing there, and it doesn't mean anything about the brand. So I don't know to what extent it is really good for the marketing in that sense. There needs to be a certain percentage of the people that actually use the function for it to make sense.

MS: I think you have a good point. You have to have user recognition in order to use this technology. You can't just have this QR code on a poster without any explanation. Without user recognition, a huge QR code on the wall may seem to be an art design. The user needs to know that mobile phone camera has to be pointed to the code for recognition and connection to a link

By the way, when we use this as a marketing tool, we don't just put up the QR code, we provide an explanation with the code. For example, saying that if you want to go to so-and-so's site, we have a promotional program going on, please access through this QR code.

A: We also put it on a package itself in Japan, right?

MS: Right. That's popular recently.

A: And you see it is quite an effective promotional tool. More questions?

OK, let me throw in this question, I think I'll refer to Midori's presentation. Why do think physical sales in Japan are stronger when compared with those in the rest of the world? Why do you think physical sales in Japan are stronger, Ken?

KO: A very difficult question.

A: The rate of decline in the United States is dramatic, but in Japan although sales are declining, the decline is not so sharp.

KO: I think one of the reasons is that still the position of the physical product attracts them to a lot of consumers, especially for the artists like teen pop idols. Because everyone wants to keep it at home as a gadget. And they of course download their singles to their phones but they want to keep their physical product, as in the album, in their library, or whatever. That is one of the reasons, I think. And also I think the acceleration of digital downloading on the movie side will increase more in the near future because a lot of DVDs which you buy or rent will only be seen once or maybe twice. But, you play a CD multiple times, three or four times, or more. So, that's worth paying that much. That sustains the CD sales in Japan compared to other markets, I think.

A: The packaging is quite important. We come up with some elaborate packages.

KO: Yes, extremely important.

SM: Actually if I could add a couple of things as well. Going back to Midori's presentation. If you saw one major factor it is that broadband penetration is still just over 50% in Japan. So for one, when you talk about illegal downloading, the means are still not technically there. One other factor which is very famous in a lot of artists, in record labels who do business in Japan, customer loyalty is number one, it is incredible. So if you are a Rolling Stones fan you buy every Stone's CD that has ever been released. You buy every core T-shirt that's ever been out. You buy every bootleg as well. There are bootleg shops that still exist in Japan. That brand loyalty is something you don't really see in other territories, and I think it has really helped kept sales relatively steady throughout the decline in many other territories.

A: Thank you.

(inaudible)

KO: ...increase by digital, you mean? There's an increase on the digital...I mean on the physical surface is declining. What increased recently on the physical side is classical music. So publishers won't make any money on this.

A: I think we have people from different countries here. So let me ask this question. If you were to name one, what do you think a non Japanese company that is trying to break its artist in Japan should know or should be aware of about the Japanese market? Sebastian would you like to take this one?

SM: Just what is one thing to know about the market in general?

A: Things they have to keep in their mind.

SM: There are so many different factors. Throughout my time being here in Japan, (the) one thing you hear over and over again is that I've got this artist that I think is great for Japan. You hear that so often but what is the actual backing? If you are trying to break into Japan the number one thing is just to get yourself over and get to know the market. It is incredible how much you can learn about the Japanese industry by spending an afternoon in just going to Tower Records in Shibuya. It is six floors. It will probably give you the best taste of the market you could possibly have.

There are so many different factors. Hitting the international music conference circuit such as Midem. Getting to know the Japanese industry as a whole. In international terms, it is 50% independent compared to 50% major. So you've got companies like Avex which is the world's biggest Indie. You've got JVC which is number two. You've got Toy's

Factory, Pony Canyon and so on. Since these are under international terms as independent labels, get an idea on what they are putting out from the international side. Get an idea what is selling in Japan, and you'll be surprised quite a lot of the time.

A: Ken would you like to add anything?

KO: To find the right partner is the key point.

A: How do you do that?

KO: How do you do that? Maybe this is the case. (laughter) Use Midem. Still if you have an international artist it is really difficult to break from Japan. If you have decent success in your home country that'll help the development of your artist in Japan somehow. Still that kind of situation exists.

A: Now going back to anime, what are some of untapped international markets for Japanese anime, Asa? You have penetrated the world?

AS: Almost everywhere. Europe is strong, especially France, Italy, Spain are very strong markets for Japanese anime. Latin America is also very strong. In Latin America DVDs don't actually sell well but a lot of merchandizing like trading cards, sticker albums. So each market is different with what type of product sells. I think still the strongest market for DVD is the US and Europe. But we are also trying to move into other countries like Africa, trying to exploit our products especially in South Africa, English territories.

A: What are some of the hurdles you often encounter with when you try to go into an overseas market?

AS: When going to an overseas market, I think having a broadcaster is the most difficult. Because a lot of the Japanese anime has a lot of violence, some nudity, sexual scenes. So those are the things that a lot of the US broadcasters tend to be worried of, and often those scenes are edited. And when those scenes are edited I think the real anime fans are disappointed to see the edited version of the broadcast.

A: Mahito, if I could ask you a number of questions. Although you can expose your content on a website, you still have to draw traffic to your site. How do you do that?

MS: That is a problem we are challenged with it everyday. We try new techniques, new promotions, we try to use banners to get traffic from sites that have more traffic than us. I'd also like to point out an example of new a new method we used in the artist that I showed in one of my slides. Stephanie. What we did was we did not disclose her face anywhere on any of the sites, all mobile and PC sites, until the release of the CD. We

just streamed her voice and pictures other than her face. We tried to get different hype from SNS and non-official sites. Soon enough, a lot of people started asking, “Who is this artist?” “What does she look like?” “Why don’t you show her face?” And this hype in turn ignited Yahoo to have a link to the top page for Stephanie, and access for the Stephanie site went off the roof. I think it was like 160,000 accesses that day.

A: A big number.

MS: That triggered more interest from the TV side, and it was a success story after that.

A: Do you think that digital will be the propelling force in breaking international artists in Japan?

MS: Right. Sony BMG handles all the digital outside of Japan. So if we were to do anything outside of Japan we would have to of course talk to Sony BMG. But I think it is a very useful tool. You don’t have any regional barriers or time differences. Our international artists are doing well in Japan. We’ve also tried to promote some of our artists, especially some of our classical artists, instrumental artists, into the international market and been fairly successful. We’ve used South by Southwest forum and applied digital marketing there too. Triggering interest abroad and have them come and visit our website from different countries.

A: Any questions from the floor? Our Japanese friends can ask questions too, you know?

Man 3: I feel that this question will be directed toward all of you. I like to watch the international charts, and I think Sebastian and Ken may answer this more directly. You mentioned Avex is the number one independent company. I’ve noticed that they have three singles in the top ten on the charts this week with an artist called Mirage. How does something like that happen? Is it just the strength of their marketing? Is it the time? How do you release three singles and have it in the top ten at the same time?

KO: Three singles from one artist?

Man 3: The artist is Mirage.

KO: Right. That happens sometimes. It is really difficult to answer that question. I think if Haji was here he would be the perfect person. (laughter) It is really a strategic thing that Avex has. Is it the artist called Exile? Mirage?

A: It’s a marketing technique that they use. Naturally it does get the attention of people if an artist has three charted singles at one time.

KO: As far as those Avex singles and albums are concerned they have a very strong strategy of having the same song with different versions as a different product. So in one case they add a DVD, in another product they add something else. They have a thicker booklet in it. So it is a very strategic aspect that they are good at.

A: So in other words they are three different packages. Maybe they are using different photos on the cover, for example, or different pricing.

SM: Maybe if I could drop in as well? That is kind of an oddity as well, I mean having three different singles by the same artist. Maybe to give a little background about marketing in Japan: radio success for one is very subjective. You could have a very top radio hit and it doesn't necessarily compute to sales. I'd say probably about 8 to 9 out of 10 songs top singles in any (one) time have some kind of television tie-up to some degree. You can very much look towards...if you're looking into Japan, historically you need some kind of television tie-up. Whether it's tied into a television program, a commercial tie-up with an actual product placement, to some degree. I think you could look at the western model. 10 to 15 years ago having this kind of commercial tie-up in the west was very much looked down upon. You could look at one of my favourite examples is Eric Clapton, I think it was After Midnight for Michelob, it was kind of Eric sold out. This was always historically your number one marketing tool in Japan. If you look at how things have turned over the last 15 years the two markets have very much converged in that respect. So it is still television rules all.

(inaudible from audience)

SM: No, there aren't really any independent promotional companies as such.

(inaudible from audience)

SM: Not like you'd find in let's say the US or UK.

KO: Sometimes some artist management company can act as an independent promoter because a lot of singers' management also has their actors and actresses on their roster. So if they cast their actors or actresses in the drama, they also have the right to choose the theme song which they must use their artist's song for the tie-in. So that kind of function is done by the artist management. Like used for leveraging, that can be an alternative for an independent promoter in Japan.

A: Yes, that gentleman.

Man 4: Hi, I'm Hakkan from Turkey. I would like to ask the gentlemen a question about new technologies and research and development. Because we have this 2D entertainment,

and I hear sometimes rumors that people are working on holographic exposure and new technology and entertainment. Maybe because you come from Japan you can enlighten us about the future.

MS: Actually I'm not that technically savvy. If there any other phone manufacture people in the audience? No? Holographics, I've never really come across holographics but some of the new technology that we are thinking about at Sony music is user generated content with emphasis on pictures. Not just on the PC-ROM but on the mobile. Also recommendations, of course not just on the PC but on the mobile. Development of a lot of new technology like holographs helps implement new services, and we are constantly talking to new companies, new technologies so we can come up with new services that will hopefully help out the music site.

A: More questions? Let me throw in this one then. With the advent of the digital era, do you think the market will become singles or rather single tracks oriented at an accelerated pace in the future?

MS: We actually have album downloads, mostly on the PC side, and they've been fairly successful. I don't think, as I used on my example on the slides, it is not just based on singles but we use digital music to, especially on the mobile, to have success on the physical album. For example on Yuki, we had success on the album through digital singles. We've used the ringback tones, or the ringtones way ahead of the release of the CD. And that helps us determine short term marketing approaches to go with. For example, if you have several artists releasing CDs on the same date or in the near timeframe and you have a limited budget what do you do? You release the ringtones and see which artists are doing fairly well, and you target your budget to this artist.

A: Ken would you like to add anything?

KO: The single market is completely taken over by digital from physical. That means that record companies used to sell, I don't say shitty songs, but some unexpected songs by selling albums. That kind of revenue I think was huge for the record companies but now people, especially kids, are more picky in choosing songs. So that would become a very big fear for the record company. So that is one of the reasons that why the high percentage of modern kids will only buy singles on the phone and albums on the PC or on the physical. But as you've already indicated PC penetration is very low, about 5%, less than 10%. i-tunes seems to be huge in America but they only have 2 or 3% which we hope will become a big digital album download on tool.

A: Sebastian would you like to say anything?

SM: If I'm not mistaken with the question, is it going to be reverting back to a singles market? I think it almost has in a way. If you look at the numbers in the past year, a lot of

people are comparing it to the golden age of single sales. Singles have gone from a market that was almost disappearing as far as physical goes. The sales in physical singles have, we've heard numbers like Green selling over a million downloads, Avril Lavigne selling one to two million. You are seeing some pretty massive numbers in that. Yes it is definitely going back to the heyday of being a singles market.

A: Any questions from the floor? OK let me throw in this one then. Could the success of an international artist in Japan be a stepping-stone for his or her success in other Asian markets? Ken what do you think? Well, if an artist becomes successful in Japan, can that success be translated or spread out to other parts in Asia?

SM: International artists in Japan?

KO: A lot of kids in Korea and places like Taipei and Honk Kong, all those advanced cities in Asia, kids tend to love the Japanese culture, including fashion and of course anime and things like that. So whatever has become trendy in Tokyo can be transferred. That is a cool thing in those cities but I don't know about the size of revenue or the results.

SM: I would think that with so many Asian markets being an immature touring market, once (in) Japan, geographically you've already got promoters who are bringing artists over. Countries like China are finally opening up to westerners. Taiwan now has a few different music festivals. Korea is not quite there but I mean Thailand, countries like that, are launching international rock festivals now. I think once you have a little bit more regional cooperation within the record labels, especially within the promoters, definitely once you've used Japan as a stepping block.

Finally, I keep using Avril Lavigne as an example, but she is looking at a 25 city Asian tour this September which is pretty much unheard of. A lot of the time you tour Japan, you come you do Tokyo/Osaka, that's a weekend then you go back home. Occasionally maybe you combine with Australia because if you are flying from the west you are often flying over Japan, so it is a good one to combine that way. But now you've got things like the Beijing Pop Festival which last year had Nine Inch Nails, and New York Dolls, Public Enemy and what not. I know India is starting to open up to a lot more artists. So once you have a little bit more cooperation I think with the promoters, once agents become a little bit more savvy, yeah I think Japan can definitely be more of a stepping-stone to opening up the rest of Asia.

A: Good, thank you. Any more questions? Before we close just one note: details of today's discussions will appear in English on the website of the Music Publishers Association of Japan. Thank you very much. Why don't we give a big round of applause to Mahito, Asa, Ken and Sebastian. Thank you.

- END -



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