

A Comparative Study on Business Model of Distribution in Japan

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Abstract: The competitive model of e-book is a little bit different from other contents business like movie, television, music, etc. Partially it depends on cultural policy of each countries but it is affected by bargaining power among publishers and distributors. In Japan and some European countries the assortment of e-book is limited and distributor cannot expand its sales. In this paper I'd like to show the structure of Japanese book and e-book market based on a report on e-book published by Competition Policy Research Center, Japan Fair Trade Commission. Based on its interview survey most of Japanese publishers intend to expand its sales in digital section but afraid of the decrease in sales of books. So they request to make a Japanese style whole sales model contract with e-book sellers. It includes suggested retail prices, rates, and negotiation rules of price change. This structure sounds like resource based view but is changing after market entry of Amazon and Apple. Though old member control the assortments and release timing of e-book limited competition was started. In addition I'd like to discuss to make a comparison between music distribution and e-book distribution in Japan based upon its report. In Japan market size of music and book industries are shrinking while game industry is increasing continually. They are straggling to adopt new style of business model in online distribution while the last one made a dramatically change of itself to survive these circumstances. In this study I'd like show comparison of these three industries in Japan.

Key words: e-book; music distribution; online game; competition model; bargaining power

JEL codes: L16, L13, L14

1. Japanese E-book Market

According to Nikkei (Economic high quality paper) Telecon 21 DB, e-book is highly intentioned among three types of distribution business. Here I picked up e-book, online music, and online movies. I mentioned online games later on third chapter.

Table 1 Frequency of Each Word in Nikkei Newspapers

	e-Books (Denshi-shoseki)	Online Music (Ongaku-Haishin)	Online Movies (Eizo-Haishin)
In 1 month	33	11	7
In 3 months	90	24	24
In 6 months	205	77	42
In 1 year	471	155	78
DB Total	4,686	5,450	3,910

Source: Nikkei Telecon 21 DB (on the 28th of November 2014).

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In addition e-book market is continued to grow by Impress research report (2014). According to Figure 1 it continues to publish year report of e-book from 2003. In 2002 e-book market was just for subscribers via PC. In 2004 mobile e-book was recognized as one third of the e-book market. And this mobile centered trend continues by 2011 (see Figure 2). According to JAGAT (2010) Japanese e-book market (\$574 million) was third times as that of the U.S. (\$169 Million) in 2009.

This means that Japanese e-book market was purely domestic and in-house market over mobile phone carrier based market like Galapagos mobile phone handset by 2011. After Google book shock and kindle shock, Japanese e-book market also affected by globalization.

Market basis was changed from feature phone, mobile, based to so-called “new platform”, like e-book readers, tablets, and smart phones, based. It means that major platform provider was changed from domestic players to global players.

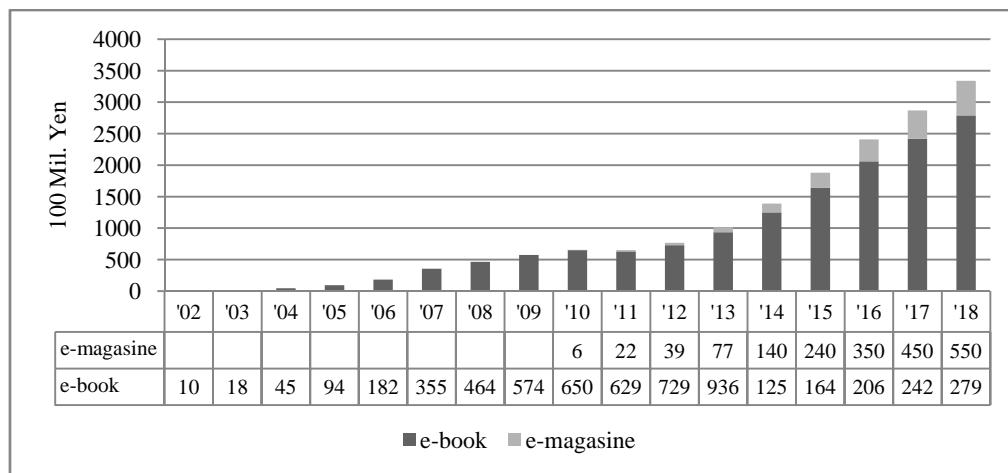


Figure 1 E-book Total Market Size in Japan

Note: From FY 2014 to FY 2018 is estimated value; Source: Impress Research Institute (2014).

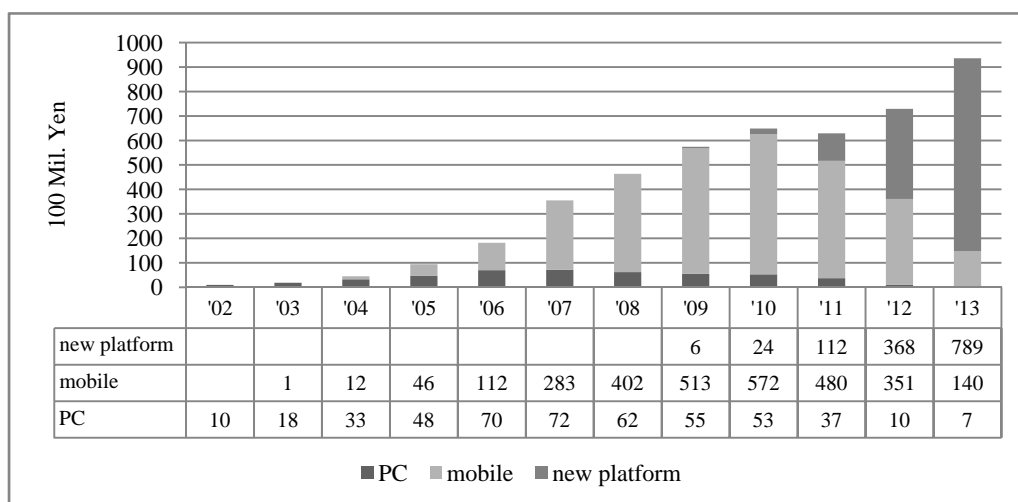


Figure 2 E-book Market in Japan (Market Segment Base)

Source: Impress Research Institute (2014)

On the centrally according to Figure 3 traditional book sales is continue to step down year by year. This sales

drop is huge enough to diminish the total book market though e-book market is emerging in this several years. This means that though distribution business is dramatically emerging the size of contents market is shrinking. This market tendency is the case in books, music and movies in Japan.

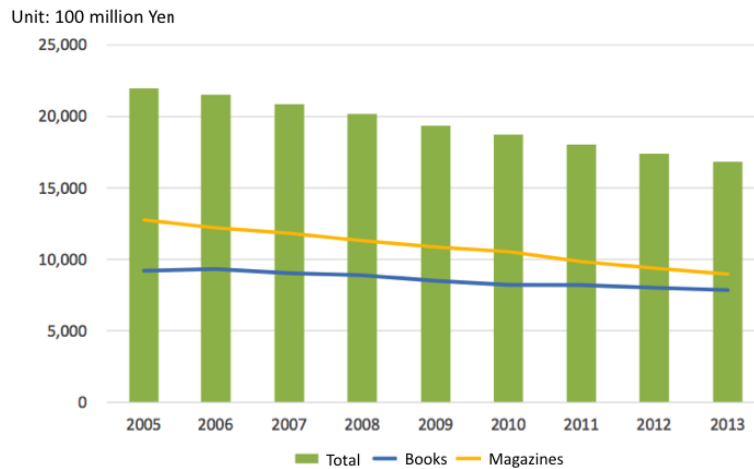


Figure 3 Paper Book and Magazine Sales in Japan

Source: Publishing Science Institute Japan (2014)

2. Market Structure of Japanese Distribution Services

In Japan book distribution business has a special right to sell in fixed price proposed by publisher. This allows anti-trust law as “a special case” in order to reserve a cultural diversity in Japan. Figure 4 illustrates this traditional book distribution and e-book distribution. In Book market two major wholesalers (Nippan and Tohan) that are owned by major publishers control distribution system. Their share is over 75% of total book wholesales.

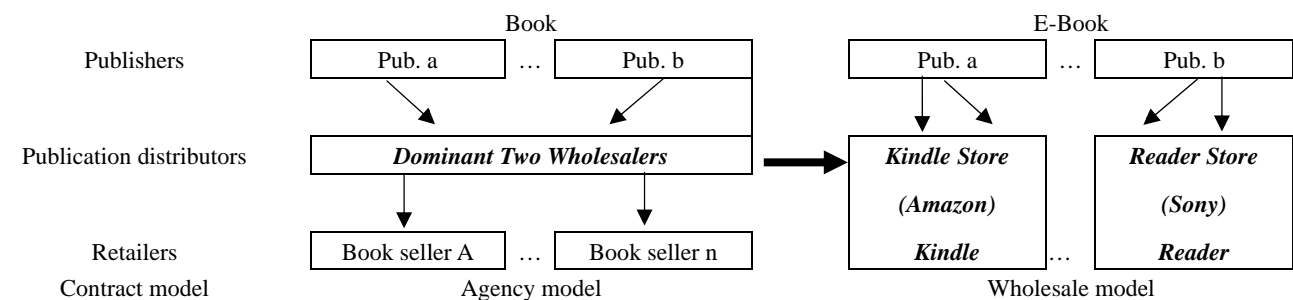


Figure 4 Market Structure of Book and E-book in Japan

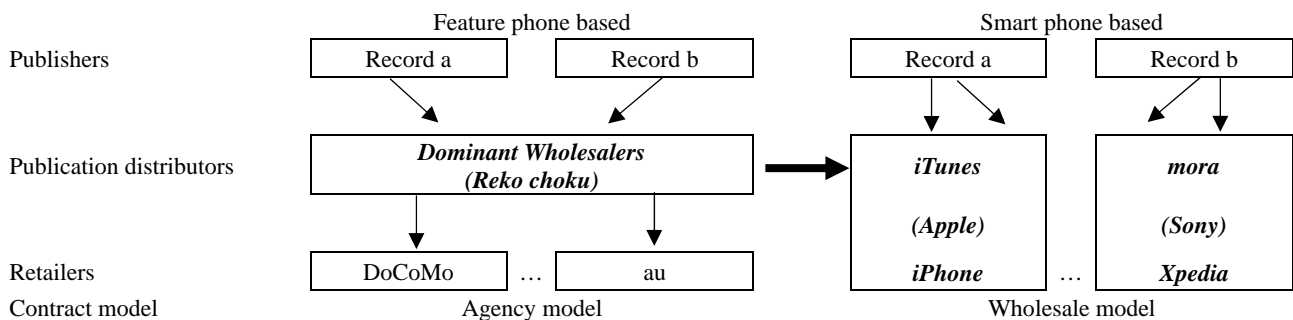


Figure 5 Market Structure of Feature Phone based Music Distribution and Smart Phone based Music Distribution in Japan

On the centrally e-book distribution is divided by e-book retailers. Kindle (Amazon), Kobo (Rakuten), Reader (Sony), or iBook (Apple) are one of them.

In addition book market is adopting agency model while most of e-book market is adopting wholesales model. In former publishers manage the pricing and in latter e-book seller manage the pricing according to the contract.

This situation looks like the switch over of smart phone based music distribution from feature phone based music distribution in Japan. Structurally positions of players look similar. Partially because music CD also “a special case” and each companies music distribution over feature phone also should be respected traditional order.

According to Fair Trade Commission Japan report (2013), Japanese music distribution market was shrinking after 2008 when the switch over of platform was started. If e-book market goes to be prediction of FTCJ, estimation by impress is overvalued.

Figure 6 shows the volumes of Japanese music market based on media. One of the most uniqueness of Japanese music market is huge amount of sales of CD (sky blue).

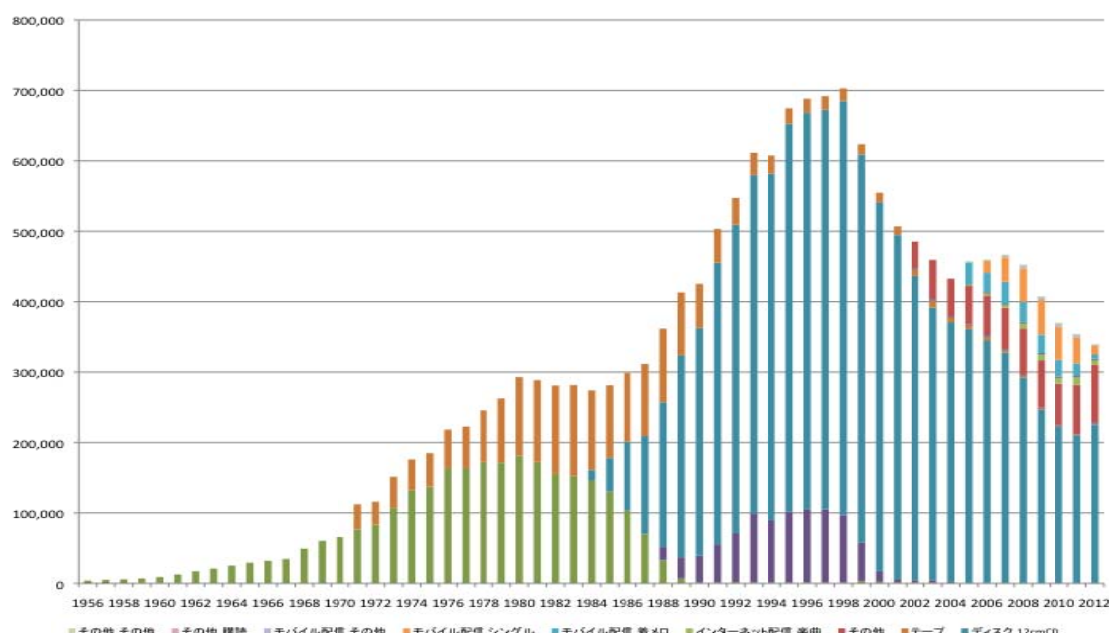


Figure 6 Music Distribution in Japan

Source: Japan Record Association (2014)

According to Table 2 Japanese music market is almost the same size with that of the U.S. but the distribution share is very limited.

We can make a group of three in the rough; US type, Continental Euro (CE) type. In the first one US, UK, OZ, Canada, Korea, Sweden is including. In the second one Japan, Germany, France, Brazil, Dutch, etc. is including.

In US type online distribution is main (almost 50%) tools in the market while in the CE type CD media distribution is still the majority.

Table 2 World Music Wholesales

	Sales (wholesales)		Revenue share	
	Million USD	Year-on-year	Package	Download
U.S.	4,372.9	-0.1%	42%	51%
Japan	4,087.7	-7.0%	75%	22%
Germany	1,473.7	-0.2%	78%	15%
U.K.	1,433.7	-3.1%	58%	32%
France	1,002.2	-3.7%	71%	19%
Australia	475.2	5.7%	55%	38%
Canada	434.0	2.6%	54%	38%
Brazil	262.6	8.6%	74%	17%
Netherlands	240.2	-12.1%	71%	14%
Italy	239.9	-6.4%	68%	20%
South Korea	199.5	6.4%	44%	54%
Spain	190.0	-3.3%	56%	24%
Switzerland	158.3	-16.2%	72%	23%
Sweden	155.3	3.0%	45%	44%
Mexico	141.2	5.5%	70%	28%

Source: METI (2012) original data source is IFPI, "Recording Industry in Numbers 2012" and JRA, "The Record". Data will be updated on contents service division, METI.

Game market also affected by smart phone in Japan. They are also facing drop of sales in home video game market deeply but recover sales by online market. Figure 7 shows its tendency. Video game sales in 2012 is about two thirds of that of 2008 but online game sales over smart phone platform is dramatically growing up in this five years. The most difference between game and other contents distribution business in Japan is that game industry can adapt smart phones-tablets based platform and change itself to suit the new environment while others just transfer the media type and keep making the same series of traditional contents.

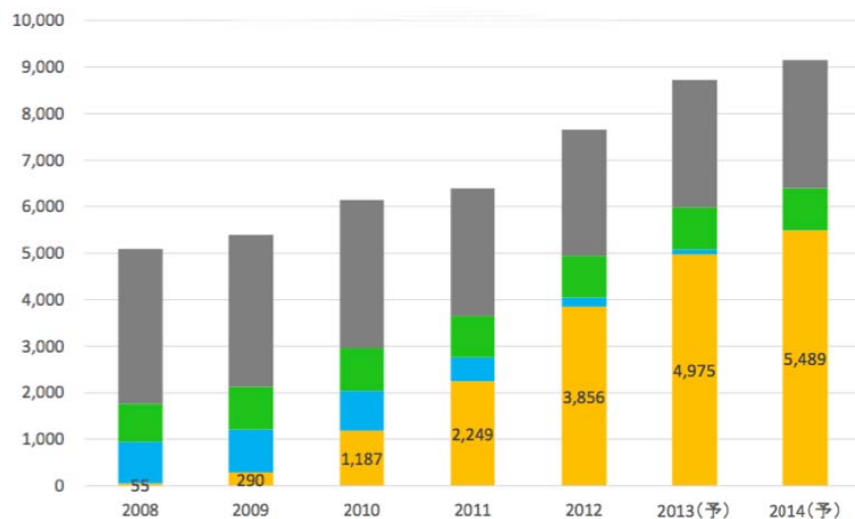


Figure 7 Total Game market in Japan

Note: The vertical axis represents the sales. It's unit is 100 millions of yen. The horizontal axis represents the fiscal year. Stacked chart represents home video game sales (gray), PC online game sales (green), the sales for feature phone (blue), and the sales for smart phone (yellow) in order from the top. Source: Enterbrain (2013)

3. Future of Japanese E-book Market

In order to predict future of Japanese e-book, we collect data and analyze them.

Table 3 Top Noble Sales of 2013 in Japan

Title	Author	Publisher	Book		e-Book		
			Hardcover	Paperback	Kindle	Kobo	honto
色彩を持たない多崎つくると、...	Haruki Murakami	文藝春秋	1,836	-	-	-	-
海賊と呼ばれた男 上	Naoki Momota	講談社	1,728	810	-	-	-
ロスジェネの逆襲	Jun Ikeido	ダイヤモンド社	1,620	-	1,080	1,200	1,296
謎解きはディナーのあとで 3	Atsuya Higashikawa	小学館	1,620	-	-	-	-
ホテルローヤル	Shino Sakuragi	集英社	1,470	1,132	1,132	1,132	1,132

Source: Nippan

Here are top five noble sales of 2013 in Japan (see Table 3). Most of them don't treated by e-book sellers. Now bargaining power of major publishers still strong and titles of e-book are limited.

Figure 8 shows glow of number of titles of e-book in Japan.

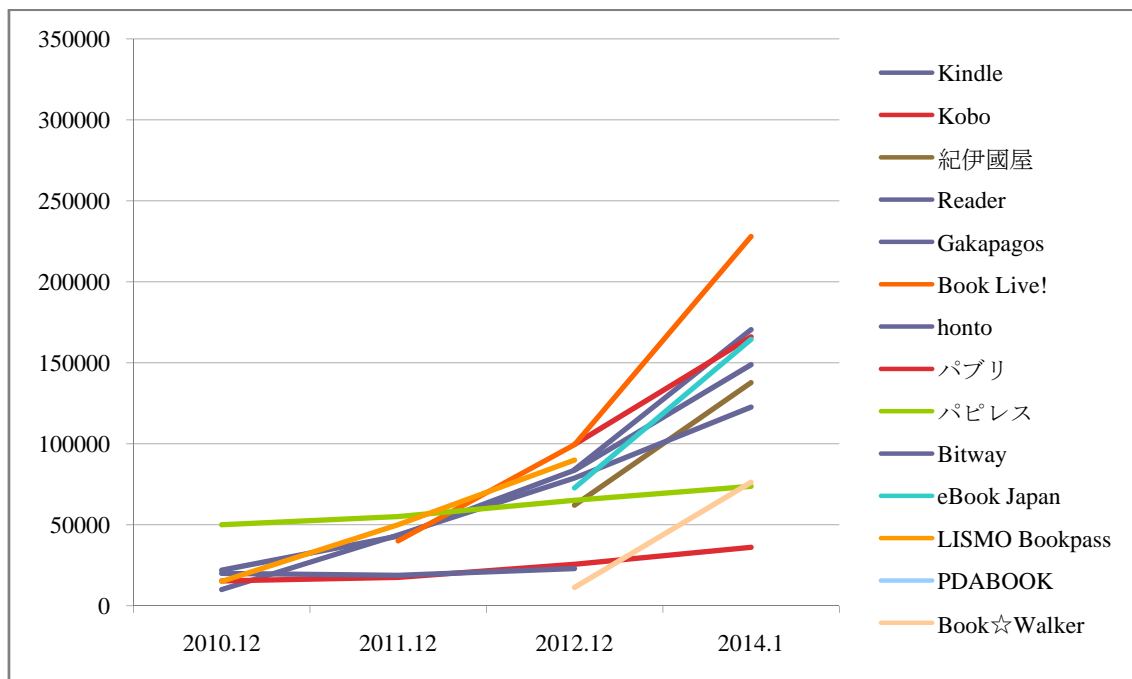


Figure 8 Titles of Each E-book Stores

Source: <http://www7b.biglobe.ne.jp/~yama88/>

We analyze the relationship between e-book titles and e-book sales. Limitation of data source its statistical figure is temporal.

According to Figure 9 maximum numbers of e-book titles and sales has logarithm relation with high R^2 values. This means that though limitation of titles Japanese e-book market come to be mature in near future if the market structure will not change as it is.

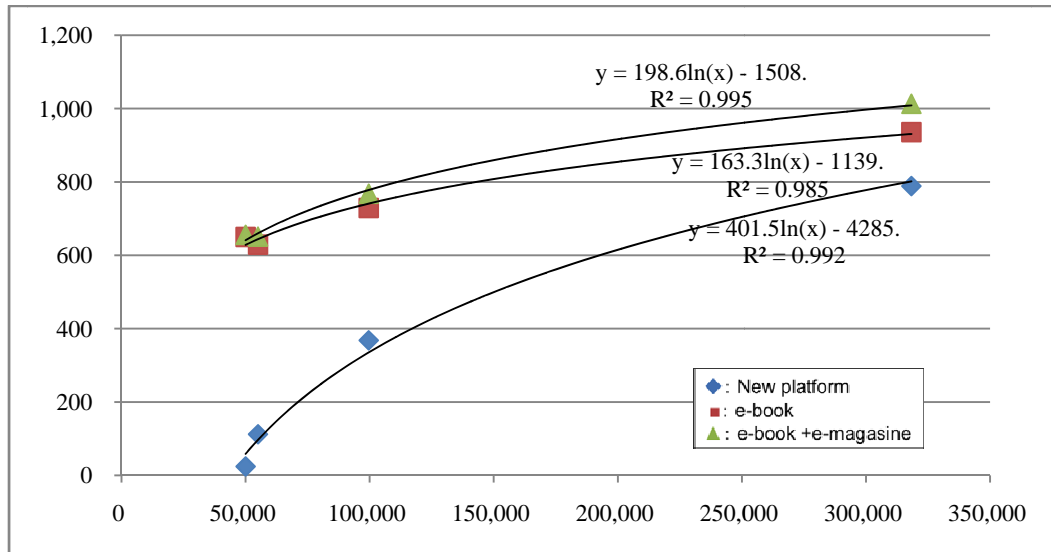


Figure 9 Relation Ship between Maximum Number of E-book Titles and Sales

Note: The vertical axis represents the sales. It's unit is 100 millions of yen. The horizontal axis represents number of titles. Stacked chart represents hardware sales, software sales, and the sales of online in order from the bottom.

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