

## **Anime Industry in Japan**

### **1-1 Market Size in Japan**

#### **• Anime**

The sales figure for “Anime Video Software” shown in [Chart 1] is the total of that for the “general public” and that for “children” among “Japanese anime,” as classified by the Japan Video Software Association. The figures under “Advertising Income for Anime Programs” are estimated solely for the purpose of this report. The distribution of anime images is made via the Internet. JPY 27.4 billion for the Japanese anime movies is the total sales at the box office made by the anime movies that ranked within the top 20 Japanese movies. In recent years the number of anime programs aired on TV has risen, and the market itself has been expanding.

Anime follows the typical video business model for multimedia development, and along with movies, TV broadcasting and video software, anime is deeply connected with each market for manga, games and character merchandise.

**[Chart 1] Anime Market (¥ billion)**

	¥ billion	Source
Sale of Japanese Anime Video Software (05)	97.1	A
Advertising Income for Anime Programs (05)	80.0	B
Distribution of Anime Images (05)	2.6	B
Box Office Sales of Japanese Anime Movies (TOP20) (05)	27.4	C
Total	207.1	

A Information from Japan Video Software Association

B Estimate made from industry data

C Estimate based on information from the Motion Picture Producers Association of Japan, Inc.

<http://www.eiren.org/toukei/index.html>

## **1-2 Animation Export/Import**

### ● **Anime** [Export Amount] Approximately 20 billion yen

#### (Exports)

The anime produced in Japan is exported all over the world, including Asia, America and Europe. According to the data gathered by the member companies of the Association of Japanese Animation, sales income from exporting anime reached 16.2 billion yen. Also, some network stations or large anime production companies make 1 to 4 billion yen in overseas sales. Therefore, overseas sales of Japanese anime (including those made by the companies that do not belong to the Association) are estimated at approximately 18 to 20 billion yen.

#### (Imports)

Regarding the importing of anime works from overseas as shown in [Chart 3], only one title made more than 1 billion yen in box-office sales during 2005, which was 14.5% of the total box office. Among the packaged anime DVDs sold as shown in [Chart 4], sales of foreign titles amounted to 11.8% of the total. Compared to live-action movies, the ratio of foreign titles among anime is small and the Japanese titles hold a share exceeding 80%.

**[Chart 2] Anime Licensing Sales Overseas in 2005**

DVD Sales Overseas	8.5
Licensing Income	7.7
Total	16.2 (billion yen)

Prepared from information provided by the Association of Japanese Animation.

**[Chart 3] Ratio of Foreign Titles Among Anime Films with Box Office Sales Exceeding 1 Billion Yen in Japan (2005)**

	Foreign Titles	Domestic Titles	Total
Number of Titles	1	7	8
Income Amount (¥ billion)	5.26	30.95	36.21
Amount Ratio	14.5%	85.5%	

Prepared from information provided by Motion Picture Producers Association of Japan.

**[Chart 4] Ratio of Foreign Titles among Domestic Anime DVD Sales (2005)**

	Foreign Titles	Japanese Titles
Sales of Anime for General Public	13972	107316
Sales of Anime for Children	2385	14758
Anime Sales Amount (Total)	16357	122074
Ratio	11.8%	88.2%

Estimated prepared from information provided by Japan Video Software Association (¥ million).

### **1-3 Anime Industry's Structure and Domestic Transaction**

As shown in [Chart 5], in anime a production committee will commonly be formed to comprise the video software maker, the TV station, the film distribution company, the anime production company and the toy manufacturer. The committee is often the right holder when the anime is distributed to various media. The right holder of each medium sells, broadcasts, distributes and delivers the anime.

Under the anime production companies (such as the 34 companies that are full members of the Association of Japanese Animation), approximately 300 production companies, creators (including the 100 members of the Japan Animation Association), screenwriters, animators, anime audio producers (such as the 68 companies that are members of Japan Audio Producers' Association) and approximately 2000 voice actors are involved in creation of the anime. Also, approximately 160 CG production companies (according to the *Yearbook of CG Creators*), approximately 350 post-production companies (estimated from the *Yuni Movies Yearbook*), including the 102 companies that are full members of the Japan Post-Production Association, are at least partially involved in the production process.

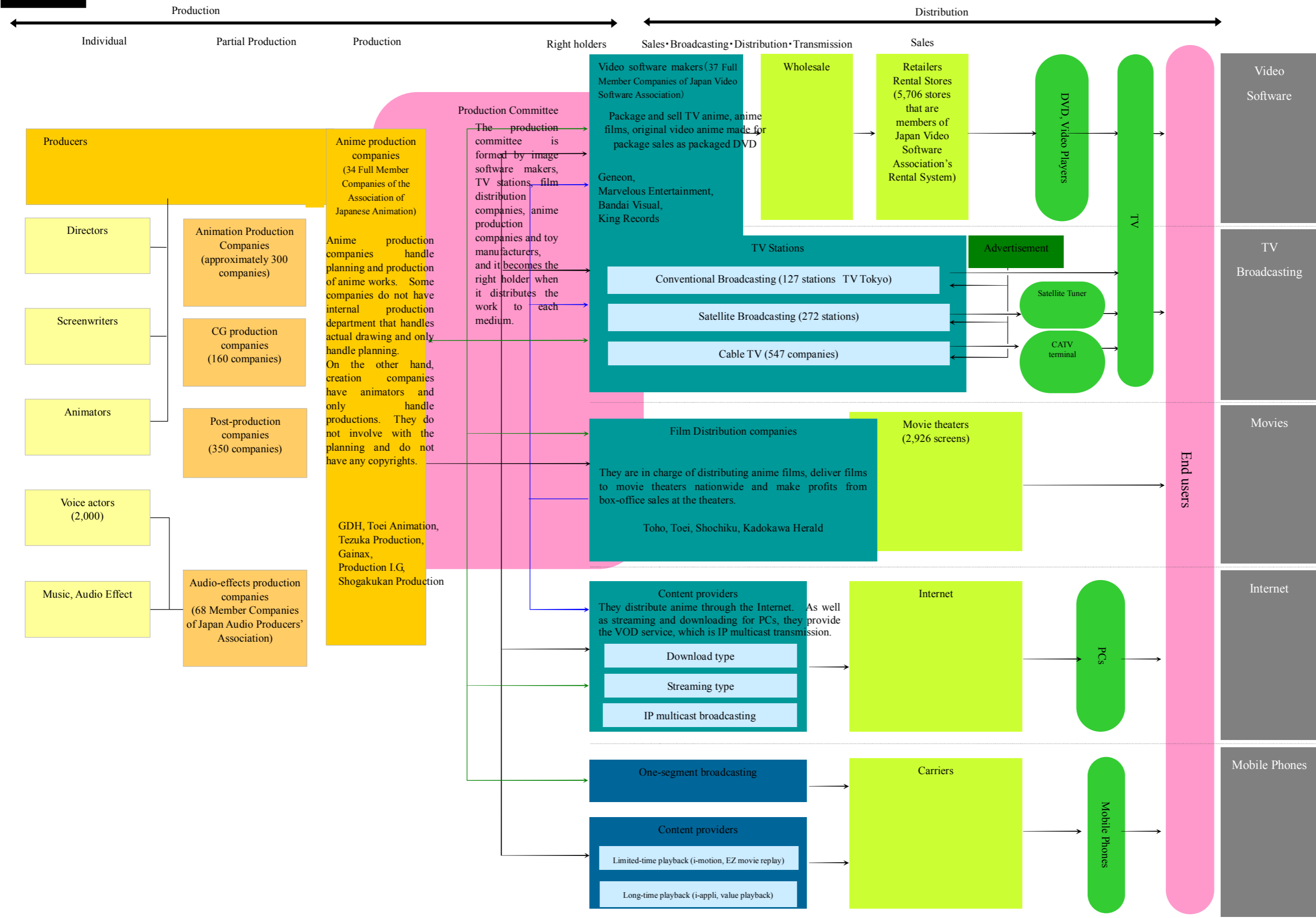
The video software is shipped from the video software manufacturers (including the 37 companies that are the full members of Japan Video Software Association) through distributors to the rental video stores (including the 5,706 stores that are members of the rental system of Japan Video Software Association) and retail stores.

For TV broadcasting, NHK and the commercial network stations organize the anime program and provide it to the local stations so that the program is aired nationwide.

The anime movie is shown at some of 2,926 screens available at theaters (according to the Motion Picture Producers Association of Japan) through distribution by film distribution companies. The content made for the Internet is distributed using providers specializing in anime or image content. The content for mobile phones is distributed by the content providers through three carriers.

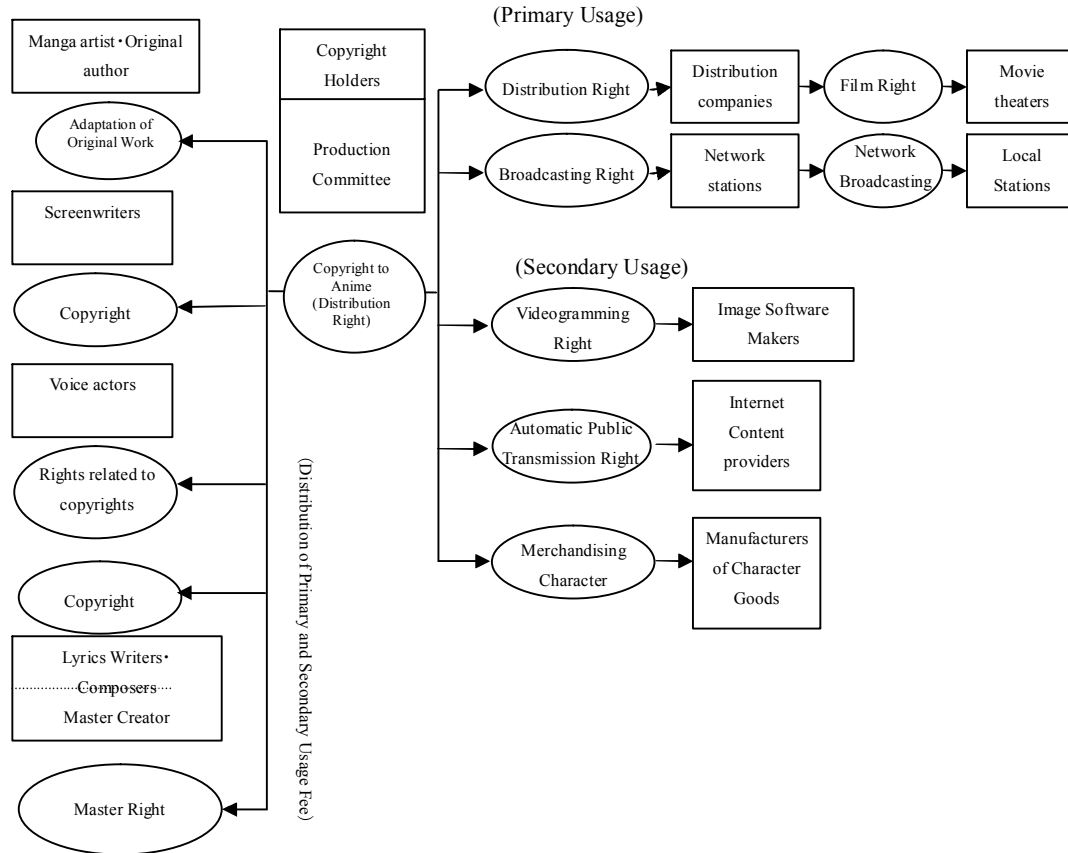
**Anime**

**[Chart 5] Anime Industry's Structure and Domestic Transactions**



**1-5 Structure of Rights Transactions for Anime**

**[Chart 6] Structure of Rights Transactions for Anime**



For anime, the production committee often holds the copyright to it. When a production committee does not involve, the TV stations or anime production companies have the copyright.

For the theater film, based on the distribution right, the film is handed by the distribution company to the theater, and the film right fee is paid to the copyright holder from the box-office sales.

For the TV anime, the broadcasting right fee is paid to the copyright holder out of the ad income made by the TV station. In case the anime production company is not a member of the production committee, sometimes only production assignment fee is paid. In making video software or the network distribution, the videogramming right fee and the usage fee based on the automatic public transmission right are paid to the copyright holder. The company who has obtained the merchandizing right pays the licensing fee for merchandising characters.

Actual performers in the anime work such as voice actors, the lyric writers and composers of the

music used in the work, the producer of the master also have the copyright or related rights. In broadcasting or releasing the anime, the permission from those right holders needs to be obtained. As compensation to them, the primary and the secondary usage fees are paid.

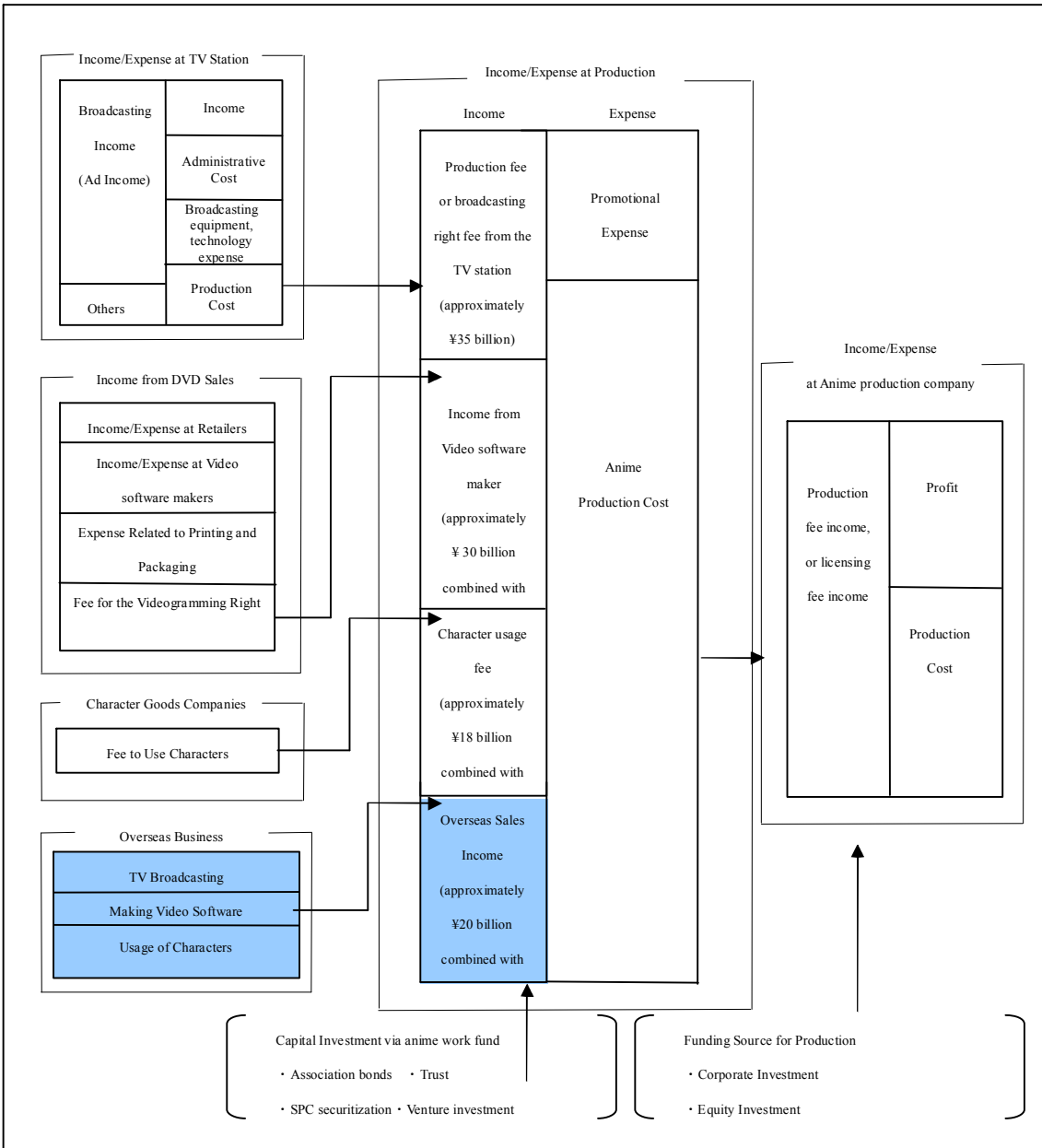
### **1-6 Companies Involving with Anime and Income/Expense Structure of Contents**

For TV anime programs, the TV station used to assign the creation of anime to the anime production company, and the production company would only receive the production fee. However, in recent years, often a production committee is formed by the TV station, the video software maker, the character merchandising company and the anime production company.

The TV anime program that is broadcasted by distributing associated risks among the committee members has started being sold actively overseas, and in recent years, it has been attracting the investment from outside such as the anime work fund.

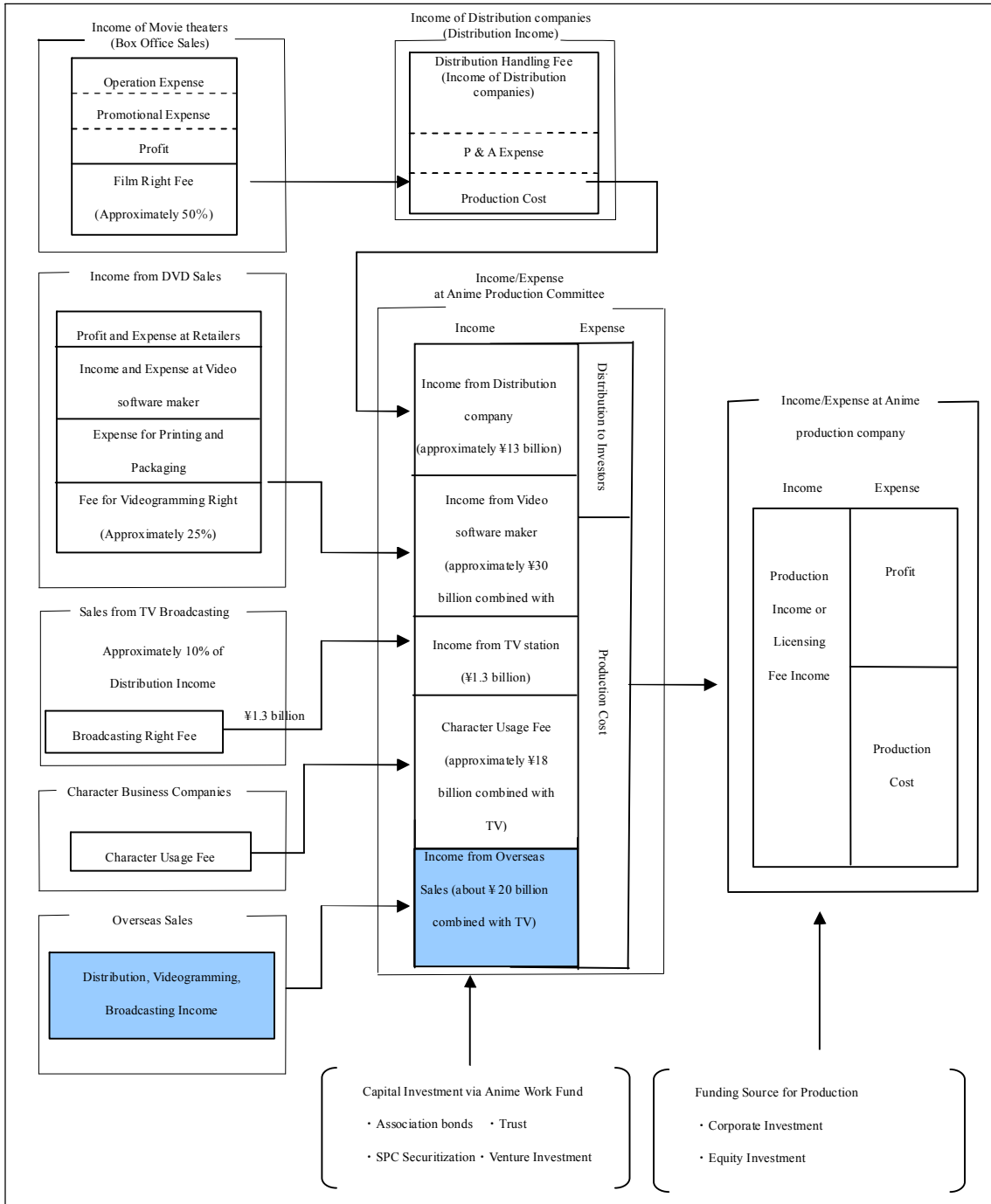


[Chart 7] Income/Expense of TV Anime Program



The anime film that uses the production committee method is a business that provides most versatile income opportunities among various income structures in the anime film business, and the environment for the investment from outside has been good. Usually the investment amount per film ranges from 2,000 to 3,000 million yen to approximately 1 billion yen.

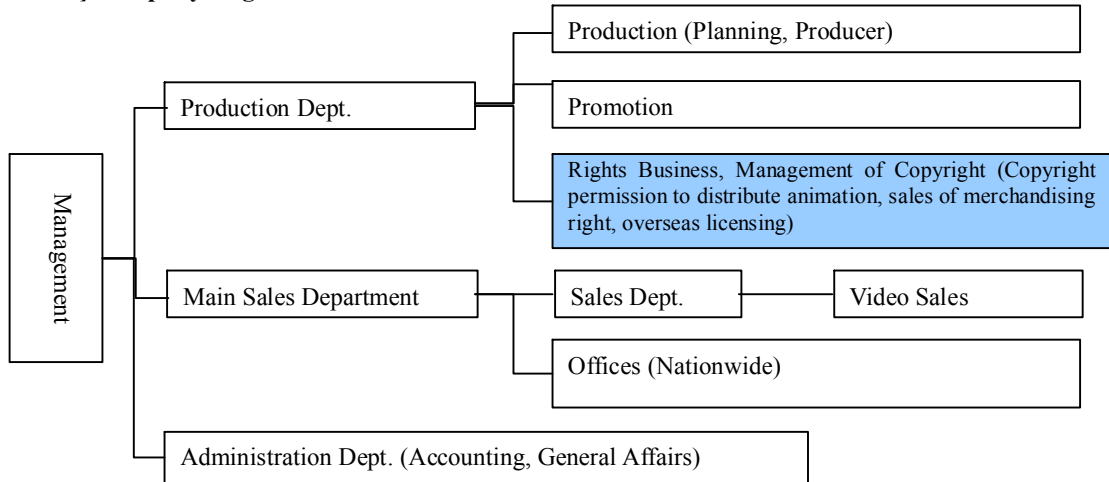
**[Chart 8] Income/Expense Structure of Anime Films**



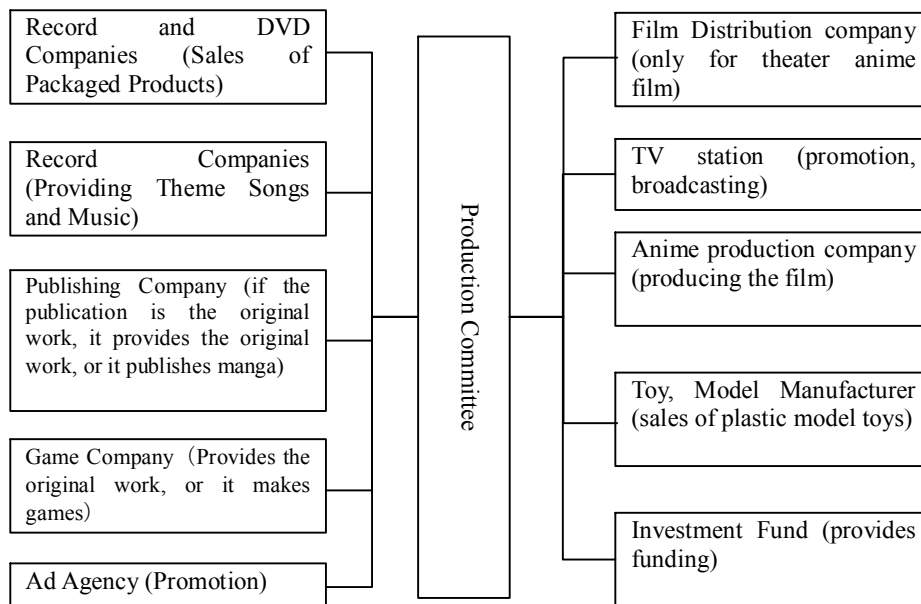
**1-7 Structure of Companies Involved with Anime and Department for Overseas Transaction**

The film distribution company, the video software maker and the production committee that holds those companies as members often handle selling anime overseas. Ten to twenty large anime production companies have internal departments that can manage copyrights.

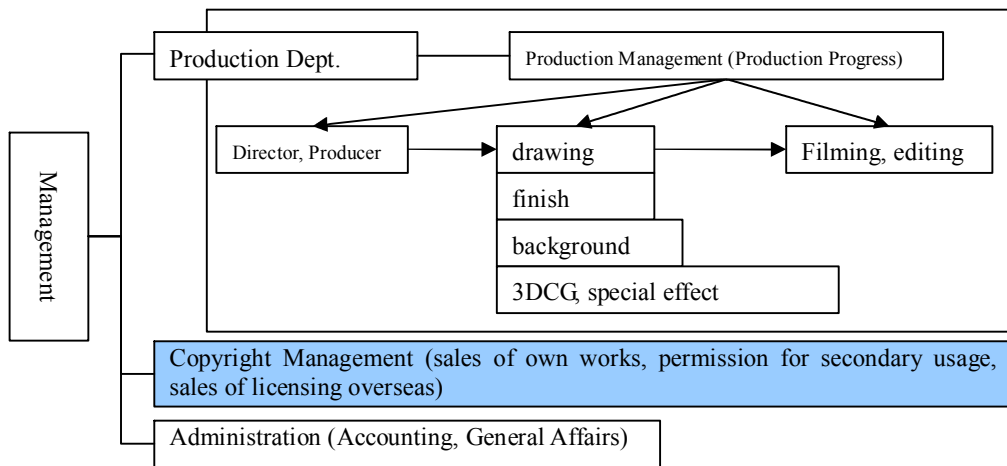
**[Chart 9] Company Organization of Video software maker**



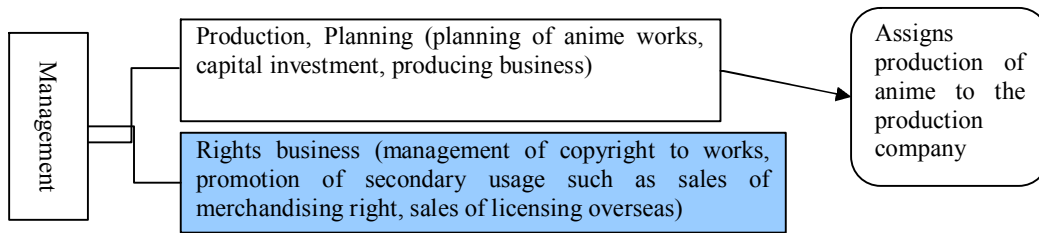
**[Chart 10] Organization of Anime Production Committee**



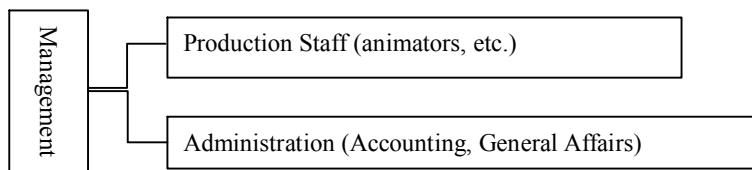
**[Chart 11] Corporate Organization of Anime Production Company**



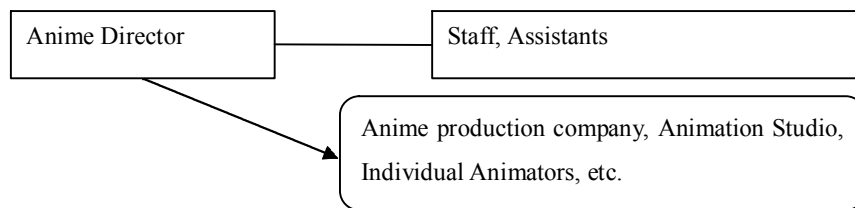
**[Chart 12] Corporate Organization of Anime Production Company (Outsourcing of Production)**



**[Chart 13] Corporate Organization of Anime Production Studio (in-house production)**



**Position of Anime Director**



### **1-8 Ratio and Position of Overseas Sales in the Whole Industry**

Overseas sales of Japanese anime are estimated at approximately 18 to 20 billion yen. Compared to that, profits made by the anime production companies are considered to be approximately 185 billion yen according to the data made by member companies of the Association of Japanese Animation. Accordingly, overseas sales amount of the Japanese anime is approximately one tenth of the domestic sales, but the amount is the second largest to the sales of games and the anime is sold overseas as one of the representatives of the Japanese contents.

For the anime production company that participates in the production committee, co-owns various rights and desires to make income from those rights, overseas sales are important. Some companies have more than 20 years' experience in overseas sales. Some of large animation production companies that handle sales make 2 to 4 billion yen in overseas sales, which sometimes make up to as much as 30% of total sales.

Among the Japanese anime, titles for children are often developed into several markets such as manga, games, character goods, card games and toys. In some case, the related licensing is sold directly to the toy manufacturers overseas, and in other cases, the related licensing is sold to the TV station and the distributor who sell it to the local toy manufacturer in the country overseas.

On the other hand, the anime catered to teenagers or enthusiasts are also sold overseas such as titles that are more popular as DVDs even though they are originally released as TV programs and as OVA titles that are never aired as TV programs, but are only released as DVD. Tokyo International Anime Fair is used as an opportunity for business negotiations.

Overseas sales of the Japanese anime are comprised of licensing for TV broadcasting, video software, Internet distribution, and for a film, the right to show the film and in many cases, licensing for character merchandising. Recently companies have started producing anime for overseas media. While the Japanese anime business is going strong all over the world, the market has reached a sort of bubble and the production capacity in Japan has reached its limit. There is also some concern over low-quality works coming into the market.

### **1-9 Targeted Market by Region**

Sales ratio by region in the world varies depending on the title and the company, but whether the popular titles for children or the titles for teenagers or enthusiasts, generally the sales are highest in the order of North America, Europe and Asia.

Sales related to the Japanese anime in the U.S. in 2004 were as much as \$500 billion, but most of the sales were mostly made from character merchandise related to the anime titles for children. Most of sales of anime titles catered to teenagers, which fans are believed to be from 200,000 to several hundred thousand people, are made through DVD sales. The market of anime titles catered to teenagers such as “Akira” and “Stand Alone Complex” peaked in 2004, and since then it is considered to be declining. Also, companies in Hollywood are buying rights to make anime movies or live action movies from the Japanese anime such as “Astro Boy,” “Lupin III” and “Cutie Honey.”

In Europe, in a country like France where the screen quota system is in place, it is often difficult for the Japanese anime to be shown when it has to compete against American movies. Unless it is aired on TV, children’s titles do not become popular and it is difficult to develop markets for manga, games, character goods, card games and toys. Especially in France, strict regulations toward programs from overseas exist. However, recently, “Pokemon,” “Yu-Ghi-Oh,” “GTO” (not suitable for children ten and younger) are aired on TV, and on “Canal+”, a cable channel, in 2005 “Full-Metal Alchemist” was aired, and in 2006 “Monster” was started being aired. It is the same as in the U.S. in a sense that sales of the adolescent titles catered to enthusiasts are mainly made through DVDs, which contribute to increase fans. In China, many titles of the Japanese anime are sold illegally as pirate copies of DVDs. Also, the permit from the central government is required to air the anime in China, but the mechanism of the permit is unclear and hard to understand.

In South Korea, there are regulations governing anime programs from overseas. Also, there are many restrictions on words and letters. Therefore, some companies avoid cumbersome regulations by producing anime jointly between Japan and South Korea.

Sales are made via agents in whole Southeast Asia. However, the contract amount is small and many pirate copies are going around in the market, too. Therefore, it is hard to obtain income from DVD sales, and there is hardly any income other than the one from TV broadcasting. In Thailand and Singapore, for the commercial for the anime programs, it is allowed to air ads for the character goods that are restricted in many other countries. Also, in the future, it is possible for India and the Middle East to become large markets considering inquiries coming from those regions.

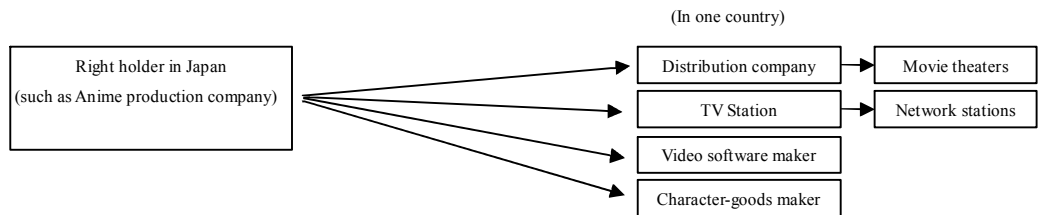
**1-10 Business Partners for Overseas Sales and Examples of Sales Routes**

When the Japanese anime is sold overseas, the production committee handles it by establishing an agent for overseas business. The company that acts as an agent varies, such as the distribution company, the TV station, the anime production company and the toy manufacturer.

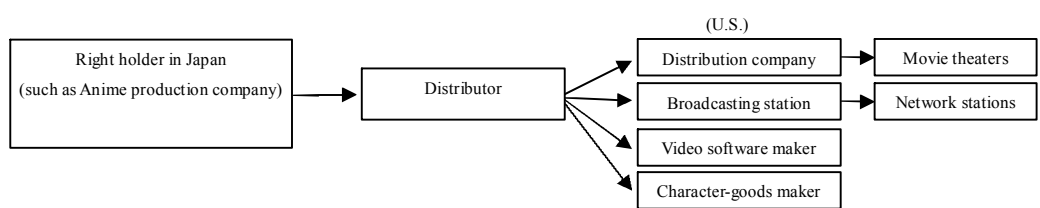
In some cases, the buyers overseas are companies in each country that handle releasing movies, the TV broadcasting, DVD sales and merchandising characters respectively, and in other cases, sales are made to a company called a distributor that can coordinate various businesses. Also, in some cases, the TV station and the video software maker coordinate releasing of the film, TV broadcasting, DVD sales and merchandising characters. In recent years, especially the TV station often demands the right to merchandise characters. Also, TV stations in Europe and U.S. tend to require the right for the Internet distribution within the service range that varies depending on countries or companies.

**[Chart 14] Major Routes of Anime Overseas Transactions**

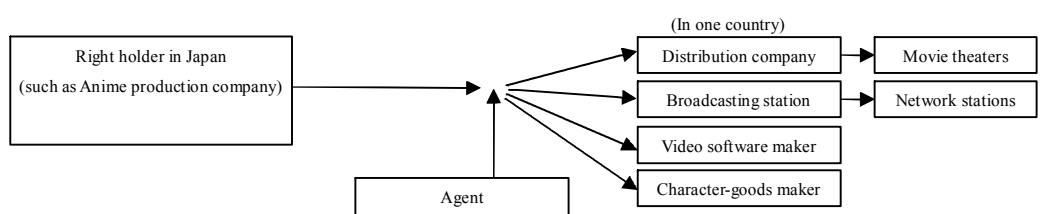
(1) Direct sales of TV Anime Program and Anime Film by Country or by Right



(2) All rights to the TV anime program or anime film are sold in U.S. through the distributor.



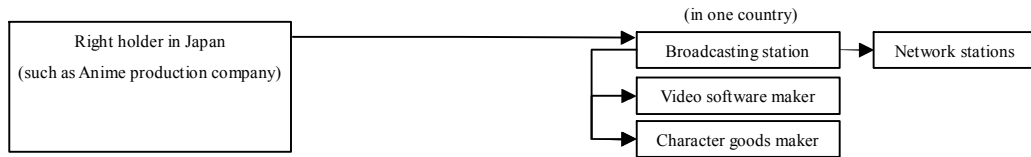
(3) Each right to the TV anime program and anime film is sold via the agent in each country.



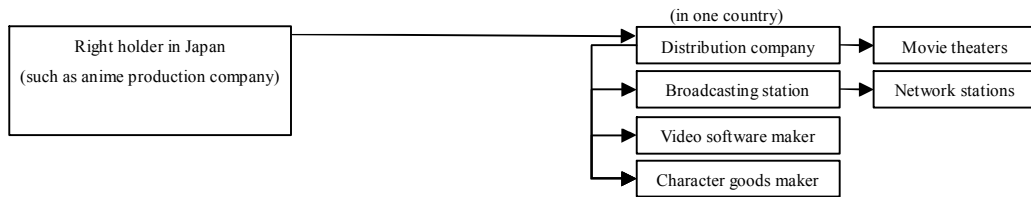


**[Chart 15] Main Routes for Overseas Transactions of Anime**

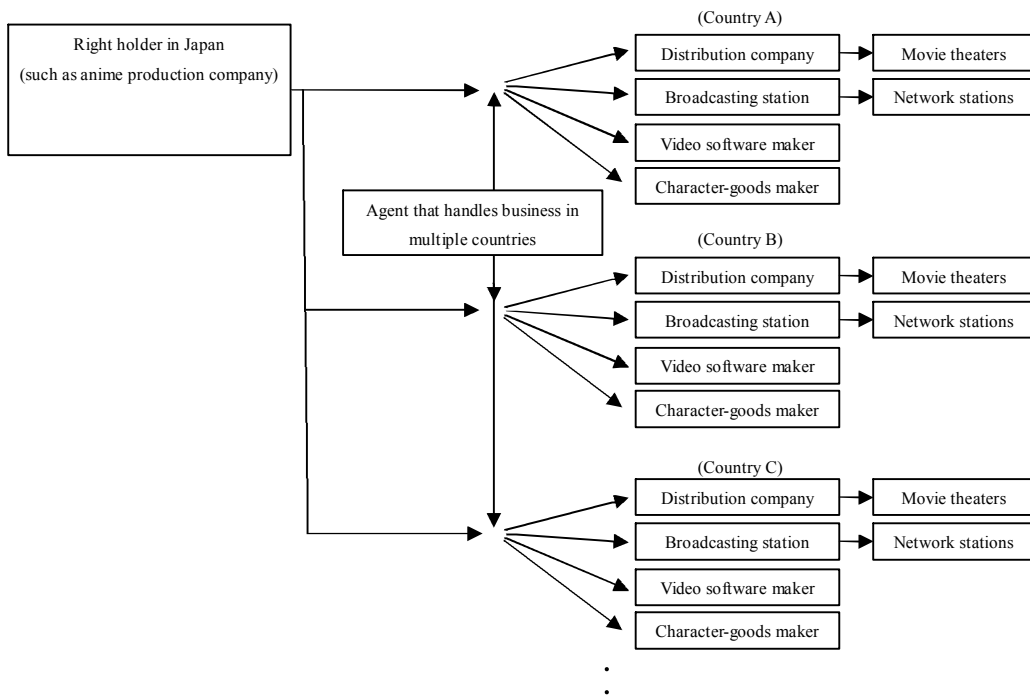
(4) All rights related to TV anime programs are sold to the TV station in each country.



(5) All rights related to the anime film are sold to the distribution company in each country.



(6) Rights to the TV anime programs and anime films are sold in multiple countries via agent.



The U.S. distributor specializes in licensing and purchases the broadcasting right, the merchandising right and, in some cases, the packaged rights that include the right to make games. At its sole discretion, it chooses the TV station that broadcasts the program, and at an opportune time it uses the merchandizing right and makes profits, from which it pays royalties to the right holder in Japan.

Some agents have TV program spots, too.

In Europe, generally rights for DVD sales, TV broadcasting and characters used to be sold as a bundle to the agent, after which the broadcasting station, the video software maker and the toy maker in each country would handle the localization necessary for sales and broadcasting. However, since each country has its own distribution structure and is in a different stage of the market, currently the individual rights are often sold to separate companies such as the TV station, the DVD maker, and those specializing in merchandising and Internet distribution.

In Asia too, generally rights for DVD sales, broadcasting and characters used to be sold in bundles to the agent, whereupon the broadcasting station, the video software maker and the toy maker in each country would handle the localization necessary for sales and broadcasting. However, currently individual rights are often sold to separate companies such as the TV station, the DVD maker, and those specializing in merchandising and Internet distribution.

In China the TV broadcasting of “The Prince of Tennis” will start in summer of 2006 in 15 cities such as Shanghai and Beijing. This is an example of TV broadcasting development through the broadcasting permit obtained by Shanghai Media Group, one of China’s major media groups.

### **1-11 Method of Developing an Overseas Customer Base**

Among the anime production companies having a history of more than 20 years selling their own anime overseas and the budding companies that started selling their works overseas just a few years ago, the major sellers of anime have established multiple business routes with their customers in their countries. These companies participate in the Tokyo International Anime Fair, which is held in Japan, and the trade shows that are held overseas, but the purpose of participation in such events is mainly for the continuation of business and PR to the industry. For business negotiations they contact their customers directly. They receive many inquiries through their websites other than at trade shows, but some of them do not disclose the contact information because inquiries of small scale from overseas are cumbersome to them.

However, in countries such as France, South Korea and China, where restrictions are imposed on the content or the total running time when broadcasting Japanese anime, even if companies receive inquiries concerning their works, since it is difficult to obtain the broadcasting permit, sometimes a business relationship will not be achieved. To overcome these obstacles, companies take measures to broadcast works as locally produced anime through joint productions or by investing in local companies. It is effective for market development to investigate each country's restrictions in detail and to seek advice for collaboration with local companies to which those restrictions do not apply.

Additionally, in selling hit series titles for children with which Japanese broadcasting stations, major anime production companies, distribution companies, video software makers, game software makers and toy makers are involved, it is necessary to form a joint project with broadcasting stations in the buyer's country, large anime production companies, distribution companies, video software makers, game software makers and toy makers, which is done in order to expand the market through mixed media and to obtain and distribute sales. It is also important to make the media industry in the U.S. and Western Europe understand the Japanese method of conducting sales through such mixed media.

Contrastingly, many Japanese anime are created by mid- and small-size anime production companies, independent authors and artists. The production companies and the Japanese agents of those authors and artists have started selling their works overseas. The buyers for those works are considered different from those of the major sellers. They are movies theaters, video software makers and publishers who sell content for particular tastes in the mid- and small-sized niche markets of each country. It seems a good idea to research companies that cater to niche markets in each country, and to make a list and present opportunities to Japanese sellers in order to meet those companies.

Additionally, because Japanese anime are shown at the theater or broadcasted or sold as DVDs in countries overseas, the anime industry has started paying attention not to buyers of licenses but to end users in those countries. The industry also attaches high value to distribution in the movie theaters, DVD stores and toy stores. Many voice the desire to broadcast programs that introduce Japanese anime or run Japanese anime events throughout the countries, which are geared toward end users and retailers. These types of measures are essential for market expansion.

### **1-12 Joint Production with Overseas Companies and Format Sales**

The following examples of joint productions, format sales and joint sales with overseas companies were obtained as follows:

- **France**

To secure the status of their works being produced in France, the company has formed a local subsidiary with 60% of the ownership held by a French producer for the joint development of business. By having the business tie up with companies of French nationality, the company can take advantage of the local network establish connections with TV stations. **[GDH K.K.]**

- **China**

It has been decided that “Agito the Silver-Haired,” a joint production work with China, will be released to 1000 screens in China. **[GDH K.K.]**

