



The Economic Bloc for Animation Is in Turmoil

Who is Making Profits after All? The Other Side of the Party

The fourth boom is currently sweeping across the animation industry. The market for animation is finally approaching 2 trillion yen. Money is flowing in from overseas. Meanwhile, people at production job sites are suffering from cheap labor costs. Similar structural problems face the industry. *Weekly Toyo Keizai* investigates the economic bloc for animation, entering a new dimension.

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“Have you seen either?” There must be many people who have had a conversation like this at work or home since last year. Two animated movies, *Kiminona-wa* (*Your Name*), released in August 2016, and *Kono sekai-no katasumi-ni* (*In This Corner of the World*), released in November of the same year, triggered a social phenomenon that caused a broad range of ages to visit movie theaters.

The former achieved the second largest box-office proceeds for an animated movie in Japan after *Sen-to Chihiro-no kamikakushi* (*Spirited Away*), directed by Miyazaki Hayao, released in 2001. Positive reviews spread through social media and others, leading to an unprecedented number of screening theaters for a movie intended to be a single-theater release.

The great success of the two movies is only the tip of the iceberg in the animation market. Animation accounted for seven of the eleven domestically produced movies that earned the highest box-office proceeds in Japan last year. (Refer to the table shown below) Several popular titles, such as *Osomatsu-san*, an animation broadcast late at night that targets adult females, also emerged on television.

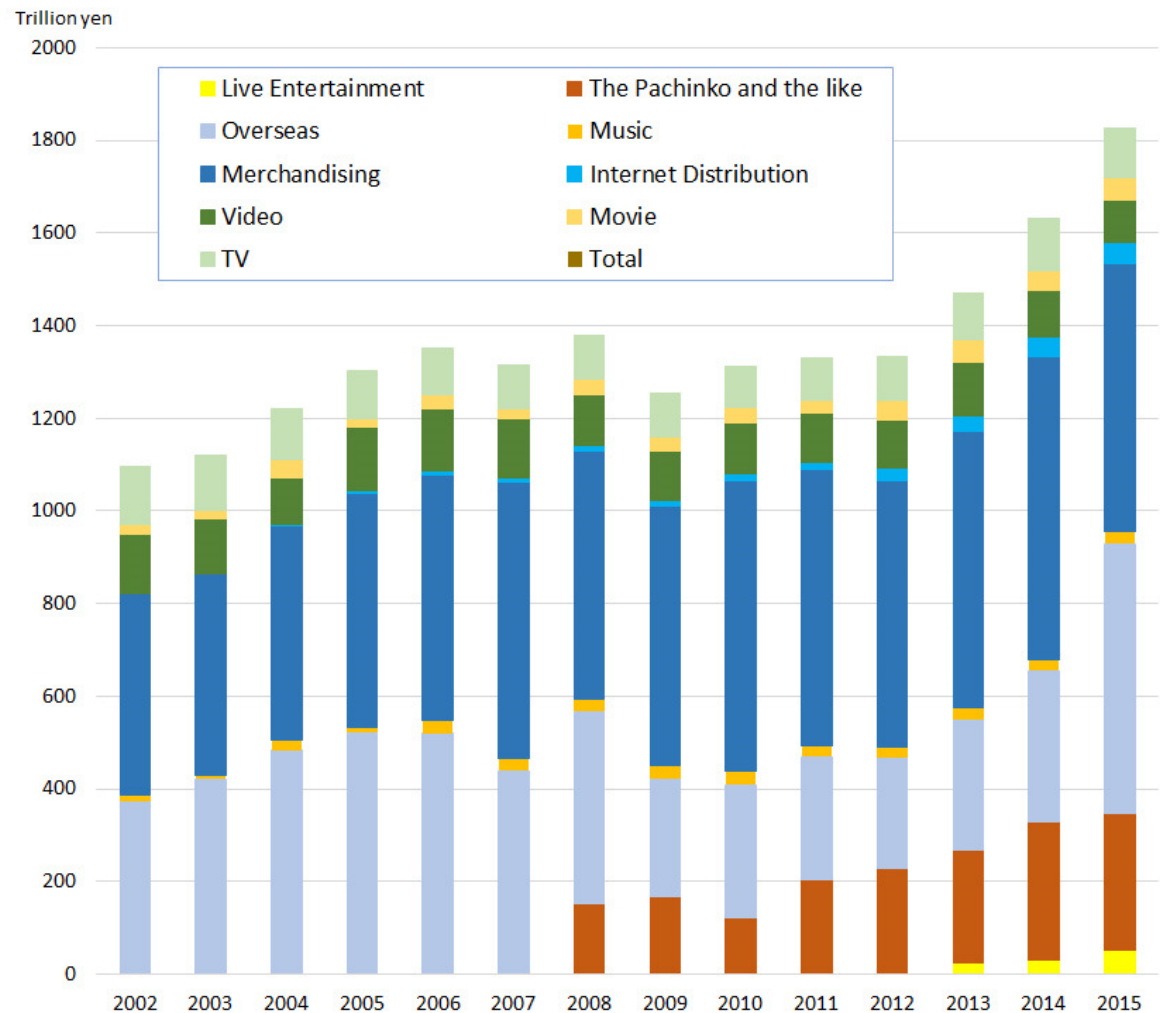
Domestically produced movies that earned the highest box-office proceeds in Japan in 2016		
Animation dominated theaters		
1	<i>Kiminona-wa (Your Name)</i>	24,650 million yen
2	<i>Shin Gojira (Shin Godzilla)</i>	8,250 million yen
3	<i>Meitantei Konan: Junkoku-no akumu (Detective Conan: The Darkest Nightmare)</i>	6,330 million yen
4	<i>Eiga yokai uocchi: Enmadaio-to itsutsu-no monogatari danyan (Yo-kai Watch the Movie: The Great Enma and Five Stories)</i>	5,530 million yen
5	<i>One Piece Film Gold</i>	5,180 million yen
6	<i>Nobunaga kyosokyoku (Nobunaga Concerto)</i>	4,610 million yen
7	<i>Eiga Doraemon: Shin Nobita-no Nihon tanjo (Doraemon the Movie: Nobita and Birth of Japan 2016)</i>	4,120 million yen
8	<i>Ansatsu kyoshitsu sotsugyo-hen (Assassination Classroom: Graduation Edition)</i>	3,520 million yen
9	<i>Orange</i>	3,250 million yen
10	<i>Koe-no katachi (A Silent Voice)</i>	2,300 million yen
10	<i>Kono sekai-no katasumi-ni (In This Corner of the World)</i>	2,300 million yen
Notes: Titles in red are animated. The top box-office blockbuster as of March 20, 2017.		
Source: Material by <i>Shukan Toyo Keizai</i> prepared based on the movie ranking published by Kinema-Junposha Co., Ltd.		

The animation market in Japan expanded to the largest size ever of 1,825,500 million yen in 2015 (Refer to Fig. 1). There is a high possibility that the market broke that record and reached approximately 2,000,000 million yen in 2016, supported by the positive effects generated by *Kiminona-wa* and other developments. Japan is in the midst of the fourth animation boom.

The national popularity of *Tetsuwan Atomu (Astro Boy)* began the first animation boom in Japan in the 1960s. During the second animation boom in the late 1970s to the 1980s, *Uchu senkan Yamato (Space Battleship Yamato)* and *Kido senshi Gandamu (Mobile Suit Gundam)* expanded the animation fan base to young men and women. Diverse box-office hits, such as *Shinseiki Evangelion (Neon Genesis Evangelion)*, *Poketto monsutaa (Pocket Monsters)*, *Mononoke Hime (Princess Mononoke)* and *Sen-to Chihiro-no kamikakushi*, appeared in the third animation boom that began in the mid-1990s.

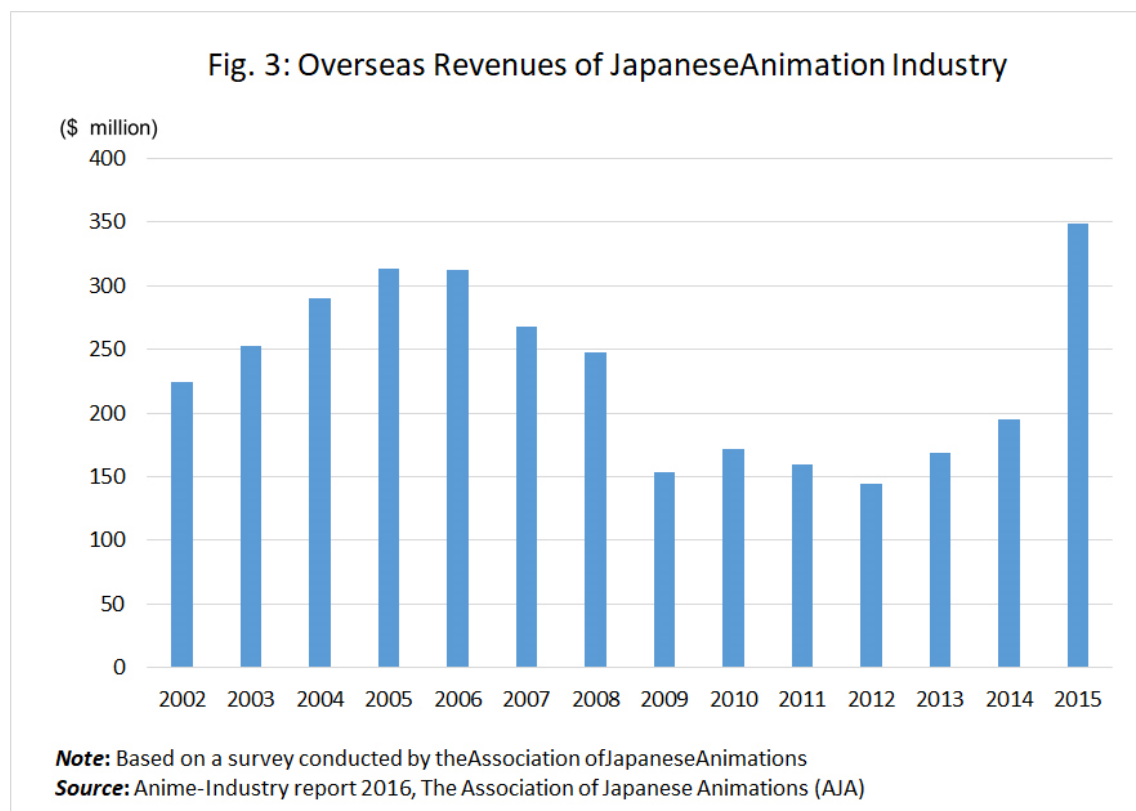
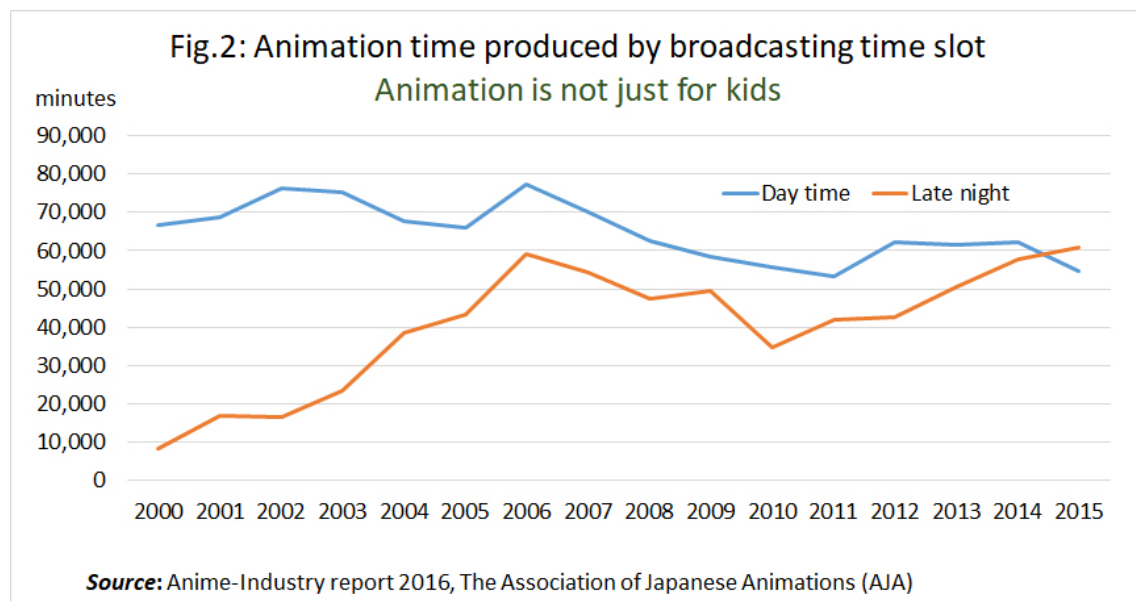
Fig. 1: Changes in the economic bloc for animation

Economic bloc for animation is expanding into a 2-trillion yen market



Source: Anime-Industry report 2016, The Association of Japanese Animations (AJA)

Compared to the past three booms, the current popularity is difficult to actually feel with the exception of the two titles mentioned at the beginning. There are two reasons for this situation. First, several TV animations broadcast late at night have become moderate hits and added up to expand the market before *Kiminona-wa*. Therefore, the market growth was difficult for the public to sense. In addition, demand existed overseas. Overseas enthusiasm for Japanese animation is phenomenal, but that is difficult to sense for people in Japan. (Refer to Fig. 2, 3)



Soaring US Dollars and RMB Eating Their Way into Animation Production

“What? Thirty-five million yen per episode? Isn’t that too expensive?” The sales price for a certain TV animation for kids astonished an industry insider when he learned of it in the spring of 2016. The buyer was Funimation in the United States, a leading animation package seller and

movie distributor in North America. The price was for a blanket contract for rights, including video distribution and sales of DVD packages. However, the market price was around 5 million yen per episode at the peak of the previous animation boom. Furthermore, the broadcast had just begun for the sold animation. How popular it would become was unknown. Funimation bought the animation based on its expectation that it would become a tremendous success equal to *Doragon Booru* (*Dragon Ball*).

This was an outstanding case, but sale prices for Japanese animations are soaring on the whole overseas. Intensifying competition for paid video distribution services is a primary cause of this phenomenon. Amazon of the United States started offering a service that allows Prime members to view as much animation as they like for 4.99 dollars a month in January 2017. In the United States, competition is intensifying among video distribution business operators, such as Netflix and Hulu. Japanese animation is drawing their attention as content that offers distinction from competitors.

Even more intense competitions are taking place in China. Multiple business operators are staging competitions to win users through two giant video distributors, each with more than 200 million users, called iQiyi and Tencent. There are business operators in China that spend more than their net sales on contents acquisition. They are buying Japanese animation at high prices.

Foreign affiliated companies are currently increasing their strategies to directly enter into animation production, in addition to buying rights. The majority of Japanese animation producers adopt a consortium method, through which they collect investments from multiple companies and secure the funds to cover production costs. A consortium for a given animation has two functions to distribute rights and interests. It distributes income from royalties that arise from the broadcast and distribution of animation to corporate investors. At the same time, it assigns window rights, which permit the respective companies to earn money by using animations in their respective fields of expertise.

Ordinary companies such as East Japan Railway and Lawson are investing their money in animation production, because they view the rights and interests to be profitable. For example, Lawson has been extensively investing its money in animation production in recent years, because according to the company's public relations officer, there is no way to know which animation will succeed at the box office, and extensive advance investments increase chances to benefit from box-office hits by means including connected campaigns. Foreign affiliated companies are also setting their sights on this point.

“We have invested in about 40 animation titles so far,” said Kun Gao, founder of Crunchyroll, an animation distribution specialist in the United States, at a party hosted by Crunchyroll at Grand Hyatt Tokyo on March 16, 2017. “We will produce wholly self-financed original animation in the future.”

Crunchyroll started investing in consortiums around 2014. The company began expanding its investments rapidly after setting up a joint investment company with Sumitomo Corporation in October 2015. “We will develop a business that produces money through the long-term use of characters like the Disney business through Japan-US collaboration,” Sasajima Kazushige, a team leader at the Broadcasting and Movie Business Division of Sumitomo Corporation, explained enthusiastically.

Companies in China are bolder. A subsidiary of Tencent is investing its money in a consortium for a series of Studio Deen productions called *Reikenzan (Spirit Blade Mountain)*, whose late-night broadcast began in Japan in January 2016. The subsidiary’s capital contribution ratio is at an unusually high level between 80% and 90%. The amount invested by the company is estimated to total a little less than 200 million yen. The subsidiary appears to have found benefits in taking the initiative in the consortium and becoming able to achieve maximum profit from an animation series.

Broadcast Delays in Succession and Exhausting Production Job Sites

The animation market is oversaturated with foreign-affiliated firms and companies in different lines of business becoming jumbled together. However, the view is completely different when attention is turned to production job sites.

“Broadcast and distribution will be postponed due to production reasons.” With this announcement, *Rongu raidaasu! (Long Riders!)*, a serialized animation broadcast late at night, was called off in the initial stage of its third episode in October 2016. Several other animations that aired late at night were forced into broadcast and distribution postponement during the same period. Multiple sources in the animation industry constantly point out the problems faced by studios, such as a manpower shortage and a shortage of working funds, are throwing animation production into confusion.

The market for animation is continuing to set new records, but the growth rate for the animation production industry falls far below the same rate for the market as a whole. Production costs paid by consortiums and TV stations, which have reached their limit, lie at the

root of this situation. Expenses vary depending on animation, but the going rate has remained almost unchanged at 15 million yen to 20 million yen per episode for the last twenty years.

In the meantime, video expressions are being sought that are more delicate and smoother than in the past. The time and labor required per episode are increasing. Combined with the introduction of computer graphics (CG) and other digital technologies, production costs are rising steadily. The market is in an active period, but profits for animation production companies are worsening rather than improving. One in every four production companies have fallen into the red.

A peculiar ecosystem has kept the animation industry going. Eighty percent of industry members are small, medium and micro enterprises whose annual turnover is less than 1,000 million yen. They complete animations by outsourcing the processes to other companies in the same business or freelance animators. There is no such thing as a shared IT system. Paper bundles containing rough drawings and cleanups are handed over in bags called “cut bags.” The process of coloring cells has been digitized, but production jobs remain basically the same as in the era of *Tetsuwan Atomu*.

The maintenance of this extremely labor-intensive ecosystem for more than a half century can be attributed to the great honesty unique to Japanese people. However, it is also true that the ecosystem is currently exhausting production job sites.

The job environment for animators vividly mirrors this sense of despair. According to the Japan Animation Creators Association (JAniCA), the average annual salary in the industry is low. Annual salaries for animators, including many newcomers, average 1,110,000 yen. Their status is also unstable. Only one in six is a permanent employee. One in three nonpermanent employees work under an annual contract.

“I would like the industry to provide a livable wage in exchange for working eight or more hours a day, six days a week.” “I’m motivated, but I’ve been driven into a corner both mentally and physically. My condition interferes with my work.” These comments from people at job sites contributed to JAniCA’s 2015 Report on the Fact-Finding Survey on Animation Producers and reveal the excessively severe actual conditions that support this Party of 2 trillion-yen. “Animation will be unable to continue as an industry sooner or later, unless technologies like CG are introduced to production job sites and workers are trained there,” cautioned Masuda Hiromichi, deputy chairman of the Personnel Training Committee at the Association of Japanese Animations.

People at production job sites give animation their appeal. The structure of the animation

industry that keeps production costs low has nearly reached its limits. People at production job sites may ask consortiums to bear reasonable production costs. They can also seize window rights in the same way as Polygon Pictures, which won the rights to develop markets with contributions. The Japanese animation industry might collapse unless an exit is sought before the wild market enthusiasm disappears.

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