2011 Digital Broadcasting Shift to Change Media Planning in Japan

SPI - *Strategy, Productivity, Insight*

Objectives

- One of the major current topics in the media industry is the full shift to digital terrestrial ("chi-digi") broadcasting in Japan – scheduled to take place on 24 July 2011.
- There are various rumors and talk in the industry about the effects of this shift, with major concern being "What impact will the chi-digi shift have on TV advertising business?"
- In this report, SPI analyzes the effects of the impending chi-digi shift from its own perspective, and proposes measures to be taken.

What is "Chi-Digi Shift"?

What does the shift to chi-digi actually mean?

- It means the changeover of the terrestrial broadcasting system in Japan from analog to digital signals.
- Because of this change, TV viewers need to replace their current analog receiving set to a unit/set with a digital receiver, and connect to a new UHF (or Cable service) receiving antenna.

Benefits of Digital Broadcasting

- This is a national project that aims to advance technological innovations, which are expected to benefit both viewers and broadcasters in the following ways:

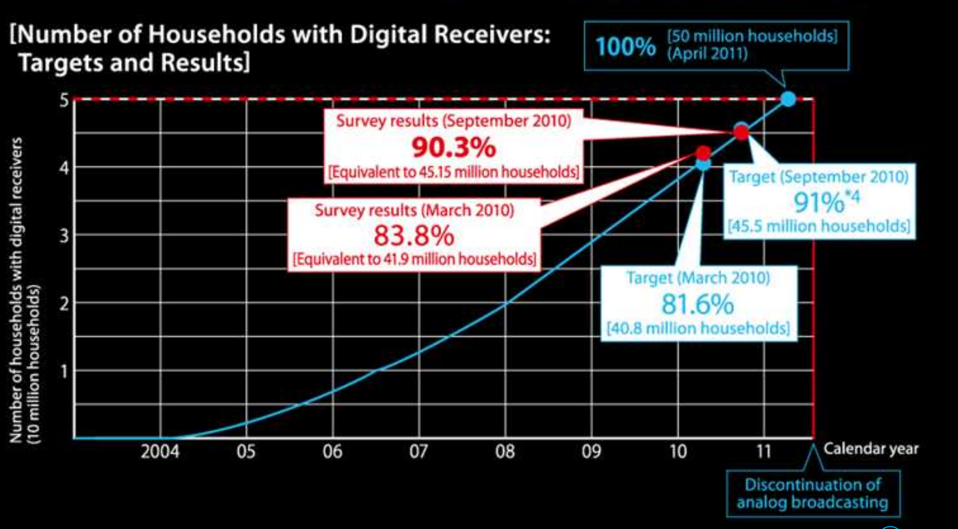
(translated excerpts from "Association for Promotion of Digital Broadcasting" announcement)

- Powerful, high picture quality
- Clear, ghost-free images
- Highly realistic sound quality
- Easy recording using EPG
- Convenient data broadcasting
- Interactive services offer more fun
- Multi-programming broadcasting allowing sports games to fully air even when run overtime.
- Subtitled broadcasts friendly to the elderly and the physically challenged
- One-seg allows users to access information anytime.
- More channels are available.

Adoption of Digital Receivers

- More than 100 million digital receiving devices have already been installed, enabling reception of digital broadcasting.
- Also, according to the Ministry of Internal Affairs and Communications (MIC), digital receivers have spread to 90.3% of households. (right)

Source: Ministry of Internal Affairs and Communications (Nov.2010)



Digital Broadcasting Expansion

- The forthcoming chi-digi shift is thus characterized by the upgrade of viewers' receiving devices, and also together with this upgrade, the commencement of more multi-channel broadcasting.
- Already, digital receivers are installed and digital broadcasting is viewable in 90% of households.
- For satellite broadcasting, in addition to the current lineup of 12 channels, plans call for an additional +10 channels to be launched by around October 2011, and another approximately +7 channels in spring 2012.

Consumer Expectation toward Multi-Channel Broadcasting

- In 2010, according to SPI's proprietary consumer survey CCS, positive sentiment and expectation toward multi-channel broadcasting increased 20% versus year ago. This trend is expected to gain momentum as the number of channels offered increases further in the future. (details in full report)

Even More Convenient

- "One-seg" enabled mobile phones are spreading among consumers as digital broadcasting continuously improves. As of 2010 November, 95,914,000 one-seg enabled mobile phones have already been sold in market.
- VOD services have also begun for digital receivers using Internet-based interactive communication functions (AcTVila, TSUTAYA TV, etc).

What effects to the TV advertising business?

To the advertising business, the shift to digital terrestrial broadcasting means:
Multi-Channel Availability (= Diversification & Fragmentation of TV viewing), and Media Planning Evolution

Digital Receivers Penetration Forecast

- SPI estimates that digital receivers will spread to 90-96% of households. (High end of estimate represents MIC's target and lower end the % of HH planning to install a digital receiver in MIC's most recent survey.)
- MIC predicts that digital receivers will spread to 97% of households by July 24, 2011. However, some advertising agencies and concerned parties estimate that the final percentage will range from 86.5% to 90.5%.
- In the U.S., the changeover to digital broadcasting was postponed once from 17 February to 12 June 2009. In February, the percentage of households without a digital receiver was 4.4-5.1%. (Nielsen Company, Jan'08-Sep'09)

Viewership Expected to Decline - Short-term Effects on TV Advertising

- Since often only the main TV set in the household may be replaced and therefore compatible to receive digital broadcasting, viewership is predicted to decline – particularly when TV sets other than the main set are in use. Specifically, users of sub-TV sets include a large % of young viewers. Therefore, the decline in viewership is likely to be conspicuous around primetime during which the TV exposure rate for young viewers is high.
- Household Viewership: Overall household viewership is expected to decline because the sub-TV sets in the household, if not compatible with digital terrestrial broadcasting, can no longer be watched. In the U.S., only 2.5% of households did not have a digital receiver when analog broadcasting was discontinued, but overall viewership declined by 6-10%. (Nielsen Company)
- Viewership by Individuals: Viewership in age groups who watch sub-TV sets is expected to decline. In particular, a marked decline is expected among younger teens & MF1 (male & female 20-34) audiences.

Regarding TV Spot Cost, SPI Predicts

- Based on predicted 6 - 10% decrease in viewership, 6.3 - 11.1% increase in GRP cost

Changes in Media Planning

Decline in TV Viewership、Decline in Reach Efficiency

(details in full report)

Lack of Price Transparency

(details in full report)

Market Price Trend Outlook After Chi-Digi Shift

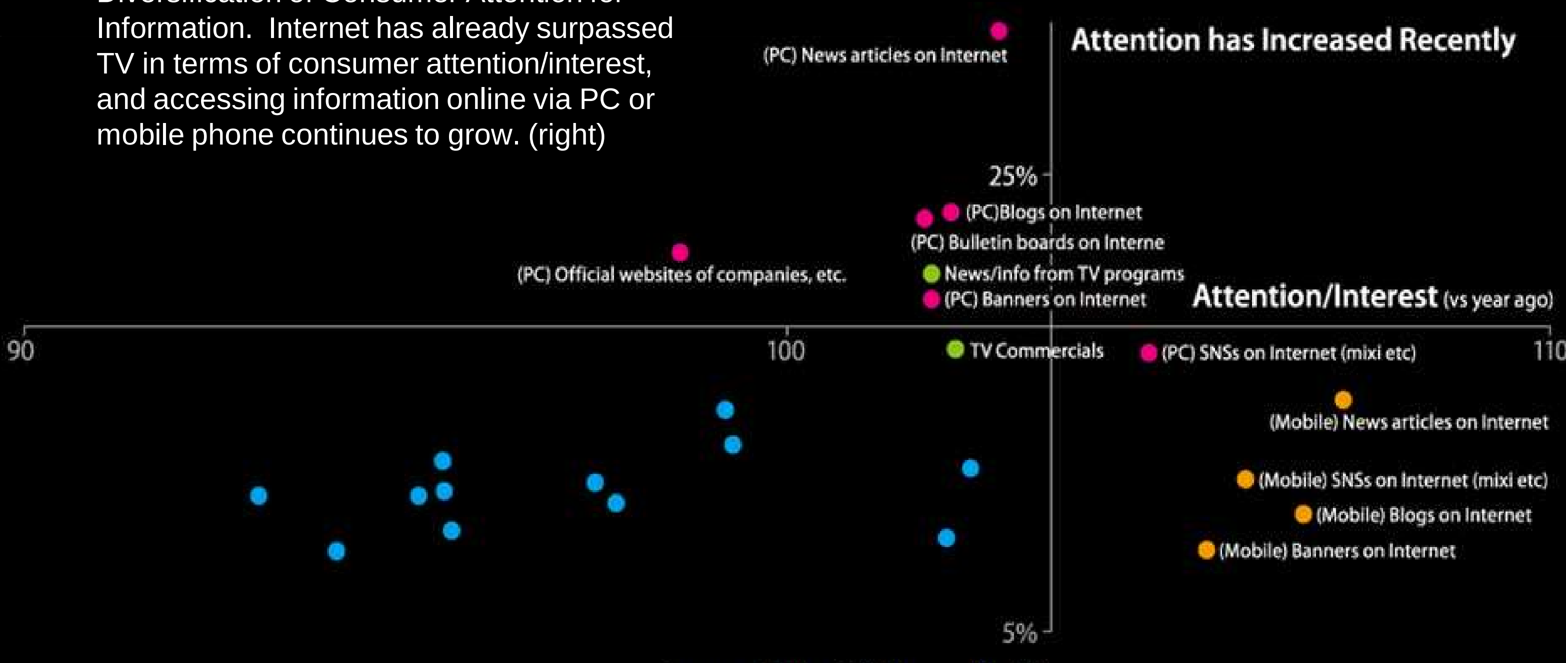
(details in full report)

Immediate Actions to Be Taken - Firstly, as efficiency of TV media declines in the short-term:

(details in full report)

Future Media Planning - With collapse of conventional media planning, importance of establishing customized and proprietary methods

- TV Spot Avoidance due to Technological Advancement, Low TVCM Interest/Attention, Diversification of Consumer Attention for Information. Internet has already surpassed TV in terms of consumer attention/interest, and accessing information online via PC or mobile phone continues to grow. (right)



Source: SPI's CCS (ages 15-44)

- To address and cope in the increasingly multi-channel environment, each advertiser will need to reassess and restructure their appropriate media landscape – making full use of various survey data, modeling, past case studies, and other resources.
- Even after the digital broadcasting shift, currently it seems likely that viewership data will still only be made available for major terrestrial broadcasters = current key TV stations.

"5 Tips" For Future Planning

- Understanding of diversified contact points - From multi-channel TV broadcasting to the emergence of digital media and social network services, contact points between consumers and businesses have grown by more than twofold in the past two years.
- Message strategy for each medium - Also, via partial combination of their parts, diversified media can already provide sufficient amount of information to realize complete communication. Therefore, any medium has the potential to play a leading role in communicating, and importance of developing message strategies for each medium is key.
- Role of digital TV - Shifting to more multi-channel, TV's efficiency as a mass media is already declining. Conversely, the usefulness of TV as a targeted medium is expected to rise. Therefore, it is necessary to clearly define TV's role within the overall integrated planning scheme, rather than taking a mass TV default mindset and approach.
- Breaking away from panel data - There is a range of wide-coverage general consumer panel data in the Japan market. Due to the diversification of media, consumers' values, and other factors, however, it is insufficient to rely on just a general view anymore. Collection, accumulation, and analyzing of most relevant data on a company-by-company or brand-by-brand basis is necessary.
- Ensuring transparency through pursuit of ROI and its verification - Diversifying media will likely make it increasingly difficult for advertisers to ensure a high level of transparency and verify ROI. Therefore, it is necessary to strive to realize such verification by employing specialized techniques and methods.

Toward Long-Term Actions

- In order to ensure even more efficient and optimized media planning, TV stations should be encouraged to provide viewership information for satellite and one-seg broadcasting.
- To realize value transparency and understanding, it is also necessary to call for increased transparency regarding market selling prices.
- Media market data should be reorganized to ensure coverage of digital broadcasting and other viewing.
- An integrated method of verifying diversified media should be established.

What SPI Can Do

- As media auditing specialists, objectively analyze a client's current TV spot buying efficiency, assess effectiveness, and develop improvement plans.
- Using advanced statistical methods and techniques, conduct KPI analyses for each medium and help optimize investment distribution strategies for a client's integrated communications.
- Based on thorough analytical results, develop and manage detailed optimal media and communication plans.
- Provide client dashboards and database management services across media and marketing information sources.

For a presentation appointment of the full report, please contact SPI at:

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