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WebTV/Microsoft (Japan) Chairman
Susumu Furukawa

Spinning the Web: WebTV Japan by Gail Nakada

Microsoft kicked off their WebTV Networks KK, a subsidiary of US-based WebTV Networks Inc., in Japan in 1997. Despite initial attempts to fine

tune the set-top box service for Japanese users -- with perks like karaoke -- the much heralded convergence of Internet and television ran up against a wall of consumer apathy and NTT's monopoly on interconnection charges.

"To be honest, previous PR and other (ads) spent too much money to push and promote the name of WebTV only. (The) name of WebTV is getting popularized, but nobody knows what WebTV is," admits Microsoft Japan CEO Susumu Furukawa. Microsoft, however, is nothing if not tenacious in pursuit of a market. Especially this one. "Japan is by far the biggest market for digital consumer technology," says Shinichi Akanuma, Senior manager at IBM's Business Development and Field Application division.

WebTV wants this market. Though the company has not released the news officially, sources close to the company said they are preparing to install a hand-picked team in place of the current executives on loan through the company's joint venture with Fujitsu, possibly including the president. On the US side, WebTV co-founder Steve Perlman suddenly tendered his resignation in May, and there are rumors aplenty that some sort of major transition is ahead for WebTV. Nevertheless, the organization is putting past losses behind them and moving aggressively into new business implementation strategies, promoting their product through non-traditional marketing venues and tie-ups.

Leveraging the model

The partnership with Sega's Internet-active Dreamcast game machine is old news (an optional access kit and offline sign-up allows players to use WebTV through Sega's modem). What's new? Proposals are currently

being fielded for a direct marketing project that would ship catalogs from major retailers and possibly English learning materials on CD-ROM to Dreamcast owners. Furkuawa says, the "game console is an opportunity to combine offline experience and online experience as a seamless environment." The catalog would play on the Dreamcast machine and orders would be placed over the phone, but the CD can include the Websites of retailers and presumably a link to their home and order page. After payment, English learners would set up a password and download the day's lesson onto the hard drive where they could study offline at their leisure. The project is designed to help overcome initial reluctance and lack of technical know-how on the part of Japanese consumers, bringing them into the e-commerce fold. "They don't know the Internet but they (will) have experience with navigation of the catalog brochure by Internet browsing. They then make a phone call to place the order. Maybe next time they would like to apply (for the purchase) electronically," says Furukawa. "If we push them to use the Internet first, they will be scared, uneasy to do so. But if we spread it out over a brochure or mail order system ..."

"Japan is by far the biggest market for digital consumer technology"

Educating consumers

In addition, consumer disinterest is forcing the company to take a more vertical approach to marketing tie-ups -- one they hope will turn into a horizontal flow. Osaka Yusen Hoso, the country's leading distributor of cable music, introduced WEB-USEN in January this year. For JPY6,000 per month, USEN users get the hardware, 440 channels of music, and the chance to surf the Web through WebTV. When customers sign up, they agree to a mandatory 24-month user contract, and the hardware is returned if they cancel after that period. USEN is actively promoting the service through their database, with print campaigns in women's magazines and a toll-free number. Further, Kyushu real estate developers Honda Sanken have presold WebTV's with their apartment units.

You get a lot, but you pay a lot

WebTV Plus debuted a few months ago in Japan with all sorts of gee-whiz features: 16MB of memory (the old unit had 8MB), a 1.08GB hard drive, Picture-in-Picture capabilities, voice and picture rich e-mail, offline TV listings, auto-program notification, week long quick-view TV programming guides, up to five e-mail addresses, and more. The WebTV Plus Internet terminal, shipped from Matsushita, Sony, and Fujitsu retails for JPY55,000. (WebTV classic sells for JPY45,000, shipped from Sony.) The optional WebTV-compatible wireless keyboard, also available from Sony, is JPY11,000. Monthly Internet access charges for the WebTV/WebTV Plus/WebTV connection kit for SEGA's

Dreamcast game machine are JPY2,000 for 15 hours, with additional time billed at JPY5 per minute -- not cheap. Products here are significantly more expensive than in the US and WebTV Japan agrees prices need to come down. "Analog-based, narrow band has to establish a more attractive price because in Japan, it (the price) is way (too) high." Says Furukawa. "The same function in the US just costs \$199."

The playing field

"A big chunk of our budget (this fiscal year) is for marketing," says CEO Furukawa. To grab the attention of Japanese consumers already overwhelmed with options to getting on line, the company is going to need all the bells and whistles it can get because WebTV is not alone in the set-top box field -- not at all.

A set-top box can be just about anything aside from a PC that allows access to the Internet and either hooks up to a TV or has some sort of viewing element built into it. The closest competitor to the WebTV model in Japan is NCTV, a product of Microsoft nemesis Oracle and its newly renamed subsidiary, Liberate. Liberate's product has some stand-out differences from WebTV's severely proprietary approach: it's basically a provider of a standards-based, non-proprietary software platform. The box has features similar to WebTV -- such as picture-in-picture, and voice and picture e-mail capabilities -- but also significant differences. "WebTV is much more like a platform broadcaster. Our browser is a lighter version of the Netscape browser, so it's fully compatible with the Netscape browser. Any type of HTML homepage can be shown without having a proxy server. It's a much wider application," says Ryoichi Hori, manager at Oracle's New Business Development Group. WebTV senior manager of corporate communications Seichi Yamazaki counters, "the WebTV Plus Internet terminal uses a proprietary browser designed exclusively for the TV environment and is compatible with virtually all Web pages formatted for Netscape Navigator 4.0 and Microsoft Internet Explorer 4.0."

Other services

Liberate has also been exploring partnerships with real estate firms and unconventional distributors. They closed a deal with the JA Nagano chapter of the huge agricultural association Nokkyo to supply several thousand members with NCTV. The terminals are set up to provide information on weather, agricultural statistics, prices, shopping, and e-mail service. They are also working with Citibank, which has installed NCTV terminals in bank lobbies here. Using a personal smartcard, customers can access online Citibank financial services.

JCC's Super iBox and others

IBM chips boost the Super iBox -- a product of venture company JCC, another set-top box player. "They are selling around 4,000 or 5,000 units a month," notes Akanuma, but the iBox is strictly an Internet-access device with no built-in television features. MULCO -- another access-only device -- and NEC Interac TV (high vision TV with a built-in modem) round out the conventional set-top box teams, but other products are evolving. Small, dedicated telephone appliances with a TV screen will let users surf the Net or talk via the viewscreen. Lest you say a screen phone is not a set-top box, IBM's Akanuma answers, "We are already working with Japanese vendors on getting them to receive TV signals."

"If it's for my mother-in-law, it may be perfect. All they're going to want to do is set them up with e-mail to keep in touch. They are not going to be computer literate, ever."

Killer app?

Game machines with Internet capabilities are everyone's *uber* appliance for the shape of things to come and perhaps the single most powerful competitor in terms of market share. Set-top box marketers talk in projected sales of millions; game makers, in the tens of millions. Nintendo's next generation Dolphin will have a CPU from IBM, DVD technology -- including new standards in anti-pirating -- from Matsushita, and the game know-how of Nintendo. The machine will be Internet-active and stuffed full of ROM, but aside from that, little data has been released. If -- and with whom -- Nintendo plans the same sort of alliance as Sega and WebTV is still just speculation.

The target

Set-top boxes are not the stuff tech wizards' dreams are made of. Those who complain about limited Net access should not be looking at this kind of machine, because these boxes are aimed at mass market consumers. Todd Chambers, regional director for Oglivy & Mather Japan and a specialist on Net-based advertising comments, "I think people who are interested in WebTV go to their friends and say, 'should I do this?' They tend to talk to people like me who deal with the Internet and I tell them you're only going to get so much out of it. Is that all you want? If it's for my mother-in-law, it may be perfect. All they're going to want to do is set them up with e-mail to keep in touch. They are not going to be computer literate, ever. For others, they are going to come up against the wall of its limitations and they're going to have to go to the Internet (itself). If you're going to go down that road, you wait for it to become a reality where it's going to have more capabilities, or go ahead and buy the other. Realize that they are two separate appliances today and wait for the merger of the two."

Consumer confusion

Of course, it's no longer difficult to get online without a PC. WebTV, Oracle, and others are merging into an electronic landscape blossoming with those current media darlings: digital home appliances. (See "Japanese Consumer Electronics in the Digital Era," June -- Ed.) Each of these products is competing for attention from an already bewildered Japanese public that is still trying to come to terms with satellite broadcasting and the difference between DirecTV and SKY PerfecTV. Television consumers don't buy technology, they buy entertainment. Japanese love e-mail -- but they can do that by phone. They are slowly getting a handle on the Internet, and TV, well, that's a given. But why should they have them all together?

The answer doesn't lie in the current offerings. Right now, as Tim Clark, editor of the Japan Internet Report notes, set-top boxes are, "a solution to a problem that doesn't exist." The answer will become apparent when Japanese broadcasters join their US counterparts and offer linked media through digital cable and satellite broadcasting. The real appeal of the TV/Internet synergy is to make interactive television much more fun than regular television. In linked media, the set-top box reads a URL provided in the TV program which sets up a linked icon overlaid on the TV screen. The picture-in-picture capabilities of both WebTV and NCTV make the technology possible. Viewers can watch, for example, a cooking program and simultaneously order the cookbook from Amazon.com, then check out the cooking supplies being used at another linked site or click onto the broadcaster for a printout of tonight's featured recipe. All without ever leaving the program. It's an advertisers dream -- direct contact with the viewers along with measurable response rates, with the added cachet of data downloaded from the viewers smartcard. Plus, it makes television really, really fun. TV Asahi already has a demo with NCTV of what they hope to implement, and will begin test broadcasting next year.

Meanwhile, Furukawa and WebTV are ready for the next step but have not yet announced when WebTV Plus Satellite, already available in the U.S., will debut in Japan. On June 14th, MS (US) officially launched the Microsoft TV Platform Adaptation Kit (TVPK). Some form of this should be coming here soon.

But in order to make the system really viable, it needs to have a worldwide standard. In the US, the ATVEF standard (see sidebar) is on its way to becoming just that. There, WebTV, NCTV, and Open TV have been joined by many broadcasters -- including CNN, NBC, ABC, Disney, and the Discovery Channel -- in accepting ATVEF. "The proprietary approach doesn't make any sense," says Furukawa, "a TV content supplier doesn't have any interest in (a) particular platform only." NCTV's Hori agrees, "It should be a worldwide standard,

it's nonsense to have a Japanese (only) standard." The two companies are working together to convince the Japanese standardizing board that ATVEF is the right choice. "It's the only time we work together," laughs Hori. Both companies are confident Japanese broadcasters will eventually accept ATEVF with only a few operational alterations.

ATVEF (the Advanced Television Enhanced Forum) has defined a protocol for HTML-based enhanced television in the US. Go to: www.atvef.com.

The road ahead "The technology is changing," agrees Akanuma. "Two or three years from now, the machines we see may be nothing like what we have. We still don't have a clear definition of set-top box, but we know which products are now emerging. It's very difficult to predict what's selling and what's not because the technology is changing so quickly. Application and infrastructure aren't following yet."

Furukawa is excited about the evolution of his WebTV product. "Hard drives are getting bigger and bigger. The entire two hours of (a) movie can be recorded onto your hard drive. You can watch your news and the movie will be recorded into the back channel."

Todd Chambers sums current trends this way: "If I was a Japanese consumer, I would just be loving where the future is going to be." (Except for those poor souls who believed NHK's digital HDTV rhetoric and paid JPY300,000 for a new TV ...) WebTV will eventually make television viewing more fun for consumers and more profitable for advertisers -- and that is where their value lies in the greater scheme of the wired world. How the market will shake out between WebTV and NCTV is still unpredictable. Furukawa shrugs off the short term critics, "People have some negative opinions, like there are too many choices (or) it doesn't generate profit. But I am still positive."

For more information, access:

WebTV homepage: www.webtv.com
WebTV Japan (in Japanese): www.webtv.co.jp
Oracle homepage: www.oracle.com
The Japan Internet Report: www.jir.net

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