Internet co. rattles Japan's media

October 14 2005

The revelation that an Internet startup has become the biggest shareholder in one of Japan's most influential media outlets has delighted investors but is rattling those in the industry.

Late Thursday the head of Internet retailer Rakuten officially announced at a televised news conference in a Tokyo hotel that his 8-year-old company now has over 15 percent of total shares in Tokyo Broadcasting System, one of the five major private Japanese television networks that broadcasts nationwide.

Rakuten said it has spent about $770 million for its 15.46-percent stake, adding that it hoped it will be able to set up a joint holding company with TBS.

The partnership between Rakuten and TBS will "strengthen the company as a media group," said Rakuten's founder and Chief Executive Hiroshi Mikitani, adding that he wants "to create a media group that can compete globally."

Armed with an MBA from Harvard, the 40-year-old Mikitani is not your typical Japanese salaryman who has committed himself to a blue-chip company after getting a degree from a top domestic university. Rather, Mikitani started up his company that allows retailers to set up shop under the Rakuten Web site and sell their products online. Over the past few years Rakuten has ballooned into attracting thousands of stores and millions of customers who seek out bargains on the latest goods, from clothes and cosmetics to hotel reservations and electronic appliances.

The company's success has catapulted Mikitani into one of the richest people in the world, with a net worth of $2 billion and rising. The company's fortunes also continue to grow, as it has bought out a number of companies both at home and overseas, in addition to buying out a baseball team that is now called the Rakuten Golden Eagles.

Some analysts argue that bringing together a major media group and an Internet company will only strengthen Japan's television and radio networks, which have hitherto been relatively unscathed by the sweeping tide of deregulation that has affected other key sectors such as banking and retailing. Of course, given that both print and broadcast Japanese media cater to an audience that is effectively entirely in the Japanese language, it has been relatively easy for publishers and broadcasters to remain cocooned from foreign competition.

The fact that a Japanese Internet startup is trying to gain control of a media group therefore is seen by many as an unwelcome threat to the comfortable status quo. In fact, Rakuten is far from the only company that is trying to acquire a television network. Earlier this year the battle between Fuji Television and Takafumi Horie, the head of Internet search company Livedoor, was top news in the country for weeks as Livedoor tried to gain a controlling share of the Japanese television group.

In a statement, TBS made clear that it was less than enthusiastic about Rakuten's aggressive moves that go against the traditional way Japanese companies have done business, namely through carefully negotiated discussions behind the scenes.

"Such a large amount of our company's shares was acquired in such a short period of time without any advance notice while we had been in talks about a possible business partnership," TBS said.

For his part, Mikitani told reporters that he was well aware that TBS was "taken by surprise by such a sudden move," but he insisted that he highly valued the media group's strengths and believed it was "the best (business) partner."

As for investors, they appeared to be siding with Mikitani as TBS shares soared Thursday on rumors that Rakuten would shortly announce its intentions to buy out the broadcaster. In fact, the Tokyo Stock Exchange had to stop trading of TBS shares for a time after the stock rose to 500 points over its value from the previous day, the maximum amount a share can move without the exchange intervening for a few minutes.