



# SMAP CRACKLE POP

Entertainment industry & corporate Japan have same fizzle

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When are entertainers past their sell by date?

“The Entertainer”

*I am the entertainer  
The idol of my age  
I make all kinds of money  
When I go on the stage  
Ah, you've seen me in the papers  
I've been in the magazines  
But if I go cold I won't get sold  
I'll get put in the back in the discount rack  
Like another can of beans*

The harsh realities of fame

Never truer words were written by Billy Joel in 1974 when he penned “The Entertainer” to describe the harsh realities of the entertainment industry and how quickly fame can come and go. We have conducted a study of Japanese idols and their revenue impact on corporates who use them for promotion and relative stock performance in light of the SMAP affair. We look at whether financial markets are a better indicator of informing corporates when their ‘idols’ are past their sell by date.

SMAP's failure to split

Last week, rumours abounded that early-90s boyband group SMAP (producing ¥25bn annual revenue) was going to split up. In Japan it is common to find members of SMAP on TV virtually every night. A stranger to Japan could be forgiven for thinking that SMAP leader Masahiro Nakai had his own 24-7 cable channel such is the frequency of his appearances. SMAP has continued to sing and perform live although it is only 12<sup>th</sup> on Japan’s all-time best-selling artists list.

Fig 1: SMAP members apologising to the public on Fuji TV show SMAPxSMAP



The picture above shows the five members apologising on Fuji TV ([video here](#)). In Japan, SMAP’s potential break up was given media coverage more reserved for a national emergency. Several



*Who is really boss?* members of the group (Masahiro Nakai, Tsuyoshi Kusanagi, Shingo Katori and Goro Inagaki) wanted to break away from long-time talent agency Johnny & Associates - run by the notorious 87 year-old Johnny Kitagawa, the 'Don' of Japanese pop - under the wing of their manager Michi Iijima. Kitagawa has had a virtual monopoly on Japan's boybands for nearly four decades. Takuya Kimura (pictured centre) was the only one to remain loyal to the agency and he acted like the school prefect bringing four truants caught smoking behind the shed in front of the school assembly. In a cringe worthy manner, Kusanagi said it was only because of Takuya Kimura's loyalty that *"made it possible [for the other band members] to apologise [for any trauma they may have caused fans]"*. It was a pretty pathetic display to be honest but probably highlighted that even Japanese idols are nothing more than glorified salarymen in fancy Armani suits and Berluti shoes.

*"I was Spartacus"* While the part-time actors tried their best to brush off their rookie error of judgement, their eyes spoke of total and complete humiliation. While they might have psyched up by watching *Spartacus* before committing their intent to revolt from slavery, post the failure it is unlikely they will find solace from *"Always look on the bright side of life"*. All four were virtually crucified and are likely to spend some time in solitude awaiting divine resurrection from the Don.

*Johnny still shows who is really boss* Showcasing the muscle the agent possesses over the media, Johnny's used the *Nikkan Sports* (tabloid) newspaper to gazump the supposed scoop that *'Shukan Shincho'* magazine planned to publish on the real reasons for the break up. No doubt the rebellious Spartacus-wannabes realised the 'supply lines' would be cut off if they broke away from the Don as did the networks and sponsors who knew that the riot act would be read to them if they didn't comply. SMAP's offensive strategy was quickly turned defensive and the group had no contingency plan. Expediency was sadly put before principle and the cultural sempai-kohai (master-student) system remained entrenched.

*Entertainment cartel* Former Jobu University Professor and economist Nobuo Ikeda suggested that it had been a victory for Johnny's and the entertainment industry **cartel**, suggesting that no other talent agency uses artists that go solo. He commented,

*This isn't something that will help Japan's economic recovery* *"This is Japanese society in miniature...Salarymen, who are typically hired right out of school in a batch . . . will start by learning (elementary skills) on the job. These include company-specific skills learned by watching more experienced workers, like personal skills, meaning they aren't useful in other companies...as companies rarely hire mid-career, this situation is like the entertainment industry where those who go independent will never have a second chance,"*

*The feeble four must still wish to quit* The feeble four in their hearts must still wish to secede but Japanese corporates rank the fear of missing out on the next big idol to push their products as a greater threat. They must feel a bit like buying a limited edition Ferrari. Ferrari chooses the customer, not the other way around. Best be on the right side of Johnny than not.

*Should a Toyota feel nervous at taking on an octogenarian bully?* Are Japanese corporates really getting bang for the buck on using popular entertainers or not? Are they right to fear the shogun of showbiz? Surely a \$200bn market cap automotive company has a little more gumption in deciding how it decides to spend its multi-million dollar advertising campaigns than to be bullied by an octogenarian led cartel. Luckily for Toyota, SMAP's Takuya Kimura (which incidentally massively skews the performance of the three listed companies he promotes) stayed loyal to Johnny's helping the auto giant from much anguish.



*Some quid pro quos* One of the difficulties with the following study is the opacity of the data. It is hard to get an exact picture on the value and period of contracts between corporates and entertainers, the relative differences in marketing budget and so on.

Still we believe that using annualised statistics for 2015 relative performance and sales growth over the current and forward year forecast (Toyo Keizai estimates) make for a reasonably accurate study on relative impact.

*Why individuals more popular than groups* With the exception of AKB-48 one of the key conclusions is that when the individuals of the groups are promoting corporates, revenue and stock market performance tend to perform better. Arashi, which is a modern version of SMAP (apologies to those fans (including my daughters) who will undoubtedly chastise me for such a broad generalisation). It makes sense. My daughters like Arashi but probably have a stronger bond toward individual idols within the group. So must consumers.

## **If Entertainers were ETFs would you bother buying?**

*David Bowie pioneered Bowie Bonds so Japan could pioneer Entertainment ETFs* All joking aside, I can really see there is a market for an Entertainment ETF in Japan. Such is the affinity with the closed world of idols in this country that it is totally feasible that investors would buy a basket were one available. While David Bowie's tragic passing left a hole in the entertainment world he did pioneer Bowie Bonds so the gauntlet is out there for Japan's *geinokai* (entertainment industry) to revolutionise pop-idol ETFs. Right off the bat, an AKB-48 ETF already has the goods although with a tiny aggregated market cap of ¥265.6bn and 3 stocks one might suspect liquidity issues. But retail investors rarely let valuation get in the way of a good theme.

As mentioned earlier Takuya Kimura's Toyota (7203) sponsorship completely drowns out the other two stocks Tama Home (1419) and Nihonwasou Holdings (2499) in market capitalisation terms which combined make up less than 1% of the combined basket.

*Is the BoJ missing a trick?* While it might look like completely pushing on a string, with the Bank of Japan buying corporate bonds at negative rates (not to mention comprising 40% of ETF ownership), perhaps those companies deemed to be on a 'watch list' by the government could form a corporate bond ETF where the state would impose that Japanese entertainers' sponsorship of those companies. Can AKB-48 save Toshiba?



Fig 2: Japanese Entertainers ranked by weighted relative returns

Rank	Artist/Group (Bold)	Aggregated Mkt-Cap (bn yen)	2015 Weighted Relative Return	2016 Weighted Relative Return
1	<b>AKB48</b>	265.6	136.02%	11.43%
2	Masaki Aiba (Arashi)	704.8	108.32%	-4.16%
3	Yu Yokoyama (Kanjani Eight)	161.8	92.60%	3.40%
4	Jun Matsumoto (Arashi)	2,092.9	82.78%	-1.60%
5	Satoshi Ohno (Arashi)	644.2	41.70%	8.01%
6	Kazunari Ninomiya (Arashi)	696.8	29.95%	4.33%
7	Shingo Katori (SMAP)	3,624.4	28.65%	2.08%
8	<b>V6</b>	7,708.8	26.87%	0.04%
9	Sho Sakurai (Arashi)	1,819.0	25.34%	0.09%
10	Yuto Nakajima (Hey! Say! JUMP)	127.9	19.10%	-0.50%
11	Ryosuke Yamada (Hey! Say! JUMP)	1,530.5	18.40%	-0.50%
12	Goro Inagaki (SMAP)	118.7	17.60%	-1.20%
13	<b>SMAP (All Members)</b>	4,496.9	17.40%	1.50%
14	<b>Kanjani Eight (All members)</b>	2,334.0	15.11%	0.55%
15	<b>Kis-My-Ft2</b>	979.3	12.08%	6.31%
16	<b>Hey! Say! JUMP (All Members)</b>	260.1	9.50%	-1.02%
17	Tomoya Nagase (TOKIO)	1,783.2	3.95%	2.11%
18	Shingo Murakami (Kanjani Eight)	434.8	-1.50%	2.70%
19	Masahiro Nakai (SMAP)	225.4	-4.40%	0.50%
20	Taichi Kokubun (TOKIO)	193.0	-6.00%	2.20%
21	<b>TOKIO (All Members)</b>	3,483.4	-6.65%	2.99%
22	Tsuyoshi Kusanagi (SMAP)	1,825.9	-9.08%	2.40%
23	Takuya Kimura (SMAP)	22,726.0	-10.87%	1.00%
24	<b>Arashi (All Members)</b>	6,270.7	-14.69%	2.88%
25	Daiki Arioka (Hey! Say! JUMP)	347.1	-35.30%	3.10%

Source: Custom Products Research

SMAP  
mediocre

SMAP, with the exception of Shingo Katori, has seen pretty mediocre performance. The loyal Kimura at 23<sup>rd</sup>/25 (market cap aside) maybe had good reason to hold on at Johnny's and if lucky may pick up some of his colleagues' future opportunities. SMAP's Kusanagi came in at 22<sup>nd</sup> out of 25 looking positively exposed and his affiliation with DIY goods store Shimachu (8184) may allow him to fill in the lonely days surely to follow. Which begs the question whether Katori's strong performance basket including Kenkou Holdings (2928), Meiji Holdings (2269), and Hisamitsu Pharmaceutical (4530) won't hit a temporary pause if his contract is put into a holding pattern. SMAP as a group promote 7&I Holdings (3382) so will be interesting to watch their marketing in time.

The power of  
AKB-48

Fig. 3 highlights the impact Japanese entertainers on revenue growth. Naturally a company like DIP Corporation, which AKB-48 is the main star, will experience faster growth than a Toyota but should we be too quick to dismiss the power of the girl band? The sales growth for the coming fiscal year also exhibits the fastest growth among entertainers. Perhaps they have a good sense of the companies they sponsor.



Fig 3: Japanese Entertainers ranked by weighted average sales growth FY0

Rank	Artist/Group (Bold)	Aggregated Mkt-Cap (bn yen)	Average Sales Growth FY0	Average Sales Growth FY1	Listed Stocks Marketed by Group or Individual
1	<b>AKB48</b>	265.6	46.18%	30.06%	3
2	Ryosuke Yamada (Hey! Say! JUMP)	1,530.5	23.10%	1.50%	1
3	Shingo Katori (SMAP)	3,624.4	18.22%	11.79%	4
4	<b>Kanjani Eight (All members)</b>	2,334.0	10.23%	9.40%	2
5	<b>TOKIO (All Members)</b>	3,483.4	8.13%	2.10%	4
6	Yu Yokoyama (Kanjani Eight)	161.8	8.10%	3.60%	1
7	Kazunari Ninomiya (Arashi)	696.8	7.91%	19.04%	3
8	<b>SMAP (All Members)</b>	4,496.9	7.20%	2.90%	1
9	<b>Kis-My-Ft2</b>	979.3	6.33%	3.62%	2
10	Daiki Arioka (Hey! Say! JUMP)	347.1	6.10%	-9.10%	1
11	Satoshi Ohno (Arashi)	644.2	6.08%	4.02%	2
12	Jun Matsumoto (Arashi)	2,092.9	5.06%	7.91%	3
13	Masaki Aiba (Arashi)	704.8	4.75%	7.26%	2
14	Masahiro Nakai (SMAP)	225.4	4.40%	6.80%	1
15	<b>V6</b>	7,708.8	4.37%	6.07%	7
16	Sho Sakurai (Arashi)	1,819.0	2.97%	9.18%	3
17	Shingo Murakami (Kanjani Eight)	434.8	2.40%	3.80%	2
18	Yuto Nakajima (Hey! Say! JUMP)	127.9	2.40%	3.68%	1
19	<b>Arashi (All Members)</b>	6,270.7	1.97%	-1.57%	4
20	Taichi Kokubun (TOKIO)	193.0	1.70%	3.20%	1
21	Goro Inagaki (SMAP)	118.7	0.70%	3.30%	1
22	<b>Hey! Say! JUMP (All Members)</b>	260.1	0.29%	5.39%	2
23	Tsuyoshi Kusanagi (SMAP)	1,825.9	-1.30%	3.23%	2
24	Tomoya Nagase (TOKIO)	1,783.2	-1.58%	0.19%	2
25	Takuya Kimura (SMAP)	22,726.0	-3.45%	-0.45%	3

Source: Custom Products Research

Fig. 3 shows SMAP taking three of the bottom five places. Once again Katori's single domination of the group's marketing clout is revealed again. Arashi and its individual members seemed to provide less impact on a revenue basis although Ninomiya takes 2<sup>nd</sup> spot for the coming forecast year. Of course these entertainers are not responsible for all marketing efforts of these companies but no doubt consumers associate them with the brands. Indeed if these stars substantially help the sale of specific products, what does it say for the rest of the line up?

SMAP takes 5 bottom places

Interestingly middle age TOKIO members Nagase and Kokubun sponsor competing beverage makers Asahi (2502) and Sapporo (2501) respectively which may end up twisting the beer-swilling loyalties of Suzuki customers that they both market to. Arashi sponsors Kirin (2503). Hey! Say! JUMP, all born in the 1990s also market to three competing food companies Ajinomoto (2802), Bourbon Corp (2208) and House Foods (2810).

TOKIO

AKB-48, Arashi & younglings taking over from SMAP

Naturally Japanese corporates would prefer that these entertainers boost their sales and unlikely pay much attention to the impact to their share price. However, this brief study would serve to highlight that the younger generation stars are doing relatively better in both camps. AKB-48 is the undisputed power group and most stocks they are involved with surge. SMAP is rapidly being replaced by Arashi and the spritely Hey! Say! JUMP may well become a more familiar face in coming marketing by Japan Inc.



*Elephant in the room*

We can't escape the elephant in the room. As much as SMAP's popularity seems to be waning as judged by financial analysis even parliament discussed the affair in a Diet session this week and even PM Abe spoke of his joy that stability had been retained at the expense perhaps of their freedom when he quipped,

*"As is the case in the world of politics, I presume there are many issues (that must be overcome) for a group to continue for many years."*

*Powerless pop idols*

If a pop-idol group does not have a say on its own destiny then really what hope does it give investors that Japanese corporates going through "many issues" must also address, especially if Professor Ikeda's comments hold water?

### Zombiism in Corporate Japan pervades

*SMAP infractions hinted at the problems*

Unfortunately, this failed action in the petty world of entertainment reinforces the inherent weakness in Japan's collective ability to reform. I secretly wished the group stood up for the truth instead of suffering in silence. Is it any wonder Kusanagi was screaming naked through the park behind Midtown drunk out of his skull in 2009? Is it any wonder Inagaki was arrested for [running over a policewoman](#) while asked to produce a driving license? One would sense a slight unhappiness within the group. Still service to the community outweighs their own personal issues and desires. It was also interesting that Takuya Kimura was pulled over twice for speeding and lost his license in 2012 yet Toyota still kept him on as a brand ambassador.

*How does SMAP translate to corporate Japan?*

So what has a boyband's (failed) breakup got anything to do with Japanese corporate behaviour? Put simply, many companies in Japan are afraid to go against the establishment. Many of these institutions are indeed some of the largest employment agencies but over time have become some of the weakest companies (Sharp, Toshiba etc.) financially. Despite the quick successes large industrial companies achieved in the earlier years of their existence many have seen gradually accelerating reversals of fortune. However little has been done to avert pending crises because protecting stable employment (presumably because they understand the lack of transferable skillsets for many employees if the switch companies) seems something more important at METI than profitability.

**Fig 4: Yamaichi Securities executives apologising for bankruptcy. Look familiar to SMAP?**





### Summary

*Remember  
Nissan's  
revival*

The fear of failure and the 'shame' it ultimately brings is too big a price to bear than managers to be accountable and become or appoint crisis leaders. We should be sure to remind companies with brittle pride that Nissan now employs 26% more staff than it did before pending bankruptcy, putting paid the notion that a crisis manager must trade off employment for profit. Still to hire a crisis manager, a company must first accept the reality of its predicament. If METI behaves along the lines of Johnny's then there is little hope that true reform awaits us in the corporate sector.

*Corporate  
governance  
code will be  
meaningless*

Furthermore, the corporate governance code will end up being as irrelevant as SMAP's attempted coup d'état if national service dominates company policy. Sadly, such socialist ideals might buy time in the short term but in the long run lead to the inevitable day of surrender to the state. Government-guided sponsorship of companies like Sharp only perpetuates the problem. It is a safety valve in a 'daiko henjo' sort of way by transferring accountability. Being too big to fail has afflicted many governments around the world not just Japan.

*If Japan can't  
sort butter  
shortages  
what hope  
for bigger  
issues?*

SMAP has only reinforced the foreign perceptions that Japan is too afraid to change. The problem is the world is not what it was. In a globally competitive marketplace with decreasingly competitive Japanese corporates, pushing on a string with centralised control won't cut it. Surely if something as trivial as the regular butter shortages can't be dealt with effectively what hope can be had for hard-nosed industrial and employment reform?

*Germany's  
coal industry*

Even German politicians eventually worked out that subsidising its coal industry ended up costing €100,000 per employee such had the industry caved in on itself. It was cheaper to pay them their salaries and close mines down than keep pumping tax dollars into a sunset industry.

*Capitalism  
with warts or  
Socialism  
with beauty  
spots*

The reality is that despite the ideological oxymoron, China is capitalism with warts and Japan is socialism with beauty spots. It should be the other way around. SMAP wanted to restructure themselves and innovate away from rigid corporate salaryman structures. Shame on corporate Japan and the cartels for aiding and abetting such behaviour. For as much as politicians breathed a sigh of relief, they should know that they have merely reinforced negative perceptions of Japan's all talk but no action persona. There are so many lessons to be had from Japan's corporate past to learn from but the wrong practices continue to be followed, weakening the structure and further endangering a country already on the ropes fiscally, demographically and competitively.

Perhaps Japan should pay attention to one of SMAP's earliest tunes (when they were a group of six). "*I can't rely on a friend of justice*" (正義の味方はあてにならない) with the lyrics:

*Where is a champion of justice  
I had been longing for since I was a kid?  
The ally of justice should not be relied upon...*

How prophetic they were.



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