



A Whole New **Ballgame**

After unprecedented change, Japanese professional baseball remains the same.

On September 18, 2004, a quiet revolution occurred in Japanese baseball. On that day, after lobbying unsuccessfully to block the proposed merger of two of the nation's 12 professional baseball teams, the Nippon Professional Baseball Players' Association (NPBPA) launched the first players strike in 70 years of *puro-yakyu* in Japan.

The walkout had a special Japanese flavor. Players sat out only one weekend, so as not to totally inconvenience everyone, and during that time staged free autograph sessions and baseball clinics for fans as penance, apologizing profusely at every opportunity. Still, the strike was something that NPBPA members had long vowed never to do, in the steadfast belief that such action was not good for the game.

The bizarre labor dispute and the merger that caused it were just the latest problems facing Japan's national pastime, reeling as it was from the defection of top stars to U.S. major leagues, plunging TV ratings and failing franchises.

Introduced here in 1872 by American professor Horace Wilson, *besuboru* grew into a national obsession, led by a pro game that attracts over 20 million fans annually. The Tokyo Yomiuri Giants, run by a humongous media conglomerate that includes the largest newspaper in the world and Japan's largest commercial TV network, pull in an

estimated \$300-400 million a year, reportedly as much as the New York Yankees. Their Central League arch rival, Osaka's Hanshin Tigers (owned by a railway company), comes a close second.

The outstanding popularity of these two teams, however, has masked underlying structural defects in the pro game: Most of the other franchises of the Central League and Pacific League have long operated in the red. The problem is that teams are run by large corporations for PR purposes; the Nippon Ham Fighters, for example, exists to sell pork.

Neglected infrastructure

In this system, many front-office employees are disinterested corporate hacks, dispatched by parent companies on short tours of duty. There is also a notable absence of integrated TV rights, merchandising and revenue-sharing, as well as stadium and concession ownership – all practices considered essential in North American professional leagues. Consequently, little money is spent on infrastructure; each NPB team has but one farm club, compared to six or seven for your average Major League Baseball (MLB) franchise. The profitable Giants pour money back into the media empire to help shore up businesses operating in the red.

The system, essentially a tax write-off, worked well enough for a long time, but then came the recession of the 1980s, corporate belt-tightening,

the loss of megastars like Ichiro Suzuki and Hideki Matsui, and the advent of regular MLB broadcasts.

Last year proved an MLB banner year in Japanese media, while NPB telecasts faltered. Ratings for games featuring the Giants, nearly all of which have been telecast nationwide in prime time since 1954, plummeted from an all-time season-average high of 27.2% in 1982, to less than half of that figure in 2004. Empty seats began appearing at the previously packed Tokyo Dome.

The watershed for the NPB came in mid-season, when the Kobe-based Orix Blue Wave, owned by a financial services company, announced the purchase of, and merger with, the Osaka-based Kintetsu Buffaloes. The previous owner, railway operator Kintetsu Corp., could no longer bear the Buffaloes' nearly \$40 million in annual losses. The move, which was characteristically made without consulting anyone in the players' union, meant more than just the elimination of at least 60 players' jobs. Since it would reduce the number of teams in the Pacific League to an awkward five, it also sparked talk of further contraction.

The merger broke the unspoken covenant that had existed between the owners and the players (behave yourself and we won't fire you), and finally forced the NPBPA to act like a real union instead of an informal drinking society.

Heavy touch of arrogance

A key moment came when bespectacled Yakult Swallows catcher Atsuya Furuta, the union's player representative, suggested a meeting between himself and the owners, only to be dismissed out of hand by the dictatorial Watanabe, who scoffed: "Furuta's just a player. He should know his place." The public insult helped turn public opinion toward the players.

It was a similar story when 31-year-old Livedoor Co., Ltd. President Takafumi Horie offered to rescue the ailing Kintetsu franchise only to be met with more contempt from Watanabe, who pointedly criticized Horie's habit of wearing jeans and T-shirts at televised press conferences.

By early September when the owners met to

formally approve the Orix-Kintetsu merger, more than a million fans had signed a petition opposing contraction. Surveys showed that an overwhelming majority wanted the players to strike.

In the face of such embarrassingly broad opposition, the owners caved. They agreed to a compromise whereby pro-baseball-starved Sendai would get a new team for the 2005 season. They also agreed to the institution of inter-league play – an idea long resisted by the five Central League teams unwilling to cut into revenue from their games with the Giants – and further agreed to establish a panel to discuss additional reforms.

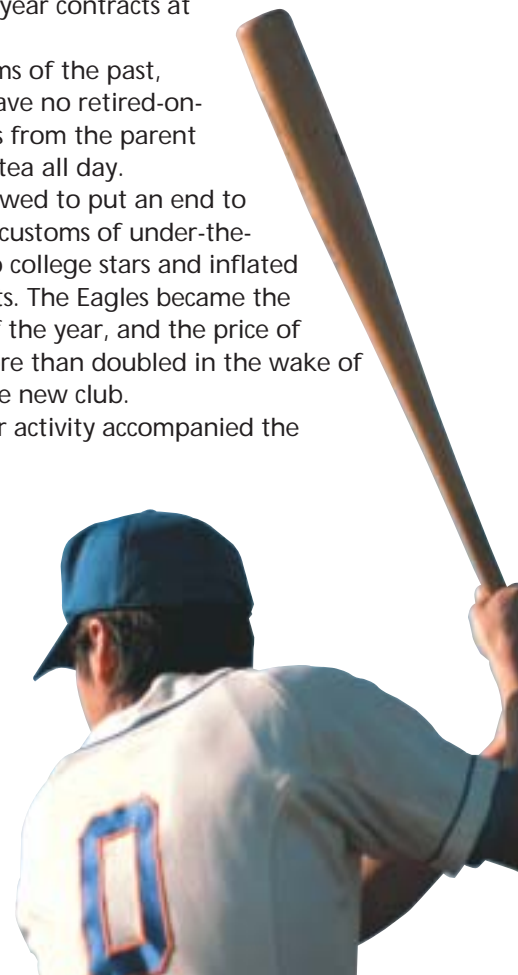
The winning candidate for the Sendai franchise, the first new club created for the NPB in roughly half a century, was online retailer Rakuten, Inc., run by a polished, well-dressed 39-year-old Harvard graduate named Hiroshi Mikitani, who also owns a J-League soccer team. Mikitani named his new team the Rakuten Golden Eagles and promptly vowed to change the inefficient, corrupt way professional baseball was run in Japan. He hired a staff of young, eager professionals (average age 32) and put them on one-year contracts at low wages.

Unlike NPB teams of the past, Rakuten would have no retired-on-the-job executives from the parent company sipping tea all day.

Mikitani also vowed to put an end to the longstanding customs of under-the-table payments to college stars and inflated attendance reports. The Eagles became the feel-good story of the year, and the price of Rakuten stock more than doubled in the wake of the creation of the new club.

A flurry of other activity accompanied the birth of the new franchise.

Watanabe used the opportunity of a minor scandal, involving cash payments to



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college prospects by his scouts, to resign his baseball post. His antagonistic and embarrassing public statements, it had become increasingly clear, were making it extremely difficult for his newspaper to report the news without making their boss look bad. In the fall, the ailing Daiei supermarket chain sold its popular baseball franchise, the Daiei Hawks, to Softbank Corp., whose boss, Masayoshi Son, spoke enthusiastically of increased ties with the U.S. major leagues. In addition, a "For Sale" sign was placed on the Seibu Lions, after the stock of Seibu Railway Co., Ltd. (parent company Kokudo Corp.) plunged in the wake of a scandal over Kokudo's data falsification in Seibu Railways' financial statements, sending the group deep into debt.

Livedoor's Horie, after losing the assault on Sendai, launched a takeover battle for Nippon Broadcasting System (NBS), in a high-stakes gamble to muscle in on the Fuji-Sankei Group, which, not coincidentally, holds a major interest in the Yokohama Bay Stars and a minor interest in the Yakult Swallows, both teams of the Central League. The battle ended in a truce of uncertain value.

Follow the money

It is worth asking whether all this NPB activity represents any investment possibilities (other than buying Rakuten stock) for foreign investors. Potential U.S. buyers, hoping to acquire an NPB franchise need not yet apply, as rules still prohibit a foreign entity from owning more than 50% of a franchise. (Similar MLB rules limited former Nintendo Co., Ltd. President Hiroshi Yamauchi to a 49% say in running the Seattle Mariners – even though he was allowed to buy 60% of the shares.)

Still, there are other opportunities. Colony Capital, LLC, the U.S. real-estate investment fund, has profited from the Softbank deal. In April 2004, the firm bought Fukuoka Dome Stadium, as well as the adjoining hotel and shopping complex, for ¥60 billion. In the process, it acquired the promotion rights to the Hawks baseball club, including rights related to tickets and character-goods sales, thereby gaining a say in how the baseball club is managed. Their confidential agreement with Daiei centered

on the purchase of Hawks Town, a subsidiary set up by Daiei Inc, to manage Fukuoka Dome, the baseball club and the hotel. Colony Capital then turned around and sold the ticket and merchandising rights to Softbank's Son, along with a 30-year lease on the park, for ¥15 billion. Son, assuming ownership, then sold the naming rights for Daiei Hawks Stadium to Yahoo Japan Corp., which renamed the ballpark Fukuoka Yahoo Japan Dome.

The once-mighty Seibu Lions, ironically winners of the Japan Championship in 2004, represents another possibility – but watch out for a reported annual operating deficit of ¥2-3 billion.

It is, of course, wishful thinking to suppose that recent changes have increased the cachet of the new NPB franchises to a level approaching that of MLB teams. Considering such factors as playing conditions, travel, salaries and quality of competition, more of Japan's top stars will go to the major leagues, while the NPB will continue to get second-raters from the Americas.

"The MLB is to the NPB as Hollywood is to the Japanese film industry," says one veteran observer. "There's no question where the top talent wants to be." And there is no question that the big-league teams want that talent, given all the money they are bringing into the game. The MLB is making millions from its new Japanese stars. It has a new, six-year, \$275 million contract to televise its games in Japan, and Japanese advertisers are paying big bucks to appear in parks that host those games.

It is too early to say whether the events of the past year represent real change. Now that Mikitani and Son are card-carrying members of the NPB elite, will their presence influence the traditional way of doing things? Both have stated publicly that their primary objective, in the end, is to promote their respective companies – not exactly a sign of reform.

There is, as yet, no serious talk of shared rights or shared revenue, no credible farm system and, to all intents and purposes, no overall profit motive. One wonders how much real progress can be made.

Robert Whiting is the author of several best-selling books on Japanese culture, society and baseball.