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Sony's Digital Distribution Gambit:

Looking at the Crunchyroll Acquisition through the OLI Paradigm

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Abstract

Due to the proliferation of portable electronic devices over the past decade, digital streaming has emerged as the preeminent way of distributing programs and productions developed for televised or theatrical release. This has led legacy media companies to compete with one another as well as with new competition in securing exclusive content in a bid to draw new subscribers to their platforms. This paper explores the most recent movements of the Sony Group in this environment, analyzing its purchase of the niche streaming platform Crunchyroll, Inc. through the OLI paradigm, to come to a greater understanding of the advantages that brought Sony to make the decision to move deeper into the digital streaming sphere as a content distributor.

Introduction

On December 9th, 2020, Sony Pictures Entertainment purchased the digital streaming platform Crunchyroll, Inc. for the sum of $1.18 billion USD from WarnerMedia[1]. Crunchyroll is one of the many niche digital streaming platforms that has emerged and found success during the previous decade, focusing on delivering content to a specific demographic. This mode of operation, on its face, looks to stand in in contrast to the activities of larger streaming services such as Netflix, which act as a large-tent video on demand service, catering to consumers of various genres & formats. Crunchyroll's platform is primarily focused on digitally distributing Japanese animation, or anime, to underserved demographics when the service launched[2]. However, it may be better to understand Crunchyroll as the large-tent service of anime. The reason for this reclassification is the following: anime productions are not locked into a single genre, and may even combine them, depending on the setting of the source material, the desires of the production committee funding the animated work, and the discretion of the director. Any service distributing anime works digitally can serve multiple demographics which may or may not overlap through the curation of that platform's content catalogue. Taking this in mind, Crunchyroll's catalogue of over one thousand animated works of various genres acts similarly to Netflix's library of licensed content of TV programs & movies when it initially launched its digital streaming service in 2007. The massive library of content enticed consumers with the promise of watching their favorite programs, whether they be classic movies or the trendiest TV show 24/7. Crunchyroll is also similar to Netflix in that it is a first mover, establishing a platform and payment model similar to Netflix's in the anime space in 2010, a few years after Netflix's move into digital streaming.

Anime is unique in that a portion of its demographic turn to developing illegal networks to access content for no charge, while also producing content in the form of translations and subtitles at zero cost to the user[3]. Historically, this was due to the lack of legal avenues to watch

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[1] Inagaki, Kana. "Sony buys anime streaming service Crunchyroll from AT&T for $1.2bn", Financial Times. December 9, 2020. Retrieved from: https://www.ft.com/content/ec7f2580-8098-44cf-aa47-626613ab64de

[2] Crunchyroll also digitally distributes live-action Japanese drama & Japanese comics

[3] Denison, Rayna. "Anime fandom and the liminal spaces between fan creativity and piracy" International Journal of Cultural Studies. 2011. Retrieved from: https://journals.sagepub.com/doi/abs/10.1177/1367877910394565

content produced in Japan that did not have any contracts with foreign companies for international distribution rights. Larger, more well-known digital platforms such as Netflix and Amazon Prime Video that are now moving into the anime space have generally focused on offering a breadth of primarily North American developed media, produced, and packaged similarly to traditional theatrical releases and television broadcast content. The Anime offerings from these companies was initially sparse, with the content being licensed from North American sub-licensors who distributed physical releases of the content[4]. In contrast, Crunchyroll Inc. primarily focuses on the digital distribution of Japanese animated television productions in the United States and other Anglophone countries. While the company acquires certain licenses through North American sub-licensors, it also has direct connections with Anime Studios and Production companies in Japan[5].

On March 24th, 2021, it was reported that the antitrust review of the acquisition of Crunchyroll Inc., by Sony Pictures Entertainment was extended by the Department of Justice, which has the potential of lasting up to six months. This extension was implemented take more time to investigate concerns that Sony may gain monopsony power with animation studios in Japan that are contracted to create animated productions. Both Sony and WarnerMedia contend that Japanese Animation is not and should not be considered distinct from adult oriented cartoons[6]. The popularity of animation with more mature themes in general has been increasing in North America which can be seen through the longevity of brands like The Simpsons, Family Guy, and the successes of newer properties like Bojack Horseman and Rick & Morty[7]. The federal government as of late has begun to scrutinize the business practices that have begun to materialize within the digital content distribution space, particularly concerning the vertical integration of digital streaming hardware, content creation, and digital distribution platforms. Price differences across platforms is insignificant, so services compete through the exclusive availability of content on their platforms, through various proprietary devices. This can influence

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[4] Moore, D.M. "Anime is one of the biggest fronts in the streaming wars", The Verge. December 23, 2019. Retrieved from: https://www.theverge.com/2019/12/23/21003549/anime-streaming-wars-netflix-amazon-att-sony-crunchyroll-funimation

[5] Moore, D.M., Ibid.

[6] Sisco, Josh & Toonkel, Jessica. "Sony's Hopes of Countering Netflix in Anime Market Delayed by Antitrust Probe", The Information. March 24, 2021. Retrieved from:

[7] Evershed, Josh. "The "Great Adult Animation Boom" is in Full Swing". Adult Animation White Paper, 2nd Edition. March, 2021. Retrieved from: https://www.toonboom.com/adult-animation-white-paper

consumers by locking them out of certain content, causing the consumer to pay multiple subscriptions for streaming platforms, or turn to piracy to access the desired content. Currently, online video distribution service providers are not regulated by the FCC, but in some areas of the United States they are beginning to be recognized as competitors to traditional cable and television service providers. Laws in the U.S. established for broadcast television also do not generally apply to digital streaming service providers[8].

It was announced by Sony on August 9th, 2021, that Funimation Global Group, the joint venture of Sony Pictures Entertainment, and Sony Music Entertainment Japan's subsidiary Aniplex, Inc., was cleared by the DOJ to complete the sale. From this acquisition, Sony will internalize digital distribution of anime in North America, South America, Western Europe, Russia, and Oceania, and localization in English, Spanish, French, German, Portuguese, and Russian. In order to develop a greater understanding of Sony's acquisition, this report relies on the framework of the OLI paradigm to analyze the purchase of Crunchyroll and its place within the network of firms contained within the Sony Corporation, and the enterprise's position in relation to its competitors in the distribution of animation digitally in North America and Europe.

The OLI paradigm was developed by John Dunning, an expansion of an earlier concept created by him known as the eclectic theory, which was originally used to quantitatively analyze country level data concerning manufacturing to understand the determinants of the international production of goods from a sector level on a country-by-country basis. Since then, Dunning continually revised his work, in response to criticism and economic changes until his death in 2009. Dunning eventually revised the theory to be conceived of as a framework for economic and international business theories to explain the intricacies of the various advantages that can be identified, as Dunning himself notes that no single theory can explain the multitude of possibilities that a firm may come to in its decision making or decision taking process. Further revisions looked at the cooperative alliances between firms emerging during the 1980s concerning intermediate goods, and reappraised ownership asset advantages to not only include advantages specifically owned or controlled by a firm, but ownership advantages they the firm could also gain privileged access to through alliances was now also considered. Dunning also

[8] Cho, Claire Y. "Competition Among Video Streaming Services". Congressional Research Service. September 25, 2020.

touched on the burgeoning e-commerce sector before his death, providing an understanding of the sets of advantages that internet firms utilized, particularly through their first mover status, and their distributed network of cooperative competitiveness of the e-commerce sector and high technology companies more broadly. As the OLI Paradigm gained prominence in International Business scholarship, the paradigm also began to see use as a qualitative framework, as well as usage in industry and firm specific levels of analysis.

The OLI Paradigm is used to analyze ownership, location, and internalization factors that lead a multinational enterprise to choose to internalize foreign production by observing specific advantages the firm has and categorizing them in terms of each of these three factors, which can lead to greater insights concerning the general determinants for a firm which choosing FDI over another option. The category of ownership in particular has been revised the most out of the three pieces of the paradigm, with a more granular categorization for ownership advantages. These are: One, Asset-based ownership advantages (Oa), which are advantages specific to the firm due to the possession of or control over income generating assets or other economically sustaining resources and capabilities. Oa advantages can be represented by things like superior technology, scale economies, product differentiation, distribution networks, and privileged access to financial capital. Intangible assets such as copyrights, trademarks, and patents can also be considered part of a firm's Oa. Asset advantages would eventually be revised slightly with the advent of what Dunning referred to as the rise of alliance capitalism during the end of the 20th century, in which firms upstream and downstream from one another in the value chain would begin to form strong partnerships and alliances in the exchange of intermediate goods to retain competitiveness in a given industry or sector. This would push the category of Oa to include the access to allied firms with possession or control over those particular property rights or intangible assets that gave the firm an advantage[9]. Two, advantages of common governance (Ot), which relate to the advantages derived from the ability to coordinate regionally disparate value-added activities, the ability to acquire the gains associated with that diversification, and in a broader sense, the multinational nature of a firm can even be considered an advantage. This set of advantages allows firms to work with increasing effectiveness with other firms, whether they be a supplier, a customer, or even a competitor. These advantages also allow the firm to utilize

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[9] Dunning, John H., and Cliff Wymbs. "The challenge of electronic markets for international business theory." International Journal of the Economics of Business 8.2 (2001)

its current production and marketing capabilities successfully[10]. Three, Institutional assets (Oi) are the internally and externally created incentives, regulations, and norms by firms that constitute a firm's institutional infrastructure. Oi advantages can also be influenced by the disposition and actions taken by the stakeholders of the firm. These advantages can also be influenced by how the goals of the firm are viewed and reacted to by other agents, both political and economic[11]. Second is Location advantages, which concerns the nature and the attractions offered by host countries that will create or increase value to the competitive advantages of the firm, which includes but is not limited to labor costs, tariff barriers, and the presence of competitors. Location specific advantages can also be physical, such as transport and telecommunications infrastructure. Legal and political systems of host countries are can also be counted among locational advantages, should they act positively towards the firm's pursuit of value creation[12]. Integration opportunities, whether vertical or horizontal, are also considered location advantages. The final aspect of the framework of the OLI paradigm is internalization, which posits a question: Through analyzing the firm's Ownership and Location advantages, would it be more advantageous for the firm to participate in a market through licensing or through Foreign Direct Investment? If the market does not permit price discrimination, and the costs of enforcing property rights and controlling information is high, a firm's preference for internalization will be higher. The extent of internalization is precipitated on the amount of coordination between Ownership advantages and Location advantages through either internalizing the transfer of intermediate products cross border or engaging in contractual agreements with foreign firms[13].

Within the OLI paradigm, a firm is assumed to be a coordinator of a network of value-added activities, and in digital spaces, those values can have increasing returns. Global corporations manage a wide variety of human and physical assets across the various geographic regions it conducts business in, and the more revenue generating possibilities it explores, the more the firm enters into cooperative agreements and alliances with other firms, which can in turn expand those links of trade to other countries. Firms can be prompted to extend overseas because

[10] Dunning, John H., and Cliff Wymbs. Ibid.
[11] Dunning, John H., and Cliff Wymbs. Ibid.
[12] Dunning, John H., and Cliff Wymbs. Ibid.
[13] Dunning, John H., and Cliff Wymbs. Ibid.

management may perceive, correctly or incorrectly, that the firm's ownership advantages are being threatened if they do not follow the lead of their direct competition. Firms also may enter a foreign market should they find it to be more advantageous to be in the market than not[14].

This report categorizes aspects of Sony's assets according to the OLI paradigm, particularly those related to the animation industry, in order to come to a clearer understanding of the determinants that motivated Sony to purchase Crunchyroll Inc.

Sony Group Corporation

Incorporated under the name Tokyo Tsushin Kogyo, Ltd. in 1946, the firm would change its name to Sony Corporation ten years later in a bid to avoid association with Japan as a national brand, considered to be a cheap manufacturer of goods of poor quality in comparison to American and European counterparts. The corporation started out as an electronics manufacturer, and first came into contact with the American business community through a technical license to manufacture germanium transistors in return for a royalty fee to the licensor, Western Electric. Utilizing the licensed technology and a technical manual created by Bell Labs, Sony would create an electronics empire, beginning with the transistor radio, moving on to innovate in the development of consumer electronics like the color television, portable audio & video recording devices, and video game console systems[15]. The company has also made a name for itself through the development of commercial audiovisual equipment, intended for professional music, television, and film production. The firm also entered the realm of content production, management, and ownership starting in the 1988s, with the firm's purchase of CBS Records, and rebranding the company Sony Music Entertainment Japan. due to a desire of the CEO at the time, Akio Morita[16], to combine Sony developed content with Sony manufactured hardware. This would continue with the purchase of Columbia Pictures entertainment in 1991. Sony would truly begin to marry hardware and software development through the release of the Playstation in 1995; the development of the hardware originally came from a joint venture partnership with Nintendo, who pulled out of the business relationship after coming to an understanding of how

[14] Eden, Lorraine, and Li Dai. "Rethinking the O in Dunning's OLI/eclectic paradigm." Multinational Business Review (2010).
[15] Nathan, John. "Sony". Houton Mifflin, 1999.
[16] Nathan, John. "Sony". Houton Mifflin, 1999.

the terms of the contract would affect their business negatively[17]. The release of the console and the subsequent expansion into the video game console & publishing market would mark a turning point for the company, in which the firm would concentrate on video games as one of the core pillars of the business after losing ground to innovations like Apple's iPod & iPhone, the resistance to adopting certain technology standards such as the mp3, the failure of its digital distribution platform, and the inability to unify the content and hardware divisions of the firm to deliver on the dream of Sony-centric electronic-media ecosystem, first envisioned by Mr. Morita, the firm seemed to be in dire straits[18]. Five years later, the company had returned to record profits after streamlining its consumer electronics business, moving into the intermediary goods market by selling the image sensors necessary for mobile phone cameras, successful major television and theatrical releases, the release of the Playstation 4, and the development robust digital distribution platform for games and other apps such as over the top digital streaming apps like Netflix, Crunchyroll, & Funimation since the release of the previous console 2006[19]. In May 2021, the firm changed its name once again to reflect the organizational shift the company made after purchasing Ericsson's stake in the joint venture Sony-Ericsson, merging the company with Sony's electronics division, and rebranding that Sony Corporation, while changing the name of the holding company to Sony Group Corporation.

Crunchyroll

Initially launched in 2006, Crunchyroll began as user-driven repository for videos focused on Japanese Animation. Individual users uploaded content, primarily pirated fan subtitled content of properties that the company did not have international rights to distribute. The company stated that they were not liable for these cases of infringement, claiming the Safe Harbor provision of the Digital Millennium Copyright Act as a shield against potential challenges. However, the

[17] Park, Andrew, and Henry Lowood. "Winning the game: the intertwined histories of PlayStation and Final Fantasy VII." (2017).
[18] Tabuchi, Hiroko. "How the Tech Parade Passed Sony By". New York Times. April 14, 2012. https://www.nytimes.com/2012/04/15/technology/how-sony-fell-behind-in-the-tech-parade.html
[19] Sweney, Mark. "Sony comes back from the brink, and it's not all thanks to Spider-Man". The Guardian. November 4, 2017. https://www.theguardian.com/technology/2017/nov/04/sony-record-profits-spider-man-playstation-crown

founders realized that their business model had to be adjusted[20]. By 2010, with an initial $4 million venture capital investment from Venrock, a $2 million investment from a Japanese corporation, GDH, and an addition $750k from TV Tokyo, the company had managed to shift their business model to one in which Crunchyroll morphed into a legitimate digital distributor of Japanese Animation in North America[21]. The company had found a niche in pioneering the simulcast model of streaming, delivering subtitle-translated international content to its audience within days of its initial airing in Japan[22].

Prior to Crunchyroll, Japanese animation programs, which generally consist of 12 to 24 24-minute episodes, were licensed once the show had finished airing in Japan. These licensed programs would not find their way to American television until the episodes had been dubbed in English voices. This left a large span of lag times between the date that the content had originally aired in Japan and its eventual U.S. release. This also meant that a large amount of content had never been licensed and distributed in the United States. Due to the potential lack of interest or knowledge that American audiences had concerning untested IPs, distributors were weary of licensing properties that would offer a smaller return on physical media and affiliated merchandise. This lack of distribution was one of the factors that led to the rampant piracy of Japanese Animation over the internet, packaged for international distribution through the emergence of fan groups that were willing to translate and subtitle their favorite shows for no cost in a multitude of languages[23].

Crunchyroll, in contrast, did not have any releases of physical media, did not produce dubbed content, and paid their license partners based on the number of times their content was streamed. The CEO at the time, Kao Gun, asserted that piracy of Japanese Animation was a market failure that Crunchyroll's service was able to address through its model of digital distribution[24].

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[20] Arrington, Michael. "Copyright Infringement Continues to Pay: $4 million for Crunchyroll". Techcruch, February 27 2008. Retrieved from: https://techcrunch.com/2008/02/27/copyright-infringement-continues-to-pay-4-million-for-crunchyroll/

[21] Anderson, Nate. "Competing with free: anime site treats piracy as a market failure". Ars Technica, April 25, 2011. Retrieved from: https://arstechnica.com/tech-policy/2011/04/competing-with-free-anime-site-treats-piracy-as-a-market-failure/

[22] Loo, Egan. "Gonzo Works to be Streamed Simultaneously with Airing". Anime News Network, March 21, 2008. Retrieved from: https://www.animenewsnetwork.com/news/2008-03-21/gonzo-works-to-be-streamed-simultaneously-with-airing

[23] Denison, Rayna. Ibid.

[24] Anderson, Nate. Ibid.

According to Gun in a 2013 interview, a majority of the money returns to the industry through Crunchyroll's model, with the productions that the user has viewed directly affecting how that individual subscription fee is sliced up and accrued by the publisher as a royalty. Gun also stated that advertising revenue from the ads ran for non-subscribers generated as much money as subscriptions did when the platform's userbase was only 200,000, with 10,000,000 monthly visitors[25]. In 2013, a majority stake of the company was acquired by The Chernin Group for about $100 million and was placed under the ownership of the Otter Group, a joint venture between WarnerMedia and the Chernin group, a year later[26]. By 2018, WarnerMedia had purchased the controlling stake of OtterMedia from the Chernin group and became the sole owners of Crunchyroll[27]. Throughout this period, the brand's digital platform continued to grow, cementing itself as of the few ways for fans to watch the newest content from Japan, translated, as soon as feasibly possible, while also having one of the largest back catalogues of animated content available on any digital platform. The company would eventually break into English voice dubbing and partnered with companies to issue North American physical releases. Crunchyroll also began to invest directly in the production of content developed and created in Japan. It also expanded its back catalogue by making partnerships with other North American and European distributors and increased its reach through the acquisitions of some distributors in Europe, and expansion into Latin American territories. By 2021, at around 5 million paid subscribers and 120 million users[28], the company's valuation through its sale to Sony sits at the slightly over a billion dollars[29]. Currently, Crunchyroll's catalogue contains more than 1200 animated television productions and theatrical releases combined[30]. Crunchyroll is also breaking into new forms of advertisement and audience capture through the debut of Crunchyroll Hime, a

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[25] Orsini, Lauren. "Where your Crunchyroll dollars really go: An interview with the CEO". Otakujournalist. October 22, 2013. https://www.otakujournalist.com/where-your-crunchyroll-dollars-really-go-an-interview-with-the-ceo/
[26] "The Chernin Group and AT&T Create New Venture to Acquire, Invest In and Launch Online Video Business". AT&T, April 22 2014.
[27] "AT&T Acquires Full Ownership of Otter Media". AT&T, August 18 2018.
[28] Crunchyroll Reaches 5 Million Subscribers, Announces New Project. August 3, 2021. Crunchyroll. https://www.crunchyroll.com/anime-news/2021/08/03/crunchyroll-reaches-5-million-subscribers-announces-new-project
[29] Sherman, Jennifer. "Crunchyroll Surpasses 4 million Subscribers, Announces 'Dantai' Series". Anime News Network, February 02, 2021. Retrieved from: https://www.animenewsnetwork.com/daily-briefs/2021-02-02/crunchyroll-surpasses-4-million-subscribers-announces-dantai-series/.169072
[30] Minor, Jordan. "Crunchyroll vs. Funimation: Anime Streaming Subs or Dubs?" PC Mag, August 27, 2020. Retrieved from: https://www.pcmag.com/comparisons/crunchyroll-vs-funimation-anime-streaming-subs-or-dubs

virtual personification of the firm, played by an actor[31]. These virtual avatars, known as Virtual Youtubers (Vtubers) are a phenomenon that have started to break into live-streaming internet culture, particularly in Asia, and are now mainstream enough to advertise for common products like instant ramen[32].

Property Rights/Intangible Asset (Oa) Advantages

Aniplex

Aniplex is a Japanese company that primarily produces and markets Japanese animation for television, home consumption, theatrical releases, and as well as musical productions with a connection to the animated productions and their related intellectual property. Founded in 1995 as a joint venture between Sony Pictures Entertainment and Sony Music Entertainment, the latter Sony subsidiary would eventually take full control of the venture[33], which would go on to jointly produce a little over 500 animated productions[34] through the Production Committee system with other investors, who gain the ability to utilize the IP for merchandise production and advertising, and with IP holders also participate if the animated production is a derivative of an existing creative work[35]. While not every program produced is a total success, through the breadth of productions created and the pooling of risk by investors, a number of these shows go on to gain international popularity. This popularity allows the investors to recoup the investment made in these productions their merchandise sales branded with the IP, and not the animated production in itself[36]. The most recent of these properties being the *Demon Slayer* television series and its movie sequel, based on a Japanese comic of the same name. The theatrical release earned a total

[31] Kelly, Zachariah. "Oh Great, Crunchyroll's Mascot is a Vtuber Now". Gizmodo. November 11, 2021. https://www.gizmodo.com.au/2021/11/crunchyroll-hime-vtuber/
[32] Chen, James. "The Vtuber takeover of 2020". Polygon. November 30, 2020. https://www.polygon.com/2020/11/30/21726800/hololive-vtuber-projekt-melody-kizuna-ai-calliope-mori-vshojo-youtube-earnings
[33] "Corporate History". Aniplex. Retrieved from: https://www.aniplex.co.jp/eng/history.html
[34] Data retrieved from Anime Production Database MyAnimeList. https://myanimelist.net/anime/producer/17/Aniplex
[35] Okeda, Daisuke & Koike, Aki. "Working conditions of animators: The real face of the Japanese animation industry", Creative Industries Journal. 2011. DOI: 10.1386/cij.3.3.261_1
[36] Mori, Yuji. "Putting the Anime Business into Perspective: An Ecosystem where the Economic and Noneconomic Weave Together". Anime Busience: Animation Business and Science Magazine. Retrieved from: http://anime-busience.jp/en/index.html

of $435 million at box offices in Asia in 2020 and was just recently released for viewing in North America, earning $40 million in three weeks[37].

In 2005, the company created an overseas subsidiary, Aniplex of America, which became the North American licensor for of all Aniplex produced content and is the firm from whom steaming companies then acquire digital streaming rights of Aniplex produced series for North American distribution. Aniplex also owns several other subsidiary companies in Japan related to animation production or other means of utilizing artistic intellectual property, such as digital games and 3D computer generated animation, and also owns an overseas subsidiary in Shanghai, China, which acts in a similar function to Aniplex of America for the Chinese market[38].

Animation Studios

Sony holds ownership of two Japanese animation studios through Sony Entertainment Music Japan and Aniplex. The first, A1 Pictures, founded in 2005, is credited with animating 216 productions[39]. The second studio, Cloverworks, was originally a secondary studio of A1, but was spun off into its own subsidiary in 2018. This studio is credited with animating 34 productions[40]. As with most studios based in Japan, the focus of the content animated by A1 Pictures and Cloverworks is targeted towards domestic Japanese audiences through television broadcast. While the productions animated by these studios only accounts for a small portion of total animation produced in Japan over that duration, with the potential purchase of Crunchyroll by Funimation and considering the trend of vertical integration and exclusivity highlighted by the Congressional Research Service, these properties seem to be the most likely candidates to become exclusive to Sony-owned digital platforms.

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[37] Mateo, Alex. "Demon Slayer Film Earns Over US$40 Million at N. American Box Office". Anime News Network. https://www.animenewsnetwork.com/news/2021-05-12/demon-slayer-film-earns-over-usd40-million-at-n-american-box-office/.172715

[38] Sony Music Entertainment Japan Group Companies: Visual & Character Business Group. Retrieved from https://www.sme.co.jp/en/company/groupcompanies/

[39] Information retrieved from Anime Production Database MyAnimeList. https://myanimelist.net/anime/producer/56/A-1_Pictures

[40] Information retrieved from Anime Production Database MyAnimeList. https://myanimelist.net/anime/producer/1835/CloverWorks

Funimation

Funimation was founded in 1995 by Gen Fukunaga, who was able to secure the distribution rights to Dragon Ball Z through a family connection to the production studio. With initial investment from a former co-worker at IBM, and the knowledge of Dragon Ball Z's popularity in other markets it had already been exported to, the company leapt into the task of preparing the IP for television broadcast in North America[41]. From this initial license, Funimation would build up its catalogue, focusing on properties that had proven successful in Japan, dubbing and distributing animation for both broadcast and home video consumption[42]. Although a majority stake in the company was acquired by the Navarre Corporation[43] in 2005 for around $100 million, the company was eventually repurchased by Gen Fukunaga and the initial investors for a fraction of that price. By 2011, to save its core business, the Navarre Corporation sold the Funimation back to its original owners for $24 million[44]. During this period, Funimation had continued to grow, becoming one of the largest distributors of Japanese Animation in the North American market with one of the widest selections of content available to consumers through physical distribution. This was also the period in which Crunchyroll first came to prominence as a website that illegally hosted digital content that it did not have the license to distribute, which included several popular titles that were licensed solely by Funimation[45]. As Crunchyroll switched to a new, legitimate model of distribution, it found success through the simulcast, the new form of consumption it had helped to develop based on delivering the content to the consumer as quickly as possible. Funimation's model was still based around dubbing, physical releases, and a dedicated cable channel with Video on Demand Services[46]. This allowed Crunchyroll to see success within this area of the content distribution market for Japanese

[41] Rogers, Bruce. "The Man Who Brought Anime To America: Sony Pictures Television's Funimation CEO Gen Fukunaga". Forbes, January 14 2019.
[42] "Interview with Gen Fukunaga, Part 1". ICv2, November 21, 2004. Retrieved from: https://icv2.com/articles/comics/view/6036/interview-gen-fukunaga-part-1
[43] Media publishing and distribution company that became defunct in 2013.
[44] Loo, Egan. "Navarre Sells Funimation to Group with Gen Fukunaga (Updated)". Anime News Network, April 4, 2011. Retrieved from: https://www.animenewsnetwork.com/news/2011-04-04/navarre-sells-funimation-to-group-with-gen-fukunaga
[45] Ristola, Jacqueline. "From Piracy to Legitimacy: The Rise of Crunchyroll and the Exploitation of Digital Labor". York University, March 5. 2016.
[46] Loo, Egan. "Funimation Anime on Demand Now on Comcast Nationwide". Anime News Network, May 11 2009. Retrieved from: https://www.animenewsnetwork.com/news/2009-05-11/funimation-anime-on-demand-now-on-comcast-nationwide

Animation– Funimation did not launch its own dedicated digital mobile streaming service centered around Video on Demand until 2016, nearly five years after Crunchyroll had begun to legally acquire streaming rights for properties[47]. In 2017, Funimation was sold to Sony Pictures Entertainment for $143 million, which a sale which was finalized in 2018[48] and ended a two year partnership between Funimation and Crunchyroll, in which the companies' shared their catalogues between the two platforms for both digital streaming and physical releases[49]. Funimation also implemented the simulcast strategy of delivering content to customers as soon as it could be translated, but also began to produce simuldubs –while not quite being truly simultaneous, this new method of delivering broadcast programs interpreted into English focused on speed, releasing episodes weeks after its initial airing in Japan[50], when previously consumers would have to wait for months or years for the release of specific properties. Under ownership of Sony, the company was reorganized into a joint venture with Aniplex, a subsidiary of Sony Music Entertainment Japan. Sony Pictures Entertainment placed the digital distribution platforms that it had acquired in Europe and Oceania under the umbrella of the Funimation joint venture[51]. It would be this rendition of Funimation that would make the tentative purchase of Crunchyroll from Warnermedia. Currently, Funimation's catalogue of content is 600 television series and theatrical releases combined[52].

Anime Streaming in Oceanic & European regions

Sony's acquisitions in the distribution space outside of North America have been of Manga Entertainment in the UK[53], Wakanim in France, and Madman Entertainment in the Oceania

[47] Ressler, Karen. "Funimation to Launch Updated Streaming App, Add New Devices". Anime News Network, July 01, 2016. Retrieved From: https://www.animenewsnetwork.com/news/2016-01-07/funimation-to-launch-updated-streaming-app-add-new-devices/.97305
[48] "Sony Pictures Television Networks to Acquire Substantial Majority Stake in Funimation". Sony Pictures Press Release, July 31 2017.
[49] Martinez, Phillip. "Funimation President Gen Fukunaga on Crunchyroll Split and Why Hulu Deal 'Makes Sense'". Newsweek, December 13 2018.
[50] "What is a SimulDub?" Funimation, April 2021. Retrieved from: https://help.funimation.com/hc/en-us/articles/360046375792-What-is-a-SimulDub-
[51] Spangler, Todd. "Sony Merges Anime Streaming Businesses Under Funimation-Led Joint Venture". Variety, September 24 2019.
[52] Minor, Jordan. August 27, 2020. Ibid.
[53] Giles, Darcy. "Manga Entertainment to Officially Rebrand as Funimation in the UK and Ireland!". April 12, 2021. Retrieved from: https://www.funimation.com/blog/2021/04/12/manga-entertainment-to-officially-rebrand-as-funimation-in-the-uk-and-ireland/

region[54]. Each of these companies were founded in their respective locations, which may help to blunt the disadvantage of being foreign, so long as the company culture of each firm is maintained.

Agglomerative Production Economics

Sony's headquarters and animation related subsidiaries are in Tokyo, Japan, which is also where most animation studios and related firms reside. The historical conditions of Japan's urbanization and the development of broadcast television have resulted in an agglomeration of firms specialized in animation within the metropolitan area, with 547 Animation studios in the greater Tokyo Area[55]. There are two types of studios; first is the primary contractor, which is the animation studio that is directly hired by the production committee to produce the animated work per committee specifications. The second type is the subcontractor studio, to whom portions of the animation work is outsourced[56]. This includes a network of overseas subcontractors spread across Asia, primarily in South Korea, China, The Philippines, and Vietnam[57].

Low Labor Costs

The price of production in Japan is an advantage for Sony and is low historically is due to an incident at the inception of the animation industry in Japan known as "Tezuka's curse". Osamu Tezuka, a prolific Manga artist who is credited, along with his studio Mushi production, with creating the first 'full length' Anime series, Tetsuwan Atomu (Astroboy in North America), which first aired on the Fuji TV Japanese television channel in 1963[58]. Tezuka decided to pre-emptively undersell his competitors by selling each episode of Atomu under cost, with the assumption that these costs would be recouped through overseas licensing and merchandising[59].

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[54] Loo, Egan. "Sony Pictures TV, Aniplex Consolidate Funimation, France's Wakanim, Australia's Madman Anime into Joint Venture". Anime News Network, September 24 2019. Retrieved from: https://www.animenewsnetwork.com/news/2019-09-24/sony-pictures-tv-aniplex-consolidate-funimation-france-wakanim-australia-madman-anime-into-joint-venture/.151470

[55] Masuda Hiromichi et al. "Anime Industry Report 2020". The Association of Japanese Animations, March 2021.

[56] Okeda, Daisuke & Koike, Aki. Ibid.

[57] Yamamoto, K. The Agglomeration Struture of the Animation Industry in East Asia: A Case Study of Tokyo, Seoul, and the Shanghai Region. The Science Reports of the Tohoku University, 7th Series, Geography. Volume 57. 2010. Retrieved from: https://tohoku.repo.nii.ac.jp/?action=pages_view_main&active_action=repository_view_main_item_detail&item_id=11739&item_no=1&page_id=33&block_id=38

[58] Clements, J. Anime: A history. Palgrave Macmillan. 2013.

[59] Clements, J. Ibid.

Since the initial offer Tezuka negotiated for the price of producing the first television Anime, the payment model has remained stagnant for animators due to insufficient negotiating leverage when being commissioned, which results in a lower pool of money to pay animation talent, which leaves in-between animators, who do the bulk of the labor drawing each frame, being paid at rates of approximately $2.00 USD per frame[60], and $10,000 being the average salary of an in-between animator starting out in the Japanese industry[61]. The average episode of television anime is also around 5,000 frames of animation, with the production split up into specialized tasks, with sections of the episode of animation split by scene and assigned to specific animators to finish within a predetermined amount of time that varies based on the ability of the production to maintain production speed through the entirety of its television broadcast in Japan. These cuts can also range in amount and complexity based on what the specific scene of animation requires. Not only this, but other tasks such as painting, special effects, and background art all require specialized talent. Due to the necessity of speed in the production of broadcast animation in Japan, the scene assignments are spread out over a large breadth of animators, which means a single animator will be unable to draw the number of pictures necessary to sustain themselves from a single production and must freelance with numerous productions to be able to meet their economic needs. Recently, average pay in the industry has been increasing due to increased revenue from international streaming royalties, and higher prices being paid for exclusive productions or exclusive licenses by companies like Amazon and Netflix, but animation productions produced by Japanese studios are still cheaper than those produced by American studios[62].

Playstation Hardware & the Playstation Network

Launched with the release of the Playstation 3, the Playstation network originally began as a distribution network primarily for the download of games, paid downloadable content, and patches released by game developer to fix bugs or balance game mechanics. Eventually, this service would expand to become a distribution platform not just for Sony games, but for

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[60] Okeda, Daisuke & Koike, Aki. Ibid.

[61] Ashcraft, Brian. "Average Anime Industry Salaries Get Depressing". Kotaku. August 18, 2018. https://kotaku.com/average-anime-industry-salaries-get-depressing-1774852881

[62] Sevakis, Justin. "How Do Anime Budgets Compare to American Animation Budgets?". Anime News Network, September 8 2015. Retrieved from: https://www.animenewsnetwork.com/answerman/2015-09-08/.92622

streaming Sony movies & music as well, and achieve 109 million active users as of March 2021[63]. PSN, in combination with a Playstation console, serves as a direct access marketplace to its users which can also be synchronized through smartphone, PC desktop, and Smart TV apps.

Alliance Asset (Oa) Advantages

Japanese Intellectual Property Owners

Japanese IP holders that have served only the domestic market may feel more comfortable working with Japanese companies to distribute content globally. Sony has made alliances with Japanese publishers like Kadokawa, who manage large IP catalogues of Manga and Light Novels and own magazines which act as engines for generating new IP[64]. Even without formal alliances, Aniplex has worked with other major publishers frequently to turn printed content into animated productions[65]. Moreover, Japanese IP holders may be hesitant to work with American distribution companies in a deeper capacity than they already are due to potential disagreements concerning international rights beyond North America, which is not an unprecedented fear[66]. As a producer, Aniplex has also deep ties with several unique primary contractors who sit on the production committees for their content which gives a much stronger working relationship than potential competitors.

Shueisha

One of the leading publishers in Japan, Shueisha is most notably known for the weekly comic anthology it publishes, "Weekly Shonen Jump", which was first published in 1968. Since then, the manga has been home to stories that have permeated through Japanese pop culture, with comic volumes of popular IP in publication circulation in the hundreds of millions of units since

[63] Supplemental Information for the Consolidated Financial Results for the Fourth Quarter Ended March 31, 2021. Sony. April 28, 2021. https://www.sony.com/en/SonyInfo/IR/library/presen/er/pdf/20q4_supplement.pdf
[64] Sudo, Tadashi. "Kadokawa aims for 40 new anime per year" Anime Business Journal, May 2 2021. (Translated from Japanese). Retrieved from: http://animationbusiness.info/archives/11269
[65] Figures 1-3 at the end of the report show various co-productions between these companies and Aniplex.
[66] Big West, the owner of the domestic Japanese distribution rights for a set of shows developed in the 1980's finally resolved a legal battle it maintained with the American Company who acquired the distribution rights for nearly thirty years. https://www.cartoonbrew.com/anime/macross-titles-to-be-released-worldwide-after-decades-of-legal-battles-204074.html

their inception, such as One Piece, with 480 million copies since 1997[67]; Dragon Ball, 300 million copies since 1984[68]; Naruto, 250 million copies since 1999[69]; Bleach, 120 million copies since 2001[70]; and Demon Slayer, 150 million copies since 2016[71]. In a 2021 mid-year financial report released at the end of May, Shueisha disclosed that it had generated 45.7 billion JPY, accruing twice the revenue in six months than it had through all of the previous fiscal year[72]. Shueisha is part of a keiretsu called the Hitotsubashi Group with two other publishers of literature & comics, Shogakukan & Hakusensha.

Kodansha

A private firm founded in 1909, Kodansha is the largest publishing company in Japan with 145 billion JBY in sales for fiscal year 2020[73]. The company is a prolific publisher of comics and light novels, with a section of the Kodansha official website solely dedicated to the works it has published that have been adapted into either live action or animated works[74].

Kadokawa

A public holding company with a media focused asset portfolio, the Kadokawa Corporation is dedicated to developing a media mix for its IP franchises through fostering and generating IP through comics & literature, and using that IP as the basis for animation, games, movies, and merchandise. The firm is a major publisher of novels, comics, animation studio & game

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[67] Stenbuck, Kyle. “One Piece Has Surpassed 480 Million Books Sold Worldwide”. Siliconera. February 4, 2021. https://www.siliconera.com/one-piece-has-surpassed-480-million-books-sold-worldwide/
[68] Peters, Megan. Dragon Ball Crosses a New Sales Milestone. Comicbook.com. August 10, 2021. https://comicbook.com/anime/news/dragon-ball-super-manga-sales-record/
[69] Hodgkins, Crystalyn. Roundup of Newly Revealed Print Counts for Manga, Light Novel Series (March – May 2018). May 7, 2018. https://www.animenewsnetwork.com/news/2018-05-07/roundup-of-newly-revealed-print-counts-for-manga-light-novel-series/.130972
[70] Valdez, Nick. ‘Bleach’ Manga Hits New Sales Milestone. Comicbook.com February 5, 2018. https://comicbook.com/anime/news/bleach-manga-sales-milestone-120-million/
[71] Loo, Egan. Demon Slayer: Kimetsu no Yaiba Manga Tops 150 Million Copies in Circulation. Anime News Network. February 14, 2021. https://www.animenewsnetwork.com/news/2021-02-14/demon-slayer-kimetsu-no-yaiba-manga-tops-150-million-copies-in-circulation/.169500
[72] Valentine, Evan. Shonen Jump Publisher Hits Record Profits According to Annual Report. Comicbook.com August 26, 2021. https://comicbook.com/anime/news/shonen-jump-manga-hits-record-profits-2021/
[73] About Kodansha. https://www.kodansha.co.jp/about.html Accessed December 14, 2021.
[74] Film adaptation and award-winning works. Kodansha. Accessed December 14, 2021. https://kc.kodansha.co.jp/media_and_awards

development studio through its several subsidiary companies. The firm's overseas business is growing by 36% year over year, with the greatest growth occurring in North America and Asia[75].

Complementary/Transaction Cost Minimizing (Ot) Advantages

Production Committee System

There is a large amount of diversification of productions through the production committee method of financing. The committee generally consists of a production company such as Aniplex, the publisher & author of the source material if the IP is derivative, and several partners who will have exclusive advertising and merchandising rights to IP related to the productions. There are the previously mentioned publishers, who control a vast amount of original literary IP; VHS, and later DVD manufacturers to fabricate the physical retail product; music production houses to use popular artists & music in the introductions and ending credit scenes of Anime; game & toy companies to develop derivative products using the IP, and domestic Japanese television networks, who acquire exclusive broadcast rights to the animated production. Generally, an animation studio is contracted for the production of 12-26 episodes depending on the goals and finances of the production committee and the studio is not represented within the committee. However, larger animation studios and studios with original IP have a greater potential to secure a seat on production committees. By pooling finances, these companies can field a larger number of productions. While the returns may be split among the members of the committee, so are the losses[76]. Television broadcast has been, up until recently, the primary form of distribution in Japan[77]. Industry has been historically geared toward domestic television broadcast, but over half of revenue generated in the animation industry in Japan is now generated from international sources[78], to which Funimation and Crunchyroll are the primary legitimate pipelines of animated content from Japan in North America.

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[75] Kadokawa Financial Results. Kadokawa Corporation. October 29, 2021. https://ssl4.eir-parts.net/doc/9468/ir_material_for_fiscal_ym7/107777/00.pdf
[76] Mihara, Ryotaro. "Involution: a perspective for understanding the Japanese animation's domestic business in a global context". December 19 2017. Retrieved from: https://eprints.soas.ac.uk/25606/1/mihara-involution-a-perspective-for-understanding-the-japanese-animations.pdf
[77] Mihara, Ryotaro. Ibid.
[78] Masuda Hiromichi et al. Ibid.

Aside from companies focused specifically on the production of animation, such as Aniplex, Japanese advertising companies have been the initiators in recruiting other companies to join production committees based on the interest and specialty of their potential partners since Asatsu-DK's foray into producing TV anime in 1972. Other agencies such as Dentsu and Hakuhodo would follow suit. While these companies would also find success globally outside of animation, the links formed in the creation and organization of animation production committees was, and continues to be confined to mainly domestic partners, with Funimation and Crunchyroll being the most notable exceptions within the past decade.

Inter-firm synergy

Sony has achieved a level of vertical integration within the Anime sector through its studios and production house, Aniplex, combined with Funimation as a digital distribution platform, which can be accessed via Sony video game consoles. This vertical integration also creates the possibility of synergy with other aspects of the parent company's other firms and products, such cross promotion between games and Anime, video game and anime IP utilized for live action movies, and with SMEJ or SME related music used throughout the content. This synergy can be seen between Anime and games through the mobile game "Fate/Grand Order", which is currently one of the most lucrative mobile games globally, of which Aniplex is the publisher[79]. The various animated productions that take place within the fictional world developed by the game are also produced by Aniplex, potentially animated by one of their subsidiary animation studios, Cloverworks, which was the studio that animated the most recent "Fate/Grand Order" production, a 21-episode series[80]. This production is then licensed to Funimation, who has a timed exclusivity deal concerning the simulcast of the series, and for the English voice dub[81]. While Sony does not have a dedicated media playback hardware device, the Playstation 5, as well as the previous generation's Playstation 4 both have internet connectivity and media playback functionality. The Introduction sequences and end credit sequences of Anime are also

[79] "Fate Grand/Order Surpasses $4 Billion After Becoming Japan's Top Grossing Mobile Game of 2019". Sensortower, Jan 30 2019. Retrieved from: https://sensortower.com/blog/fate-grand-order-revenue-4-billion
[80] Information retrieved from Anime Production Database MyAnimeList. https://myanimelist.net/anime/38084/Fate_Grand_Order__Zettai_Majuu_Sensen_Babylonia
[81] Peters, Megan. "New Fate/Grand Order Series to Stream Exclusively on Funimation for Limited Time". Comicbook.com, September 25 2019. Retrieved from: https://comicbook.com/anime/news/fate-grand-order-babylonia-streaming-anime-funimation-exclusive/

an area of synergy for Sony, as several vocal tracks utilized for these sections of content come from musicians signed by SMEJ or subsidiary record labels like Sacra Music[82]. Sony also points out the potential for live action theatrical releases based on IP the corporation has a stake in[83]. With the success of Disney's Marvel Cinematic Universe, Sony is clearly looking forward to transforming popular animated works with the potential to expand to a larger cinematic universes into live action properties.

Institutional (Oi) Advantages

International Standards

Sony was instrumental in the worldwide adoption of various technologies, such as the compact cassette[84] and the compact disc[85], and the Blu-ray DVD[86], each format being enshrined as the international standard for the physical storage of media. One of the reasons for this push into developing advancements in media storage was CEO Akio Morita's decision to move into the music industry, through the creation of a joint venture between Sony and CBS Records in 1967. This would later lead to the eventual acquisition of CBS Records in 1988, and the acquisition of Columbia TriStar in the next year 1989[87], rebranding them as Sony Music Entertainment, and Sony Pictures Entertainment. These moves cemented Sony's position in the content industry and put Sony in the position to eventually realize Morita's vision of the eventual convergence of the corporation's hardware and software divisions through the development of the PlayStation and the PlayStation Network.

U.S.-Japan Digital Trade Agreement

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[82] Eir Aoi performs the song "Hoshi ga Furu Yume" for the credit sequence and is signed to the Sacra Music label. http://sacramusic.jp/artist/
milet performs the songs "prover" and "tell me" for the credit sequence and is signed to SME Records. https://www.sonymusic.co.jp/artist/milet_music/

[83] Sony Corporate Report 2020.

[84] "Promoting Compact Cassettes Worldwide". Sony Group Corporation. Retrieved from: https://www.sony.com/en/SonyInfo/CorporateInfo/History/SonyHistory/2-05.html

[85] Kretschmer, T & Muehlfeld, K. "Co-opetition in standard-setting: The case of the Compact Disc". The NET Institute. October 2004. https://core.ac.uk/download/pdf/43023398.pdf

[86] Doucet, E., & Boivin, C. (2009). HD DVD vs. Blu-Ray: The End Of A Battle. Journal of Business Case Studies (JBCS), 5(3), 11-16. https://doi.org/10.19030/jbcs.v5i3.4702

[87] Nathan, John. "Sony". Houton Mifflin, 1999.

Distance is no longer as much of a disadvantage for foreign companies, particularly ones that focus on transferring electronic content across borders. This is due not just to the lack of travel time involved, but also the permanent elimination of any tariffs on electronic transmissions between Japan and the U.S., enshrined in the U.S.-Japan digital trade agreement[88].

Location

Brand Recognition & U.S. Presence

Sony is a known brand in adjacent media spaces through its film studio, Sony Pictures Entertainment, and its recording arm that focuses on music, Sony Music Entertainment. Sony Interactive Entertainment's Playstation brand has helped Sony retain its image as a company that is an institution of global youth culture. The firm also has had a long-term presence in the North American market in several product sectors through their electronics arm since the TR-63 Transistor radio, developing well-known consumers brands since establishing itself in the United States such as the Walkman, which completely changed the way music is now consumed, and is a precursor to the digital libraries of music that can be stored on smartphone or streamed directly to devices from platform music services.

U.S Legal System

Sony's participation in American politics and government through numerous court cases, one of the most important being Sony vs. Universal Studios & The Disney Corporation, which enshrined copying content via VCR for personal enjoyment an aspect of the fair use exception of copywritten content[89].

U.S. Political System

[88] "Agreement Between the United States of America and Japan Concerning Digital Trade". USTR, October 7 2019. Retrieved from: https://ustr.gov/countries-regions/japan-korea-apec/japan/us-japan-trade-agreement-negotiations/us-japan-digital-trade-agreement-text

[89] Samuelson, Pamela. "The Generativity of Sony v. Universal: The Intellectual Property Legacy of Justice Stevens". Fordham Law Review, 2006. Retrieved from: https://ir.lawnet.fordham.edu/cgi/viewcontent.cgi?article=4140&context=flr

Sony also has a wealth of experience lobbying federal and state governments, with one of its most famous efforts resulting in the successful persuasion of state and federal governments abandoning the unitary tax system, which counts the profits of not only from the subsidiary company when it comes to taxation, but the profits of its foreign parent company are considered in the calculation as well[90].

U.S. Digital Infrastructure

As of 2019, 95.6% of Americans have with access to fixed terrestrial broadband, with gaps primarily in rural areas who are un- and underserved by private carriers do to cost prohibitions, and only 10% of the adult population does not use the internet[91]. 294 million Smartphone users[92] are connected to broadband wireless networks in the United States through three major carriers, AT&T, T-Mobile, and Verizon[93].

Internalization

Licensing or Internalization

The acquisition of Funimation in 2017, and the acquisition of Crunchyroll in late 2020 signaled a shift in strategy from purely licensing content through Aniplex of America to unrelated firms. Aniplex of America licenses the most lucrative content to its competitors[94]. One of Sony Group's strategies throughout its years of operation has been to turn competitors into customers, and content licensing is no different[95]. As a producer of content that is seemingly unique to Japan and animated by Sony's animation studios, or produced by Aniplex, Sony's competitors have no

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[90] Sanger, David. E. "Japanese Fight Unitary Tax in U.S.". New York Times, June 1984. Retrieved from: https://www.nytimes.com/1984/06/07/business/japanese-fight-unitary-tax-in-us.html

[91] Rachfal, Colby Leigh. The Digital Divide: What Is It, Where Is It, and Federal Assistance Programs. Congressional Research Service. March 9, 2021. https://crsreports.congress.gov/product/pdf/R/R46613

[92] O'dea, S. Smartphones in the U.S. – Statistics & Facts. Statista. August 4, 2021. https://www.statista.com/topics/2711/us-smartphone-market/

[93] O'dea. S. Wireless subscriptions market share by carrier in the U.S. Statista. October 22, 2021. https://www.statista.com/statistics/199359/market-share-of-wireless-carriers-in-the-us-by-subscriptions

[94] Sony has acquired movie production rights for series such as Robotech: Schaefer, Sandy. "'Robotech' Live-Action Movie Rights Acquired by Sony for Potential Franchise", March 16 2015. Retrieved from: https://screenrant.com/robotech-live-action-movie-franchise/ and One Punch Man: Kroll, Justin: "Sony developing Film Based on 'One Punch Man' Manga Series with 'Venom' Writers". Variety, April 21 2020. Retrieved from: https://variety.com/2020/film/asia/sony-film-manga-one-punch-man-venom-writers-1234585282/

[95] "Competitors Are Also Customers", Sony Group Corporation History. Retrieved from: https://www.sony.com/en/SonyInfo/CorporateInfo/History/SonyHistory/2-24.html

other choice but to acquire a license from Sony for that content and pay the royalty fees for it. This can be seen through Funimation's deal with Hulu to share its content library[96] and the Aniplex productions that appear on Netflix[97], in conjunction with the Crunchyroll purchase are examples of Sony utilizing both licensing and acquisition to strengthen their position as a digital distributor and digital service provider. As Sony decides on how it is going to integrate the two distribution platforms, as they overlap in their current functionality but remain separate content libraries, exclusivity deals may become more prevalent. Currently, the television sequel to the previously mentioned *Demon Slayer* movie released last year is exclusively being streamed on Funimation and Crunchyroll, with no details on licensing out the property to Netflix or other streaming platforms.

Oligopolistic Rivalry

The OECD describes Oligopoly in it's glossary of Industrial Organization Economics & Competition law as a small quantity of firms that remain in a competitive sector and come to the realization that they have become interdependent with other firms in the sector. This interdependency is based on the pricing of the firms' products and services, and the output of the products and services sold, forcing each firm to consider, at an increasingly granular level, any shifts in price and output that in can make in relation to its competitors. There are various different categorizations of oligopoly based on the size of the players in the market, and the cooperativeness or non-cooperativeness in they way in which each firms chooses their respective strategies in pricing and output[98]. When this definition is applied to over-the-top digital streaming audiovisual services, the price can be identified as the subscription price of the service, and the output can be understood as the content catalogue available, whether licensed or developed as an in-house production, to subscribers and/or free users, should the firm provide that service on their platform. The exclusivity that digital streaming platforms have begun to implement through the production of in-house productions, or exclusivity clauses in their licensing contracts with partnered creators and producers could be considered one of the

[96] Martinez, Phillip. December 13 2018. Ibid.
[97] Peters, Megan. "Netflix adds new Anime Series Anohana, Angel Beats, and More". Comicbook.com, July 16 2019. Retrieved from: https://comicbook.com/anime/news/netflix-anime-catalog-aniplex-anohana-angel-beats-god-eater/
[98] https://www.oecd.org/regreform/sectors/2376087.pdf

strategies to attract customers when these firms are only able to make slight adjustments based on content and price.

There is the potential that Sony is planning on launching its own general streaming service to compete in market that looks to be something that resembles oligopoly, with around eight major distributors of anime in the North American market. Currently, Sony is something of an anomaly in the digital streaming sector. It is one of the few large media corporations that is without a broader digital platform that allows consumers access the firm's large catalogue of content of theatrical releases and television productions. The Crunchyroll platform has the digital infrastructure and architecture to serve 125 million users, with 5 million paid subscriber accounts and 120 million free subscribers who watch ads and watch the content at a lower quality in lieu of paying a subscription. If these aspects of the firm can see larger increases in scale, Crunchyroll's digital video player and content delivery pipeline may become the basis for a streaming service akin to Disney+, instead of maintaining separate entities for niche markets as TimeWarner had initially operated. TimeWarner initially maintained niche steaming platforms associated with specific brands with their own content delivery applications, such as RoosterTeeth and Cartoon Network. Currently, TimeWarner is pushing much of its content to the HBOMax platform, instead of maintaining separate software engineering teams for each brand, instead using the centralized content catalogue of HBOMax as a selling point of the service[99]. Sony has recently identified Anime as the fourth pillar of the company; with the Crunchyroll purchase, Sony will have captured a large portion of users subscribing & accessing digital platforms for niche animated content as Crunchyroll and Funimation are the most established Japanese Animation-focused streaming platforms in North America. This move is consistent with the corporation's declaration of Anime as an important and growing sector of revenue generation[100]. Sony also has an advantage when it comes to product differentiation through branding: both Funimation and Crunchyroll are synonymous with Anime in the North American market due to their long-term presence within the sector and the cultivation of users

[99] Reimann, Tom. "HBO Will Feature New and Reimagined Kids & Family Classic Cartoons". Collider, October 29 2019. Retrieved from: https://collider.com/hbo-max-new-classic-cartoons-looney-tunes-hanna-barbera/
[100] Hiraoka, Dan. "Sony sets out to conquer entertainment world with anime". Nikkei Asia, August 8 2020. Retrieved from: https://asia.nikkei.com/Business/Media-Entertainment/Sony-sets-out-to-conquer-entertainment-world-with-anime

who see Funimation and Crunchyroll as the only ways to legally access certain animated content from Japan.

Netflix

The popularity of Anime on Netflix has been increasingly dramatically in the past few years, particularly during the lockdowns for COVID-19 where viewership of the medium had increased by over 100 percent[101]. Netflix has taken notice of the popularity of animated content has aggressively sought to secure exclusive streaming rights for Japanese based IP over the past few years. Netflix has been wading into the Japanese industry by forming business alliances with the intention of co-producing anime with established animation studios such as MAPPA, NAZ, Science Saru, Production I.G., Wit Studio, and BONES, Anima, Sublimation, and david production[102]. It has also taken strides to license Japanese IP for both animation and live action productions to reach audiences that the firm may not have been able to capture with animation[103]. Netflix, in its advertising, also refers to productions that are not related to Japanese IP as 'Anime' as well, pushing audiences towards watching productions with anime-like aesthetics, the mature-rated productions animated by Powerhouse Animation Studios, based out of Austin Texas[104].

Netflix is also working with Studio WIT to develop a training course for budding animators, to prepare them with the technical skills and knowledge to enter the industry as in-between animators, which are in short supply in the domestic employment market. The program offers free training and a stipend for living expenses for the duration of the course, which is taught by industry veterans[105]. This move seems to signal a medium to long term interest in making anime

[101] The Stories that Helped Us Escape. Netflix. December 10, 2020. https://about.netflix.com/en/news/what-we-watched-2020-on-netflix

[102] Pineda, Rafael Antonio. "Netflix Announces New Partnerships with NAZ, Science Saru, MAPPA, Studio Mir". Anime News Network. October 22, 2020. https://www.animenewsnetwork.com/news/2020-10-22/netflix-announces-new-partnerships-with-naz-science-saru-mappa-studio-mir/.165506

[103] Webster, Andrew. "Netflix just announced a huge slate of anime series and films". The Verge. June 10, 2021. https://www.theverge.com/2021/6/10/22527983/netflix-geeked-week-anime-trailers-mobile-suit-gundam-godzilla

[104] Andreeva, Nellie. "'Castlevania' Animation Studio Powerhouse Inks First-Look Deal With Netflix". Deadline. June, 2021. https://deadline.com/2021/06/powerhouse-animation-first-look-deal-netflix-castlevania-masters-of-the-universe-1234784152/

[105] "Cartoon dreams: Netflix's Japan anime school targets booming demand". France 24. October 22, 2021. https://www.france24.com/en/live-news/20211022-cartoon-dreams-netflix-s-japan-anime-school-targets-booming-demand

a staple of Netflix's portfolio, but there also seem to be issues concerning payment of those trainees once they actually enter the industry. There was hope that more distributors purchasing content would help to correct the historically low wages for animators through increased market competition for productions but, Netflix appears to be placing production orders at partner studio MAPPA for similar low-level domestic rates[106].

One area in which Crunchyroll and Funimation were considered superior services to Netflix until recently, was in relation the temporal aspect of distribution. Since the launch of its service, Crunchyroll was focused on the simulcast model, which focused on reducing the lag time between the raw Japanese language broadcast and the English subtitled release of any given audiovisual product that Crunchyroll hosted on the platform. Upon entry into the market, Netflix treated its exclusive anime offerings as did the rest of its content, assuming users would want to consume the content through a binge of watching it all at once, which is a form of media consumption that has been popularized by the firm, leading to a lag time of at least twelve weeks between the anime's initial TV broadcast in Japan, and its release on North American streaming platforms. In November 2021, the firm changed its general policy on television releases, and is now switching to the simulcast model[107]. Through this alteration of their general business strategy around audience media consumption to the industry practice of simulcasting that Crunchyroll developed in 2009, the Netflix is looking to become even more competitive in the digital distribution of anime in North America and globally. Like Crunchyroll, Netflix is also attempting to market to the anime fandom through the creation of N-ko, a fictional character that is virtual personification of Netflix created with anime aesthetics, played by a person, and acts as a brand ambassador on Netflix's official YouTube account "Netflix Anime" that is focused specifically on promoting anime content through platform[108]; Youtube has been a major part of Netflix's advertising strategy with an accumulated 9.8 billion views across its 33 Youtube channels.

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[106] Morrisy, Kim. "Animator Ippei Ichii Says Netflix Anime Produced at MAPPA Paid Bottom Rates. Anime News Network. July 2, 2021. https://www.animenewsnetwork.com/interest/2021-07-02/animator-ippei-ichii-says-netflix-anime-produced-at-mappa-paid-bottom-rates/.174701

[107] Fox, Joshua. "Netflix Has Finally Fixed Its Biggest Anime Problem". Screen Rant. November 14, 2021. https://screenrant.com/netflix-anime-shows-episodes-release-delays-problem-fix/

[108]Alexander, Julia. "Netflix Created a VTuber Series For Anime Fans Because YouTube is Integral to its Future". IGN. April 30, 2021. https://www.ign.com/articles/netflix-created-a-vtuber-series-for-anime-fans-because-youtube-is-integral-to-its-future

Amazon – Amazon Prime Video

Amazon has made deals to license specific content based on the popularity individual IP, such as the final movie in Studio Kara's Neon Gensis Evangelion series, an animated sci-fi saga that began in 1995 with 26-episode television series, finally ending 26 years later[109] . Footprint in the industry remains small in both production & distribution, with the Amazon Prime Video platform offering around 250 licensed properties, and no known ongoing partnerships with Japanese animation studios or production companies.

Other Competitors

Further research is required to ascertain the catalogues & media partnerships of other competitors in the market: Aesir Media Group, who owns the dedicated anime streaming service HiDive & the media licensing company Sentai Filmworks, which received a $30 million dollar grant from METI's Cool Japan Fund; Time Warner still retains connections to animation studios through its Japanese subsidiary which it will need to tap for new HBOMax content; Disney, which has begun to license anime productions with exclusivity clauses for Disney+; and the moves that other streaming services like NBUniversal's Peacock and CBSViacom's Paramount Plus in animation that may be able to compete with Japanese IP. There are also smaller streaming platforms, such as RetroCrush, owned by Digital Media Rights. This service focuses on the distribution of older titles that aired in the 1970s-1990s, and have already been either dubbed and subtitled in En glish, relieving the company of translation and localization costs, allowing Retrocrush to offer a subscription service at a lower price point.

Challenges

Through the course of this report, a qualitative review of Sony's purchase of Crunchyroll was made through the lens of the OLI Paradigm. This paradigm was ultimately created to understand the determinants of foreign investment through a deeper understanding of the advantages that may arise from the interaction of home country ownership advantages combined with host

[109] Austin, Patrick Lucas. What to Know About the New 'Neon Genesis Evangelion' Film, According to Series Creator Hideaki Anno. Time. August 20, 2021. https://time.com/6090247/neon-genesis-evangelion-thrice-upon-a-time-hideaki-anno/

country location advantages, and how the combination of these advantages expresses themselves through the choice that a firm makes regarding the sale or license of its assets to foreign producers, or the internalization of foreign production. Sony's Ownership advantages are vast, and certain elements of the firm should have been included in the review and will be in further revisions. Property Rights and Intangible Assets (Oa) was fairly well defined, through eight specific advantages identified: One, Aniplex, an anime production company that brings together investors and IP holders together to commission an animated production from an animation and work closely with the studio to successfully complete the commissioned production; two, the wholly owned animation studios A1 Pictures and Cloverworks, who animate productions based on original, internally developed IP as well as IP licensed from external rights holders; three, Funimation, the second largest digital distribution platform for Anime in North America that also localizes anime through English voice dubbing & English subtitles; four, the European & oceanic streaming services, which provides Sony with even greater global localization & distribution; Five, is the agglomerative economics of animation production, which gives Sony, through Aniplex, the ability to work with an industry that is firmly established in the Tokyo Metropolitan area, allowing Sony's subsidiary companies to work in close proximity with IP holders and animation studios, which may spur even more innovative entertainment stories and concepts to emerge through knowledge spillovers; six, the historically low labor costs associated with animation production are an advantage relative to the cost of developing similar productions with the same level of skill in other countries, where the cost is either prohibitively high, or the animators are not technically skilled enough to animate at the quality threshold necessary to produce a competitive product; seven, is the PlayStation console and the PlayStation Network digital distribution platform, which brings up a Sony exclusive marketplace straight into the homes of users, through which users can purchase and subscribe to a number digital products and services that are provided Sony. Sony also receives a percentage of the revenue for being the platform the app or software was purchased from; and the eighth, the asset ownership advantage of Japanese IP owners, whom Sony has extensive partnerships and alliances with through Aniplex, Cloverworks, A1 pictures, Funimation, and Sony Interactive Entertainment. Specific areas of Oa advantages that could use greater attention are the Japanese publishers, the European & Oceanic streaming acquisitions, and the evolution and development of Sony as a software publisher as the PlayStation became a larger piece of the firm's revenue generation strategy.

In terms of complementary and cost transaction minimizing (Ot) advantages, those identified so far are: one, the production committee system, a committee made up of investors and IP holders to spread risk in the development of animated productions and increase the rate at which productions can be initiated. The second Ot advantage identified is the interfirm synergy that occurs through the production process with Sony productions, particularly when they are produced by Aniplex, animated by a Sony owned studio, with music produced by SMEJ, and distributed digitally on a Sony owned platform. A greater pool of case studies regarding interfirm and intrafirm business transactions needs to be assessed, and an analysis of the connections between these firms is needed to come to a greater understanding of the extent of how advantageous this synergy and these relationships are.

The institutional (Oi) assets identified were one, the internal drive of the CEO Akio Morita to move into the content business and develop the hardware to play that content. This can be exemplified through both the development of international technical standards and Morita's personal drive to make content a central focus of Sony's business portfolio, with the eventual goal of synergizing the 'Hardware' and 'Software' aspects of the firm together. The second Oi identified is the U.S-Japan Digital Trade Agreement, which establishes the free flow of data between the two countries and is a crucial piece of international agreements for the any global digital platform that needs to transfer large amounts of data cross-border constantly through the course of daily business transactions. Greater attention in this section needs to be given to decisions made by later CEOs like Nobuyoki Idei and Kaz Hirai, to capitalize on Sony's IP holdings and the PlayStation brand that helped the firm climb into the profitable position it is in today. The specific advantages that the Japan-U.S. Digital Trade Agreement provides Sony also need greater attention.

There are four locational advantages in the host country that are currently identified, which are the long-term presence of Sony in the country prior to its acquisition of Crunchyroll, the political and legal system of the United States, and the telecommunications infrastructure of the United States. While examples of Sony's most notable examples of their participation within the political and legal arenas of the U.S., this section requires the most attention to continued analysis with case studies that are more closely related temporally and topically to Sony's acquisition.

The last section of the analysis looks at the advantages of internalization that Sony gains from acquiring Crunchyroll, which looks at how these advantages makes it more worthwhile for Sony to acquire Crunchyroll outright, in lieu of licensing content to Crunchyroll through Funimation and Aniplex, and focused primarily on the video distribution technology structure acquired through the Crunchyroll purchase, and the potential for Sony to expand it to a larger streaming platform with vast library of music and audiovisual content. It also looks at Sony's movement in the context of its main, well-known competitors, Netflix and Amazon Prime Video, plus smaller competitors that also compete in the market, which looks to be developing into some form of oligopoly. Here the connections competitors have with Japanese holders IP holders and animation studios is an important aspect of the analysis to grasp, as it is also connected to the complex relationships Sony has with those same rights holders, a number of whom are private Japanese publishing firms. The animated content produced by Sony owned studios Cloverworks and A-1 only account for around a fraction of the content distributed by both Crunchyroll & Funimation. These IP holders all operate differently due to their organizational structures, and there seems to be a distinct lack of English language resources concerning firms whose exclusive intellectual property is highly sought after to exploit through animated content and related industries.