

[研究ノート]

The Power of 20 Trillion Yen - the Anatomy of the Pachinko Industry

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Japan's GNP is now over 400 trillion yen and boasts of being the second largest in the world after the United States. Needless to say, one of the largest industries in Japan is that of the electronics, as we are easily reminded by the number of Japanese products both in Japan and overseas. The sales of top ten Japanese electronics companies total over 28 trillion yen, and employment by these companies reaches 390 thousand. The electronics industry is unquestionably the representative big business in Japan.

But is it as well known that there exists a leisure industry that is a match for the electronics industry? Probably, even among the Japanese, few are aware of this. Surprisingly enough, it is the pachinko industry. At this point, pachinko is a huge leisure industry, managed mostly by entrepreneurs, that has accumulated the power to challenge the sales figure of Panasonic or Hitachi. Though they are decreasing a bit these years, its sales still exceed 20 trillion yen. Its sales are equivalent to about 4% of the Japanese GNP, or a quarter of the Japanese national budget. The sales alone of the pachinko industry is much larger than some European countries' GNP such as Denmark, Norway, and Finland. There may be no other leisure industry in the world whose scale is larger than a single country's GNP.

The Japanese leisure industry itself, with its huge market - 80 trillion yen, is the most promising industry for the 21st century. What, then, is this pachinko industry that amounts to 25% of the leisure industry? The following paper is an analysis of the situation and the problems of a Japanese industry, relatively unknown for its leading position, and an examination of the direction in which the industry is headed.

The History of Pachinko

The prototype of pachinko was the American pinball machine, imported to Japan in the

beginning of the 20th century. Improvements such as the vertical design were made, and with commercialization came the system of exchanging balls won for prizes. The bottom line is to guide the balls through obstructing pins to fall into holes. When one ball falls into a hole, about ten new balls are released (the game restricts new balls to no more than fifteen at once), and the player competes to collect as many balls as possible. The game is so simple that, apart from the thrill of winning, even the inexperienced can enjoy it.

During the war pachinko was prohibited, but after the war restrictions were eased and it once again became a popular pastime. In the 1960s, since the standard of living exceeded the pre-war level, gambling pastimes such as horse racing and cycle racing gained popularity corresponding to the rise in affluence. Meanwhile, the design of pachinko was improved drastically, resulting in a parallel rise in popularity. In the 1970's, electronic pachinko was invented. With this development, pachinko gained an entrenched position in the leisure industry. With the 1980s came digital pachinko "fever". The appearance and spread of the "fever" created an unprecedented boom in the leisure industry, leading to today's sizable market share, 20 trillion yen.

As a result of the "fever", there was a rush to open new pachinko parlors, with an increase between 1981 and 1991 of about 80 percent. The "fever" sparked by the electronic technology changed the pachinko industry drastically. In fact, it could be said that the appearance of this enthusiasm was the equivalent of an industrial revolution in the pachinko industry.

Thus, the "fever" is for the mechanism itself, a reflection of the representative change in Japanese industrial structure. The enthusiasm is not only for the mere game, but for the essence of Japanese high technology such as ROM (the "brain" of pachinko, - the microprocessor that controls the machine), IC for sound effects, LED for the colorful display, LCD and so on. Considering the high level of electricity used in pachinko machines, the close relationship between the pachinko industry and electric companies is natural. Today, pachinko machine manufacturers are one of the electric companies' best clients.

The more electronically complex the machines, the more the pachinko machine manufacturers took advantage of oligopoly. The big three manufacturers - Heiwa, Sankyo, and Sophia - accounts for nearly 70% of the entire market. These big three are not headquartered in Tokyo but in Kiryu, Gunma Prefecture, a practice different from ordinary Japanese companies. Heiwa and Sankyo successfully went public in the 1980s, and they began to join formally the business arena. Pachinko suffered from a bad image for a long time such that it was almost unthinkable to offer stocks on the public market. However, behind the scene, huge sales affected the industry.

For example, in 1999 the sales of Heiwa alone exceeded 80 billion yen.

But ironically, the electronic developments changed pachinko players' tastes drastically, and the more elaborate the electronic design, the shorter the life of the pachinko machine. People became addicted to playing the newer and more exciting machines. Today, the life of a machine is said to be only three months, leading to severe competition in R & D among the pachinko machine manufacturers. As a matter of fact, pachinko machine companies usually invest over 10% of their enormous profit in R & D. Therefore, we can see that pachinko machine manufacturers develop technology just like other Japanese high-tech manufacturers do and, as a result, operate in the highly competitive world in which the difference in technology directly affects sales. This constant R & D as well as healthy sales have helped assure the success of two companies going public. However, although pachinko machine companies have managed to offer stocks on the public market, this option is still far from being certain for pachinko parlors.

The Reason for Pachinko's Great Popularity

In Japan, unlike in Europe and the United States, it is difficult to take long leaves from work. Furthermore, most people take their vacations at the same time, such as mid-August and late December, crowding the resorts. With such limitations on long leaves, even if the time frame is limited, more accessible leisure is welcomed. The reason for the tremendous popularity of pachinko is closely related to the Japanese holiday system. More regular leisure time finally became a reality in the 70s once the confusion of the war had completely settled. This historical background is not without significance. As affluence increased, so too, proportionately, did the importance of knowing how to take advantage of the new perks, but most people were at a loss. For these people, pachinko was an easy leisure solution.

Today the key words governing Japanese choice of leisure activities are "cheap", "nearby", and "short" (in terms of time span). Pachinko nicely fits these three requirements. Undeniably, pachinko has offered a haven for those who cannot take a long leave or even those who have the vacation time but do not know how to use it. Actually, over the New Year holidays, I found quite a few people standing in line at pachinko parlors before opening time.

Another reason for pachinko's popularity may be rooted in the Japanese word, "dou". "Dou" literally means "road" or "way" and is well-known in words like judo, karatedo, aikido, or chado. From medieval times, Japanese people have been very good at acquiring skills through simple rules, using simple tools or not tools at all. I think the reason for the popularity of golf

and skiing in Japan also derives from this spirit of "dou".

Pachinko is a very simple game; the only goal is to put more balls in the hole. The more simplified the game, the more skill it requires. Many Japanese are happy to support this characteristic. In the past, some companies have tried to export pachinko machines but to no avail. There is the technical issue of pin adjustment, but more than that, a lack of spirit seemed to hinder pachinko from taking root overseas.

The Statistics on Pachinko Parlor Management

In Japan, there are about 16,000 pachinko parlors vying with stiff competition. The Leisure Development Center estimates the number of pachinko fans at 20 million, equal to one sixth of the Japanese population. As pachinko is prohibited under 18 years of age, the adult population with access to pachinko is 90 million. Thus, the number of pachinko fans is about 20% of the adult population. However, fans who regular visit the parlors number no more than 6 million, (according to research by the Japan-Korea Economic Research Center). Over 16,000 pachinko parlors are competing for their share of this market. Given that 20 million people are spending 20 trillion yen, the annual expenditure per capita is one million yen, although the actual expenditure of regular players may be higher.

Pachinko is no longer a quick and easy pastime at these rates; rather, it is nothing more than a gambling opportunity for people to spend more money. This means that pachinko tends to become a specialization for the maniac player. Specialization and the rise in costs have deterred ordinary people from going to the parlors. This is the first management problem.

The second problem is staffing. Working for a pachinko parlor is very tough. Naturally, members of the younger generation trying to avoid hard work do not want to enter this industry. Opening newspapers, you will see many kinds of help-wanted advertisements for pachinko parlors; the industry is that shorthanded. When the industry finds itself in this situation, it employs workers at high wages and, consequently, labor costs rise. The shortage of manpower and subsequent increase in labor costs are presently a serious problem of the pachinko industry.

Third, the emerging "fever" resulted in radical changes in the pachinko industry, as pointed out before. It has revolutionized this industry in term of profit rate. The ratio of profit to investment has skyrocketed, exceeding 20% by the early 80s and allowing invested capital to be withdrawn after only five years, a feat unthinkable by far in other industries. But ironically, industry leaders strongly encouraged the efforts of entrepreneurs, and competition became more

intense. This is the background of new machines being supplied one after another to parlors and the high rate of investment by pachinko machine manufacturers. Pachinko parlors strongly push the manufacturers to develop new machines so that they might expand their market share.

Today, the pachinko industry is fading a little, although it used to be called "the industry of no sunset". In addition to the labor shortage and consequential labor costs, it struggles internally with severe competition. Therefore, if they take a wrong step, many parlors will go bankrupt.

The Structure of Pachinko Parlors and the Problem Therein

The Entertainment and Amusement Trade Act, Article 23 states that, "Those who run a pachinko parlor are prohibited from the following: 1) offering cash or securities as prizes and 2) buying the prizes offered to players." The act thus prohibits a cash exchange for prizes obtained by winning balls. But the article has already become a dead letter. In fact, cashing in is rampant. In Japan, this kind of nominal law is called "a bamboo basket law" or a law full of loopholes.

In principle, players are supposed to exchange balls for various prizes offered by the parlor. But actually, most players do not exchange the balls for prizes. Instead, they cash in the balls. Pachinko parlors will hand some token to the player in exchange for the balls. The token can be a ballpoint pen or a lighter which players take to an exchanger located near the parlor to cash in. One of the main reasons people are crazy about pachinko is this ability to cash in. In other words, pachinko is nothing but an easy gamble. Thus, pachinko involves an illegal procedure. It is a surprising fact that, in Japan, an industry second only to the automobile industry is based upon illegal activities. The authorities have ignored this fact for a long time.

In illegal activities in both the East and the West, it is not unusual for organized crime to intervene. Boryokudan, or the Japanese Mafia, is actively involved here in the process of cashing in which has become their main source of funds. The authorities estimate that over 1.5 billion yen flows into Mafia accounts annually in the jurisdiction of the Tokyo Metropolitan Police alone.

Moreover, another dark side of the pachinko industry is tax evasion. It is well known to be the number one tax-evading industry. Cash transactions and the avoidance of credit cards enable them to evade taxes. The amount of unpaid taxes accumulates at a rate of about 50 to 60 billion yen annually. This illegality exists at the root of the poor performance of pachinko companies going public.

Here, we have a close look at the various problems that the pachinko industry faces. In the

future, if industry members want to gain the acceptance needed in the industrial arena to be able to offer stocks on the public market, many deep-rooted problems must be cleared. I must say, the hurdle is still very high.

The direction of pachinko industry

As I have shown, the pachinko industry has made its profits based on illegal activities. Recently, however, the National Police are beginning to reconsider these illegal cashing practices. The conclusion will affect the direction of the pachinko industry. According to the letter of the law, of course, cashing will be banned, in which case many parlors will face bankruptcy. In such a mammoth industry that accounts for 4% of the Japanese GNP, if there is one bankruptcy after another the effect on the Japanese economy is unfathomable.

While the present situation is illegal, strict observance of the law will cause serious economic upheaval. The pachinko industry faces a dilemma, but the quandary is not only an internal issue; it is not too much to say that this is a world-wide problem. Since the industry accounts for 4% of the world's second largest GNP, the direction pursued will potentially affect the world economy.