

## How an Animation Production Studio Survived the Pandemic: The Case of Graphinica, Inc.

*Nao Hirasawa & Ryotaro Mihara*

*The following account has been generated through an interlocution between Ryotaro Mihara, an anthropologist, and Nao Hirasawa, the CEO of Graphinica, Inc.<sup>1</sup> Graphinica is a Tokyo-based computer graphics (CG) animation production studio. It is well recognized among the global animation community for a number of popular animated titles, including Expelled from Paradise (Seiji Mizushima, dir. 2014), Hello World (Tomohiko Ito, dir. 2019), and Netflix original Record of Ragnarok series (Masao Ookubo, dir. 2021). Hirasawa is also the founder of Arch Inc.,<sup>2</sup> an animation planning and producing company. Mihara has been conducting his fieldwork at Arch since 2018, observing their works of developing animation projects as well as participating in them, especially their attempts to expand their business scope outside Japan, as Arch's "Global Business Advisor." Leveraging this connection, Mihara interviewed Hirasawa regarding his experience in leading Graphinica in the midst of the pandemic, and discussed the implications on the future of the animation business. Hereinafter, subject "I" refers to Hirasawa and "we" refers to Graphinica, unless otherwise stated. The following account is, however, a*

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<sup>1</sup> <http://www.graphinica.com/en/>

<sup>2</sup> <https://archinc.jp/en/>

*co-authored work: Mihara wrote the English draft, as well as its Japanese translation, for Hirasawa's review, and revised the text with Hirasawa, through which Mihara enhanced his understandings on the mechanics of anime production. Hirasawa, on the other hand, also developed his thoughts through the revision by remembering relevant events in response to Mihara's comments and agreeing (and disagreeing) with Mihara's suggestions regarding how his experience should be contextualized (especially in an academic context). The authors, in this regard, produced a collaborative ethnographic account, written jointly with an anthropologist and his interlocutor (cf. Van Maanen 1988) in the context of business anthropology.*

I assumed the post as CEO of Graphinica in April 2020 by accepting the offer of its parent company Memory-Tech Holdings Inc.<sup>3</sup> Covid-19 (the novel coronavirus disease 2019 causing the pandemic) had already spread widely by that time, and a number of negative impacts on the Japanese animation (anime) business were surfacing. In addition, it was quickly evident that Graphinica had been loosely managed since long before the pandemic, accumulating several hundred million yen of deficit. This was not a small amount for a studio with approximately 300 personnel and two billion yen (17 million USD) in annual sales. In other words, Graphinica was running into double hardship: its own financial crisis and the pandemic on the top of it. Some (sarcastic) industry insiders/watchers might have thought that I was used as a “scapegoat” to mop-up this losing game that few people believed the studio could turn back (I later noticed that the offer was in fact declined by multiple other candidates before reaching me).

Overriding all such sarcasm, however, Graphinica not only survived the pandemic during my term as a CEO, but it has also moved into the black in the midst of it. How was that possible? We (Hirasawa and Mihara) believe that sharing Hirasawa's experience leading Graphinica would highlight key issues for the anime business (and creative industries in general) to the post-pandemic transformation.

It is said, generally speaking, that the pandemic has given a kick in the back to the anime business to go online, for better or worse. To be precise, in the context of anime production, “going online” is slightly different from “digitalization,” although the two concepts overlap. Digitalization, roughly speaking, refers to making anime by digital technology (against making anime on a paper-basis). This includes making assets (such as characters, props, and background arts) in CG (computer graphics) as well as digital drawing tools, editing

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<sup>3</sup> <https://hd.memory-tech.co.jp/>

scenes/sequences/special effects on computer software, and recording voices/sounds as audio files. In this regard, many stages in anime production (especially in its creative downstream) are in fact already substantially digitalized. For example, it is now likely that an anime character that appears to be hand-drawn (anime-like) is actually a CG, which is digitally developed to have a hand-drawn texture. It is said that most vehicles (such as cars and trains) appearing in current anime titles are CG and no longer hand-drawn (with a very small number of exceptions). In other words, digitalization was already an integral part of anime production since long before the pandemic – hence the impact of Covid-19 on anime’s digitalization was thus relatively small.

In fact, Graphinica has a competitive advantage in such “digital” aspects of anime production, having expertise in utilizing digital creative facilities/tools such as 3ds Max, Maya, RETAS STUDIO (Stylos), and After Effects. Graphinica’s capacity to provide its anime clients with such digital assets/services itself was not greatly affected by the pandemic.

“Going online,” on the other hand, is relevant to the broader context of anime production; that is, the way in which the involved players streamline their collaboration to deliver an anime show. This level of anime production was heavily hit by the pandemic, and was fatally challenged by its pressure to go online.

You cannot make anime alone (it is virtually impossible in many cases). You need to involve a number of players with different creative/administrative expertise and capacities in order to plan, develop, and deliver anime to the audience. Anime production in Japan takes a poly-hierarchical subcontracting structure. On the top of the pyramid (creative upstream) comes a “production committee,” a consortium of planners and funders of an anime franchise, including TV stations, publishing houses, video makers, film distributors, goods merchandisers, and ad agencies. The committee subcontracts the actual creation of anime episodes to the production studios. It is rare for a single studio to arrange the whole process of making all the anime episodes (partially because most anime studios in Japan are small- or medium-sized enterprises). Some specialized phases (such as CG development and audio recording) are subcontracted to second or third (or more) tiers of subcontractors. Under this organizational structure, individual players – such as script writers, directors, animators, background artists, engineers, composers, voice actresses/actors, and production operators – contribute their own skills to produce anime shows. The elements that make up anime scenes are split into numerous tasks (for instance, script writing, storyboard drawing, character development, editing a scene, composing back ground music, and voice recording) to be assigned to each specialist company or individual. They should be completed, gathered, and combined sequentially (for instance, you cannot go into an animating stage before completing a storyboard) as well as parallelly (for instance, different

animators have to make different scenes simultaneously), and in a timely manner (in order to meet the delivery deadline), while satisfying both the director's creative vision and the client's (production committee's) marketing expectation at the same time (cf. Winder and Dowlatabadi 2020).

Given that such a complex structure exists for every single anime title (yes it does), and that approximately 60 anime titles are aired and replaced by another 60 every three months (weekly 13 episodes per title's season) in the current anime business in Japan (which means that 60 of such structures are scrapped and built every three months, recombining the partnership of players), it is vitally important for the anime sector *not* to disrupt the flow of collaboration among the involved players. In other words, when it comes to continuing this complicated yet fast-paced shoestring operation of making anime, even the slightest discrepancy during one phase of the production process may have a butterfly-effect (or domino-effect) that collapses the whole anime project. This is exactly what happened to the Japanese anime business during the pandemic.

Unfortunately, in the case of pandemic, some critical components in the process of anime production were operated on an in-person basis. It is often said that making an anime episode is a labor-intensive process, which includes dense "off-line" interactions among players at some key milestones in the course of making anime. Storyboard, for example, is usually made by a director alone on a paper-basis (Kato et al. 2021), which in many cases requires repeated intense in-person meetings with other staff in order for its vision to be translated into specific creative tasks that can be passed onto the creative artists downstream. Animators (be it digital or hand-drawing) often work side-by-side, sharing a common workplace in an anime studio and communicating directly as necessary to prevent any deviation from the creative direction (Matsunaga 2020). When recording a scene, the voices behind each of the characters that appear in that scene are gathered in a recording booth at the same time in order to voice over the characters simultaneously.

Covid-19 has paralyzed such "off-line" collaborations by imposing physical (as well as social) distancing, from studio workplaces, meeting rooms, and recording booths. Since the anime sector was not immediately ready to turn these "off-line" production aspects into an online-basis due to the pandemic, a number of anime titles became unable to meet their original production schedule. Many of them had to delay their release dates, and some were even cancelled. This sudden deceleration (and even halt) of the anime business' aforementioned shoestring operation had obvious negative impacts on the cash flows of a number of anime studios.

Graphinica was no exception. We could not escape the financial crisis caused by the pandemic. As mentioned above, Graphinica's role in

this configuration of the anime production structure is to provide the anime creation flow with digital assets and services such as CG. In other words, our studio positions itself in the relatively downstream side of anime creation, as well as in the second tier of the subcontracting hierarchy (although we do sometimes act as a first-tier studio<sup>4</sup>). In other words, in an anime production project, we are in the position to adapt to the upper stream/level client's orders (for instance, animating a scene in CG) after they have finished their tasks (for instance, setting up storyboards and deciding which scenes need CG). The impact of the pandemic on the anime sector delayed (or cancelled) such orders due to some "off-line" phases exited in the upper stream/level of anime production. As we had to wait longer for our clients to finish their parts than the originally-agreed schedule, our facilities and human resources faced idle conditions, costing money while generating no profits. To make matters worse, these contracts in the anime sector were customarily arranged as service contracts; that is, the payment would be made only after the final product is completed and delivered to the contractee, with a pre-fixed payment (that is, one price for the final product) without any compensation for the additional time a contractee has spent placing the order. Altogether, the longer we would wait for the order to come from anime clients, the more money we would lose. A number of our clients were unable to commit to a date on which they could place their order, while some orders were delayed to what seemed forever. Graphinica's monetary losses were becoming so great that we were on the edge of considering financial support from our parent company if no changes were made, given that nobody knew when the pandemic would end.

I had to do something; especially something that could offset the earnings that Graphinica lost by the delays (and cancellations). I first turned to public aid. The Japanese government was providing subsidies to business operators in response to the pandemic, aiming to mitigate its impact on businesses. The aid helped Graphinica's financing to some extent, but it was not enough; it could only cover less than a half of the projected earnings lost by the pandemic. What eventually saved the studio was the new orders that we received from outside the anime sector – the Japanese game industry. The anime sector has often been collaborating closely with the game sector in developing the franchise of anime titles (for instance, anime character games), and the game sector itself had their own needs for CG characters/animation (for instance, character polygon and in-game animation). Utilizing my network, I cultivated the network with the game sector and succeeded in securing orders from some of its players. The digital assets that we consequently created were not aired as part of anime episodes, but were shown by the

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<sup>4</sup> The aforementioned *Expelled from Paradise*, *Hello World* and *Record of Ragnarok* are the anime titles that Graphinica created as the 1<sup>st</sup> tier subcontractor studio.

game engine as events taking place in the gaming spaces. Such works were not necessarily the ones that we were most familiar with as an anime studio, but I did not mind taking on these orders. They filled the holes in our operating schedules caused by the delays from anime clients. What was particularly helpful for our crisis was that some of our new game clients agreed to sign quasi-mandate contracts (in other words, manpower-based contracts) with us, which is rare in the anime industry. Since a contractee under quasi-mandate contract covers the cost for the time that a subcontractor (in this case we) spends in developing and providing products/services, including the latency time, we did not have to worry about idling our capacity. Through these measures, Graphinica eventually managed to survive the pandemic.

I might have been slightly far-fetched as an ordinary manager of an anime studio to aggressively rip the orders from sectors outside anime and squeeze them into the studio's production pipeline. However, in retrospect, this forcefulness turned Graphinica into the black and thus prevented the studio from getting into a predicament that required the help of our parent company during the pandemic. Graphinica remains active and still employs around 300 personnel, which I believe is one of the most important missions as a studio manager, especially during the crisis.

It is said, on the other hand, that the pandemic, and the online acceleration caused by it, was not completely bad for anime business. That "better" part of online-ization came from outside Japan – the SVOD (Subscription Video on Demand) service. As more and more people stayed home during the pandemic, video streaming platforms such as Netflix substantially increased their number of subscribers worldwide, and boosted the investment to acquire and produce film/series to be aggregated to their catalogues. The Japanese anime sector is probably one of the creative sectors in the world that has greatly benefitted from the increasing funds injected from global streaming platforms. The anime industry report issued annually by the Association of Japanese Animations, a trade association of the anime industry (AJA 2021), has in fact revealed that the sector's revenue from the overseas market (to which the overseas streaming platforms' investment into the Japanese anime sector is relevant) surpassed the one from the domestic market (to which the above-mentioned anime shows' delays and cancellations are relevant) in 2020, for the first time since 2002 (2021: 9-10). The report also showed that although the overall anime market size in 2020 shrunk by approximately 3,5% from the previous year, anime's "overseas" and "streaming" market in the same year has rather grown from the previous year by approximately 3,2% and 35,8% respectively (2021: 6-8). It could, thus, be said that, on a macro level, the online-ization has prevented anime businesses from fatally collapsing during the pandemic (cf. 2021: 8).

From the perspective of anime studios, this also meant that they now have a new group of (lucrative) clients alternative to the above-mentioned production committees. Previously, there were only production committees (consisting of Japanese players) that anime studios could make anime for, and the shows they made were only broadcasted domestically via the Japanese TV stations who were usually members of the committee. Currently, anime studios have a choice: the pandemic has enhanced the presence of global streaming platforms as alternative partners for Japanese anime production studios to produce anime episodes with, and alternative “exit” windows through which anime could reach its audiences. This window delivers anime to the global audiences directly, instantly, and simultaneously. Moreover, the production budgets provided by Netflix to anime studios for each anime title is said to be many times bigger than those of production committees.

As for Graphinica, however, this was not necessarily the case. We did work with Netflix to develop an anime title *Record of Ragnarok* (streamed in June 2021 as a Netflix original series). However, the revenue that we received for this title did not have a remarkable impact on our balance sheet – at least not enough to decisively save our above-noted financial crisis that we were facing during the pandemic. This might partially be due to the fact that we were not subcontracted directly from Netflix, but indirectly via the production committee formed in Japan for this title. It seems that Netflix’s engagement with the Japanese anime sector varies – while a limited number of anime studios in Japan were given the opportunity to be directly contracted by Netflix, being endowed with a large production budget (as well as “creative freedom”), this does not seem to happen to all anime studios in Japan. It appears that Graphinica, at least so far, seems to belong to the latter group.

In light of the above, what was the lesson of the pandemic for the future of Japanese animation? From my own experience of running an anime studio in the midst of it, the pandemic has highlighted how anime business is both vulnerable *and* rigid in its facing an external contingency. The pressure of going online has exposed the weakest links in the chain of anime production that had little redundancy against it; that is, the phases that remain to be conducted on an in-person basis. The pandemic has shown how easily the existing “collaborative” (cf. Condry 2013) flow complex of anime production can be jeopardized as a whole when such in-person phases are paralyzed, no matter how partial they may be in the whole structure. On the other hand, the pandemic has also shown how hard it is for the Japanese anime sector to turn such in-person phases into online basis. The reason for this may be because they rigidly (and obsessively) believe that those in-person phases form the core of creative quality and identity of Japanese animation. A storyboard made by a director alone (and on a paper-basis), for example, is believed to comprise the heart of the auteurship of an anime title (against more

“systematic” ways believed to be prevalent in Hollywood); animators (and other staffs) working physically together in the office, as well as voice actors/actresses recording together in a shared booth (with just one rehearsal and real recording in many cases) are assumed to be an indispensable condition to generate improvisations that will infuse unique creative breath into anime shows (that may not be achieved by, for example, recording individually, again believed to be prevalent in Hollywood). Given that such in-person phases in making anime will not return even after the pandemic, I wonder what anime has irreversibly lost, and newly gained, by this online-ization. In short, the pandemic may have transformed the anime’s identity on a deeper level than shown on screen, although I still cannot pin down what that change exactly means to anime in general.

Having discussed the identity of anime, the pandemic has also made me (re)think anime’s autonomy – the autonomy of an anime studio as well as the autonomy of the anime sector as a whole. I assume that the pandemic has encouraged (and enforced) an anime studio manager like me to think and act more independently – more flexibly in an out-of-the-box (screen?) manner in order to save your studio from liquidation. Your existing business clients (like production committees) may not give you enough jobs forever, and the trumpeted new clients for the Japanese anime sector (like Netflix) may not be as helpful as everybody claims. You may not like your subcontractor position *vis-à-vis* the production committees in Japan, but turning to Netflix might be just another subordination to global streaming platforms: it is still unclear whether global streaming platforms exist for anime or anime exists for them, or whether anime studios are choosing them for their survival or they are “triaging” anime studios for their own interest (see, for example, Mihara 2020). As a Japanese politician once said in the face of Netflix’s Japan anime representative at a symposium in which I also participated as a panelist, it seems that the Japanese anime sector still has not determined whether they are anime’s “friend or foe.” What is rather important for an anime studio’s survival is, I believe, to reach out and find the clients that fit the studio’s best capacity (like the ones in the game industry in my case), no matter how unconventional they may appear to the anime sector. Anime business’ “convention” sometimes harms you (such as the “customary” service contract), and you need to be able to bypass them whenever necessary, especially during an emergency like the pandemic. Trying to be as autonomous as possible in the anime business will become more critical for the manager of an anime studio in the post pandemic era.



Lastly, this “autonomy” issue brings us back to the identity – or definition – of anime. Given that it is anime studios that actually make anime, the idea regarding what the identity of anime should be may depend on anime studios’ business directions; that is, who they partner with, and where and how they provide their products. Does anime really have to be a 30 minutes, 13/26 episodes of narrative broadcasted weekly on TV, as production committees expect? Does anime really have to be a narrative with whatever the length and number of episodes that is streamed at once on the Internet subscription service, as Netflix expects? Can anime cease to be a narrative and become a part of the gaming experience, as some Graphinica’s new clients expected – or, more radically, may we perhaps say that today’s VR/AR/MR/metaverse are in fact animation/anime itself? The pandemic has provoked all such exciting issues to be discussed and practiced in the field of animation. As a manager of an anime production studio, I am looking forward to be fully engaged in them.

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