

The Revitalized Startup Ecosystem and Japan's Changing Business Scene

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The startup settings in Japan has gathered unprecedented momentum. According to “Japan Startup Finance Report 2018”(※1) conducted by Japan Venture Research Co., Ltd., total funding for domestic startups has continued to grow from ¥ 64.5 billion in 2012, achieving an all-time high of ¥ 388.0 billion in 2018.

One reason for this is the increase of companies and initiatives that support startups. In Tokyo there has been an increase in co-working offices and incubation centers and everyday they hold startup events. Furthermore, both national and local governments are launching startup support programs. Corporations are also joining in and making business partnerships with startups.

Is this a temporary boom? Is it the start of Japanese businesses re-establishing themselves on the world stage? To find out, let's take a closer look at the current state of startups.

■ The startup boom so far

The current uptick of activity in Japanese startups is seen locally as the “Fourth Venture Boom”. According to a report from the Ministry of Trade, Economy, and Industry (METI), the first one came in the 1970s(※2). Numerous manufacturing companies emerged and Japan's first private venture capital was born.

The second boom came in the 1980s. It marked a shift from manufacturing to tertiary service industries. Softbank is a company from this era. The third wave came in the 1990s. The worldwide demand for IT services along with the government's proactive support led many entrepreneurs to build startups.

Companies like Rakuten and DeNA lead this class.

Now, in the 2010s, the 4th boom has begun and continues today. The individuals and companies which found success in the 1990s are now providing support to today's startups which are developing a new generation of digital services across a variety of industries(※3).

■ The reason why today's Japan's startup scene is strong

Today's startup scene is reaching new heights. The main reasons are:

Reason 1 - Change in how career development are valued

Globally speaking, Japan's new business creation rate is low. This is partly because Japan's long period of economic growth created twin systems of stability - lifetime employment and promotion by seniority. When it is possible to keep a job forever while steadily climbing the ranks, people who leave a stable position but fail to create a successful business are viewed harshly. However, with economic growth slowing and lifelong employment starting to collapse, people are starting to seek careers that emphasize their personal passions or enable a better work-life balance. As a result, the new business creation rate is showing consistent growth, going from 4.6%[\(※4\)](#) in 2012 to 5.6%[\(※5\)](#) in 2016.

Now, many college students are looking to startups for internships. A METI study on career aspirations of current college students[\(※6\)](#) further shows that 2.8% wanted to start a business in 2002, but ten years later that number rose to 4.2%.

There is also an increase in people changing jobs from corporates to startups according to Business Insider Japan[\(※7\)](#). The startups are ready for them too. A March 2019 report from The Nikkei shows that the average salary at startups is exceeding that at corporates[\(※8\)](#). This can be seen as background reason for the higher levels of startup fundraising and the subsequent talent shift.

Reason 2 - Large corporations are opening their doors

As of March 2019, Japan has over 3,600 publicly traded firms[\(※9\)](#). In the manufacturing sector particularly, there are many global brands like Toyota, Sony, and Honda. It is important to note that these listed firms have over US\$4 trillion in retained earnings[\(※10\)](#), a number that is rapidly rising. This is also a period of change for corporations.

Previously they followed a philosophy of doing technical, product, and service development entirely by themselves. But in recent years, they have been opening their doors and starting to invest in or partner with startups via corporate venture capital funds and corporate accelerator programs.

Many firms see this as the right time to act. For instance, the telecommunications firm KDDI has the KDDI Ventures program which includes a CVC as well as a co-creation lab for projects with startups. Another example is the consulting company NTT Data, whose global pitch contests have become popular among startups.

Foreign corporations are also actively seeking to make better ties with Japanese startups. Amazon Web Services Japan opened up the AWS Loft Tokyo co-working space and is holding events like “AWS Startup Day Tokyo”. Also, in May 2018, Philips Japan announced “Philips Health Works”([※11](#)), a global health tech accelerator. Additionally, Philips Japan, in full partnership with Tohoku University, established the Philips Co-Creation Center for advancing collaborations with other companies([※12](#)).

Reason 3 - National and local governments are proactively supporting startups

According to a JETRO survey regarding Japan’s business environment([※13](#)) given to foreign companies operating in Japan, 40% of respondents felt that conditions are improving. In particular, they identified improvements in the corporate tax, regulatory improvements, and immigration reforms. Specific comments included “the government is executing policies to spur innovation” and “support for foreign companies is being strengthened”. This is actually tied to the increase of government-run startup support programs.

Outside of Tokyo as well, local governments are doing their part. Osaka City brought in the global pitch contest “Get IN THE RING”([※14](#)), Fukuoka City is designated as a national strategic zone for the purpose of supporting startups, and Kobe City has teamed up with global seed fund 500 Startups to run an accelerator.

The startup ecosystem is rapidly strengthening due to the increase in people who want to work for startups, the growth of funding and business opportunities with corporates, and the expansive support of startups from national and local governments.

■ The benefits of entering Japan for foreign startups

So far we have been looking at the rapid expansion of a startup friendly environment in Japan. But how does Japan measure up for foreign startups considering global expansion? Many foreign startups are hesitant to enter the market due to the language barrier and high costs of goods, but Japan is becoming known as a country which has a lot to offer startups looking to grow.

Here are reasons for foreign startups to enter Japan.

1 - A market that is #3 in worldwide GDP

The corporates which sustain Japan's GDP are now opening their doors to startups which makes for an attractive opportunity for foreign companies as well. According to a recent study([※15](#)), the size of the Japanese market as well as the purchasing power of its consumers were the top two reasons to enter.

2 - Compared to other advanced startup nations, the business cost is low

According to JETRO's corporate establishment guide([※16](#)), the cost of rent at an in-demand area like Tokyo Station's Marunouchi is still cheaper than equivalent rent in New York, London, or Hong Kong. Executive salaries outside of manufacturing are estimated to be a third of the size to those in San Francisco or New York.

Even better is the fact that there are few cities which attract as many global firms in one place which means it is possible to meet and network with all the relevant stakeholders in Tokyo. Of the 500 companies listed in 2018's Fortune Global 500([※17](#)), 52 are Japanese, good for third place behind America and China. Many of those firms put their headquarters in Tokyo.

In a 2012 survey of manufacturing businesses, 60.5% of respondents cited Tokyo's accessibility as the top reason to set up a business there([※18](#)).

Outside of Tokyo, it is not uncommon to find many large corporations and other established companies which can be tapped on for market expansion. Over half of the listed companies on Japan's stock exchange are located outside of Tokyo and

over 90% of the nation's 33,000 businesses over 100 years old are operating outside of the capita([※19](#))l.

■The reason for expanding into Japan

The defining characteristic of a startup scene varies from country to country. In Singapore it is the government's leadership, in Israel it is the army's research and development, while in China it is the consumer base that drives opportunity. In Japan's case, large corporations are creating new value for startups.

Foreign startups often wait until after they have scaled up before entering Japan. But now is a good time to enter Japan because there are more and more examples of the government along with corporations making business partnerships that enable startups to expand their business. Healthcare, robotics, and automotive mobility get a particularly strong focus.

Startups that are related to issues like falling birthrate, ageing population, shrinking population, or depopulation of rural areas, will find opportunities in Japan.

Advanced nations will have to deal with these problems soon, but Japan is already facing them now. Accordingly, the Growth Strategy 2018 by Japan government ([※20](#)) calls for Japan to lead the world by making innovative models that address such issues a reality.

JETRO offers full support for complex procedures like establishing local offices in Japan. In fact, the startup visa - currently only available in part of Japan - is expected to expand more widely. Using JETRO to find corporate partners to assist with localizing of goods and services or expanding the market means you can lower the hurdle of entering Japan.

As not every corporate is used to working with startups, the best way to find the right partner is to start reaching out to the person-in-charge of any corporate accelerator which recruits companies in both English and Japanese. Also, it makes

sense to put your office in WeWork(※21) as an efficient way of expanding your network. Similarly, it is a good idea to attend accelerator events like the ones put on by Plug and Play Japan and Venture Cafe Tokyo(※22).

Summary

Japan is experiencing a period of massive change and there are high expectations for startups from all corners. In other words, now is a perfect time for local startups as well as international startups looking to enter the Japan market. Startups that want to succeed globally should throw away the old image of Japan as being a difficult market and embrace it as a strong choice for market expansion.

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※3 Examples of Startup Supporters

①Taiga Matsuyama

Helped build Net Age, Inc. and later served as its Representative Director

②Taizo Son

Established Yahoo!Japan and Asian Group, Inc.

③Shogo Kawada

Co-founder of DeNA

④Kotaro Chiba

Angel investor; previously Representative Director and Vice-President of Colopl, Inc.

⑤Masahiko Kato

Angel investor, founder of GMO NIKKO (formerly NIKKO)

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※5, 20 Growth Strategy 2018

https://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/miraitousi2018_zentai.pdf

※6 Small Business Administration, “2017 White Paper on Small Businesses”

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※10 Ministry of Finance, “Summary of 2017 Statistical Survey of Corporations by Fiscal Year”

<https://www.mof.go.jp/pri/reference/ssc/results/h29.pdf>

※11 <https://www.philips.co.jp/a-w/healthworks.html>

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<https://www.philips.co.jp/a-w/about/news/archive/standard/about/news/press/2018/20180626-pr-philips-tohoku-co-creation-center-unmet-needs.html>

※13, 15 JETRO Invest Japan Report 2016

https://www.jetro.go.jp/ext_images/_Invest/pdf/refer/jetro_invest_japan_report_201701jp.pdf

※14 Get in the Ring - startup pitch contest that began in Holland in 2012

<https://getinthering.co/>

※16 JETRO web site

https://www.jetro.go.jp/en/invest/setting_up/modelcase.html (accessed on 20 March 2019)

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<http://fortune.com/global500/>

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<http://www.sangyo-rodo.metro.tokyo.jp/toukei/pdf/monthly/rittikankyou.pdf>

※19 Teikoku Data Bank, Inc., “2019 Survey of the state of long-established companies”

<https://www.tdb.co.jp/report/watching/press/pdf/p190101.pdf>

※21 WeWork - Global co-working office that began in New York City

<https://www.wework.com/ja-JP/>

※22 Plug & Play Japan - The Japan branch of Plug and Play, the world’s largest accelerator VC

<http://japan.pluginandplaytechcenter.com/>

※23 Venture Cafe Tokyo - The Japan branch of Venture Cafe, an innovation support community created in Boston

<http://venturecafetokyo.org/>