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## Good news for entrepreneurs: seed investment growing in Japan



### Japan Business Seminar

Richard Solomon

Until a few years ago there was little seed capital available to Japanese Internet startups. That has changed. Increasingly, incubators are springing up to fund promising Internet entrepreneurs. They are joined by a growing number of angel investors eager to back good teams with good ideas.

Many seed investors are first-generation entrepreneurs who, having made money through the first wave of Internet startups, are now reinvesting in the second and third generations. They include seasoned investors like Digital Garage Inc.'s Joichi Ito. An early online entrepreneur, Ito built on successive successful investments in startups such as Eccosys, Infoseek Japan, LinkedIn Corp., Twitter Inc. and Path before founding Open Network Lab, a leading Tokyo incubator firm, in partnership with netprice.com Ltd. in 2010.

Other incubators born in Tokyo are Movida Japan Inc., Samurai Incubate Inc., KDDI Corp.'s Mugen Labo, SunBridge Global Ventures Inc. and B Dash Ventures Inc.

"A typical incubation company may have \$20-30 million to invest" in seed and early money, said Kazuya Minami, chief investment officer of DG Incubation Inc., part of Digital Garage group. "The biggest has \$70 million or \$100 million under management." Minami thinks there is less than \$200 million in total available for seed investment in Japan today.

A typical seed investor might inject anywhere from \$15,000 to \$150,000 of first-round seed financing into any given startup.

As more seed investors jump into the market, incubators and angels are providing investment on increasingly founder-friendly terms. "Seed investors in Japan are no longer asking for 50% of company shares," said industry commentator Ray Grieselhuber, who founded Internet startup Ginzamarkets Inc. "They're accepting convertible notes and they are no longer demanding board positions in return for a \$30,000 investment."

Grieselhuber also believes seed

investors are experimenting more and taking bigger risks. "I think that's a huge step forward and is one of the best things to have happened to the Japanese economy in the last 20 years," he said.

While business angels provide financial support and expertise, incubators are going a step further by institutionalizing the startup investment process. Incubators are creating communities of like-minded entrepreneurs, providing comfortable and often funky office space where entrepreneurs can share ideas around communal refreshment areas. In addition to fostering comradeship, incubators provide mentoring, putting entrepreneurs through accelerator programs that give participants opportunities to grow their business much the same way as in Silicon Valley. They are teaching entrepreneurs to think in global terms. And they are providing access to growth capital beyond the seed round.

One big reason for the increasing availability of seed capital is that startups cost less than they used to, thanks to the

advent of cloud computing and new software development tools. Ikuo Hiraishi, co-founder of Innovation Weekend and CEO of SunBridge Global Ventures, said: "When our generation started Internet businesses in the late 1990s, the Internet was expensive. Then, you had to buy costly servers. Nowadays — with cloud computing, social media, smartphones, the Apple App Store and Google Play — such new infrastructure has brought down dramatically the initial capital required to start a company."

For the professional investor, the falling cost of a startup means that any one business failure may not be that expensive anymore. Therefore, seed investors can take more chances in the hope of hitting a "home run."

That is good news for aspiring entrepreneurs, who are being given more opportunities to start new ventures than ever before.

*Richard Solomon publishes regular Beacon Reports at [www.beaconreports.net/](http://www.beaconreports.net/)*