



FILLMORE ADVISORY

Wednesday, July 8, 2009

Start-Ups Look Abroad For Better Business Conditions TOKYO (Nikkei)

Funding conditions for Japanese start-up firms have steadily worsened since the Livedoor Co. scandal of 2006, prompting many with promising technologies and business models to seek growth opportunities abroad.

Fillmore Advisory President Kosuke Mori went directly to U.S. investment company DCM to secure 300 million yen in operating funds.

A case in point is Fillmore Advisory Inc., a Tokyo-based company established in 2006. President Kosuke Mori went directly to U.S. investment company DCM, and was able to secure 300 million yen in operating funds. Bolstered by the capital, Fillmore is preparing to launch a YouTube-like video- and information-sharing site for investors. It had sought start-up capital from Japanese firms, but they were only willing to commit about half as much money.

Claro Inc. developed a system for taking microscopic photos of cells attacked by viruses and bacteria, and transmitting them via the Internet, but sales of the cutting-edge product began to grow steadily only three years after its release.

There was significant demand for the system enabling surgeons to perform operations based on accurate patient data at hospitals without a pathologist on staff. But the Aomori Prefecture-based firm raised only 500 million yen in start-up capital, although a U.S. firm with similar technology secured 7 billion yen around the same time.

The greater fund-raising ability enabled the U.S. rival to dominate not only the U.S. but also the Japanese markets for virtual microscopy systems. "Our system never lags in performance," Claro President Terumasa Takamatsu said.

Unless it has a fairly advanced technology, a start-up company cannot raise 500 million yen in Japan. But such a firm is able to raise 10 times as much in the U.S., according to the head of a Japanese investment firm.

Since a venture's fund-raising ability determines how quickly practical applications can be developed for its cutting-edge technology, the commercial success of a product made using the technology will also largely depend on access to capital.

FiBest Ltd., a Tokyo-based manufacturer of optical communications equipment parts, also raised some 500 million yen from U.S. venture capital firm Ignite Group, with the funds earmarked for development of parts enabling smooth high-speed data communications in a secure environment.

With U.S. companies accounting for roughly 90% of its customer base, FiBest has doubled its revenue in the last two years, with sales rising to 3.7 billion yen for the year ended December 2008.

"Almost all major U.S. IT firms were once start-ups, so they are ready to purchase good products from anyone, including a start-up company,"

FiBest Chairman Minoru Maeda said. He has given up on Japanese firms, which are reluctant to do business even with start-ups offering quality products. Meanwhile, the firm's operating focus has shifted to the U.S. and Europe.

B-Core Inc., which devised a "Color Bit Code" image recognition system, was unable to recruit enough qualified engineers in Japan immediately after its establishment in April 2006, so its management decided to launch an R&D institute in India in December the same year.

Half of the 20 engineers working at the institute are now Indian.

"We have Indian engineers working there of a caliber we cannot hope to attract in Japan," President Kunio Kando said. Amid the current slump, even more young workers are staying away from weakly financed start-ups.

Japan will require a host of start-up firms that can create new industries if it wants to sustain growth after the economy recovers, but these companies would rather operate overseas, where they can raise operating funds and recruit capable personnel more easily.

Will Japanese industry be able to arrest an exodus of promising start-ups that is depleting the ranks of future growth drivers?