

Tokyo's Startup Market Is on the Rise

A Silicon Valley-based venture capital fund sees potential in Japan's capital city.

James Riney sees a disconnect between Japan's robust financial resources and its comparatively small startup ecosystem, and his team is doing its part to encourage change in the market. Riney is the managing partner and head of 500 Startups Japan, a Silicon Valley-based venture capital firm that launched its Japan fund in 2016. At \$35 million, it is the largest 500 Startups fund anywhere outside of the United States.

"Even though it's the third largest economy in the world, the startups in Japan have been historically undercapitalized," he said. This, however, is already changing. According to Riney, in 2016, \$2 billion of capital was invested into startups in Japan. By 2017 this figure had risen to \$3 billion, and in 2018 it is likely to be even more. Compared with the U.S., where between \$70 and \$90 billion is invested into startups each year, it is still a small figure, but Tokyo can offer entrepreneurs some advantages that other world cities cannot.

One of Tokyo's biggest advantages for startups is its sheer density, Riney says. With one quarter of Japan's population (based on the latest census statistics) concentrated in the Greater Tokyo Area, companies that want to have a presence in Japan only need to penetrate the Tokyo market. Plus, the fact that virtually every major corporation has an office in Tokyo, coupled with the efficient transport system, makes taking several meetings in a single day very easy.

On the other hand, finding the best staff can be a challenge, much like other global startup markets.

"In every startup ecosystem people are complaining about talent, it's just a different set of challenges. In Silicon Valley people complain that they can't hire, but it's not because they don't know where the talent is, it's because they're really expensive and retention is hard," he said. "Whereas in Japan, you don't even know where the engineers are, so it's hard to even try to poach them. But on the other hand, salaries and other company expenditures are generally less than in the US and loyalty here is usually a lot higher."

Riney said that his firm looks at around 200 to 300 startups every month, and only decides to invest in one to two of those. So far, 500 Startups Japan has invested in nearly 40 companies involved in the SaaS field, the space field, and so on.

"We're looking for companies that are not trends, but are creating trends," he said. "We're not fortune tellers; we don't know where the next big innovation is going to come from, and we think that entrepreneurs are thinking a little more deeply about it because literally it's what they do every day. So we like to meet the best entrepreneurs in the market, figure out what they're looking at, and then judge for ourselves whether that might be a big opportunity."

There are many factors that determine whether or not a startup will eventually see success, but Riney said that one important quality is the CEO's ability to continually attract top quality talent. This, he says, is especially a challenge in Japan, where people tend to be attracted to more stable career options. But even so, he believes the startup market in Japan to be moving in a positive direction.

"There's not just one playbook for success," he said.



James Riney, managing partner and head of 500 Startups Japan, in front of an art object in his office in Tokyo.