



# **Aspiring to Start a Venture**

**ATI Student Entrepreneurship Conference**

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**Breakthrough Partners**

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# Contents

- 1. Venture Environment in Japan**
- 2. Issues and a Venture Development Mechanism in Japan**
- 3. What Should I Prepare?**

# 1. Venture Environment in Japan

## Recent Changes in Venture Environment

### Before 2000

- ◆ No proper market for IPO
- ◆ Engineers stuck to large corporations
  - Life-time employment. Strong sense of belonging to a company
  - Changing jobs was considered as a failure
- ◆ “Follow others” mentality in large companies
  - Every company develops every product
  - Maintain all businesses for the time being no matter what the performance is



### After 2000

- ◆ Introduction of Mothers, Nasdaq Japan and modification of OTC
- ◆ Started to change jobs more freely
  - Change of mind-set
  - Departure from traditional “Company first” notion
  - Actively invest in their own development
- ◆ True restructuring finally happening which creates more spin-outs and early retirement
- ◆ Stronger pressure from stock market
- ◆ Buy-out firms more active

# Recent Changes in Venture Environment

## Before 2000

- ◆ Limited risk money\* to high-tech ventures. VCs did not have skills nor intentions to help in a hands-on manner
- ◆ Difficult to leverage research results from universities
- ◆ Inexperienced and limited angel investors



## After 2000

- ◆ Foreign VCs with very hands-on style started activities in Japan (Warburg Pincus, Ignite, Techfarm)
- ◆ Some changes going on in traditional Japanese VCs
- ◆ Professors at a national university can now become a CEO or a board director of a company
- ◆ TLOs have been introduced and activated
- ◆ Systematic efforts in regional government like Fukuoka started
- ◆ Venture CEOs after successful IPOs started to invest



**Venture environment started to change since 2000**

\* Except for the time of Internet bubble

# Recent IPOs in Japan

Company name	Area	Market cap	Time to IPO
◆ Yozan	◆ Key RF technologies for IMT-2000	\$1,089 mil	10 yrs 1 mths
◆ Real Vision	◆ High performance 3D graphic engine	\$295 mil	
◆ Open Loop	◆ Security solution for wireless commerce	\$400 mil	4 yrs 6 mths
◆ ACCESS		\$478 mil	3 yrs 5 mths
◆ Cyberd	◆ Browsers for mobile phones	\$210 mil	4 yrs 4 mths
◆ IRI	◆ Content development for mobile phones	\$621 mil	2 yrs 3 mths
◆ Rakuten	◆ Internet system development	\$794 mil	3 yrs
◆ Monex Securities	◆ E-shoppoing mall	\$700 mil	3yrs 2 mths
◆ E-trade	◆ Online trading	\$713 mil	1yrs 4 mths
◆ Vector	◆ Online trading	\$324 mil	2 yrs 3 mths
	◆ Software download service		3 yrs 9 mths

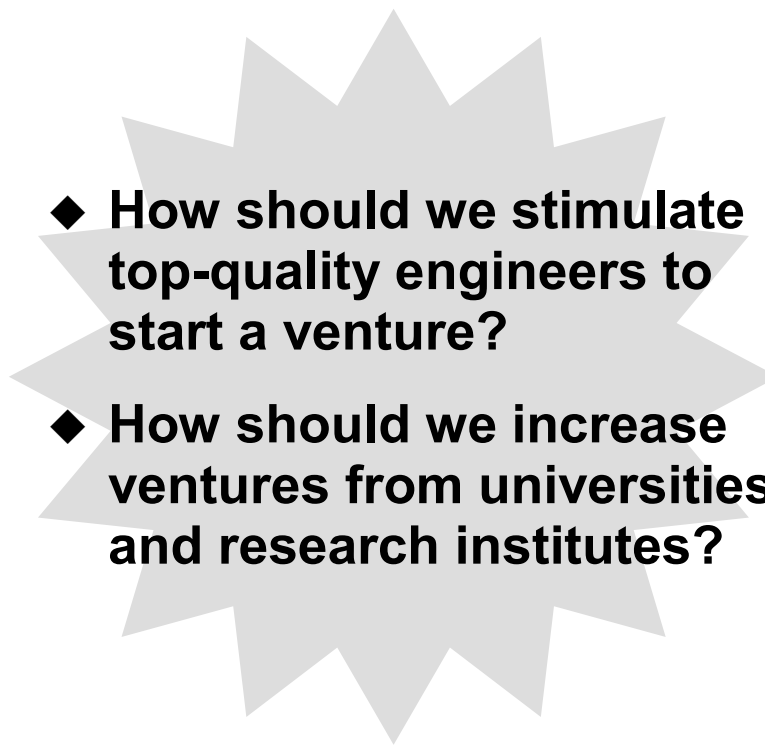


- 1. Possibly easier to do an IPO than in US. Also, company valuation seems reasonably high**
- 2. Few high-tech ventures...relatively easy to capture attention of investors**

\* As of May 14, 2001

## 2. Issues and a Venture Development Mechanism in Japan

- Limited numbers of entrepreneurs ...difficult to have strong motivation
- Many large companies started as a venture, but then quickly became bureaucratic.
- Difficult to get high returns which justify risks associated with ventures
- Difficult to leverage output from universities and research institutes

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- ◆ How should we stimulate top-quality engineers to start a venture?
  - ◆ How should we increase ventures from universities and research institutes?

# Venture Environment in Korea

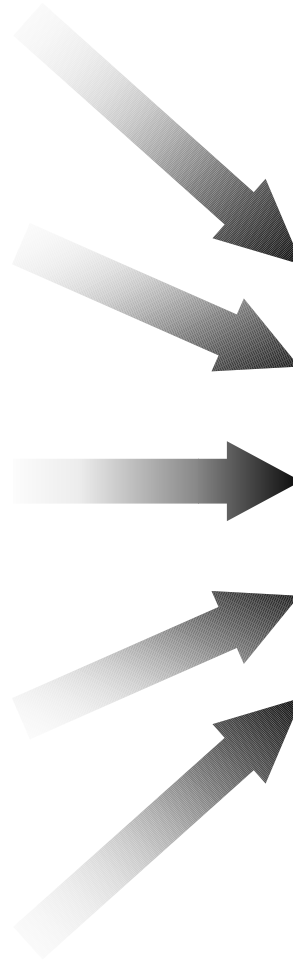
**Structural change due to economic crisis in 1997-1998**

**Strong entrepreneurship**

**Strong government support**

**Abundant investors**

**Very advanced Internet infrastructure**



**Many excellent engineers left leading companies and started ventures. Also, aggressive effort started from universities and research institutes**

# Strong Entrepreneurship in Korea

## Number of people left in 1999-2000

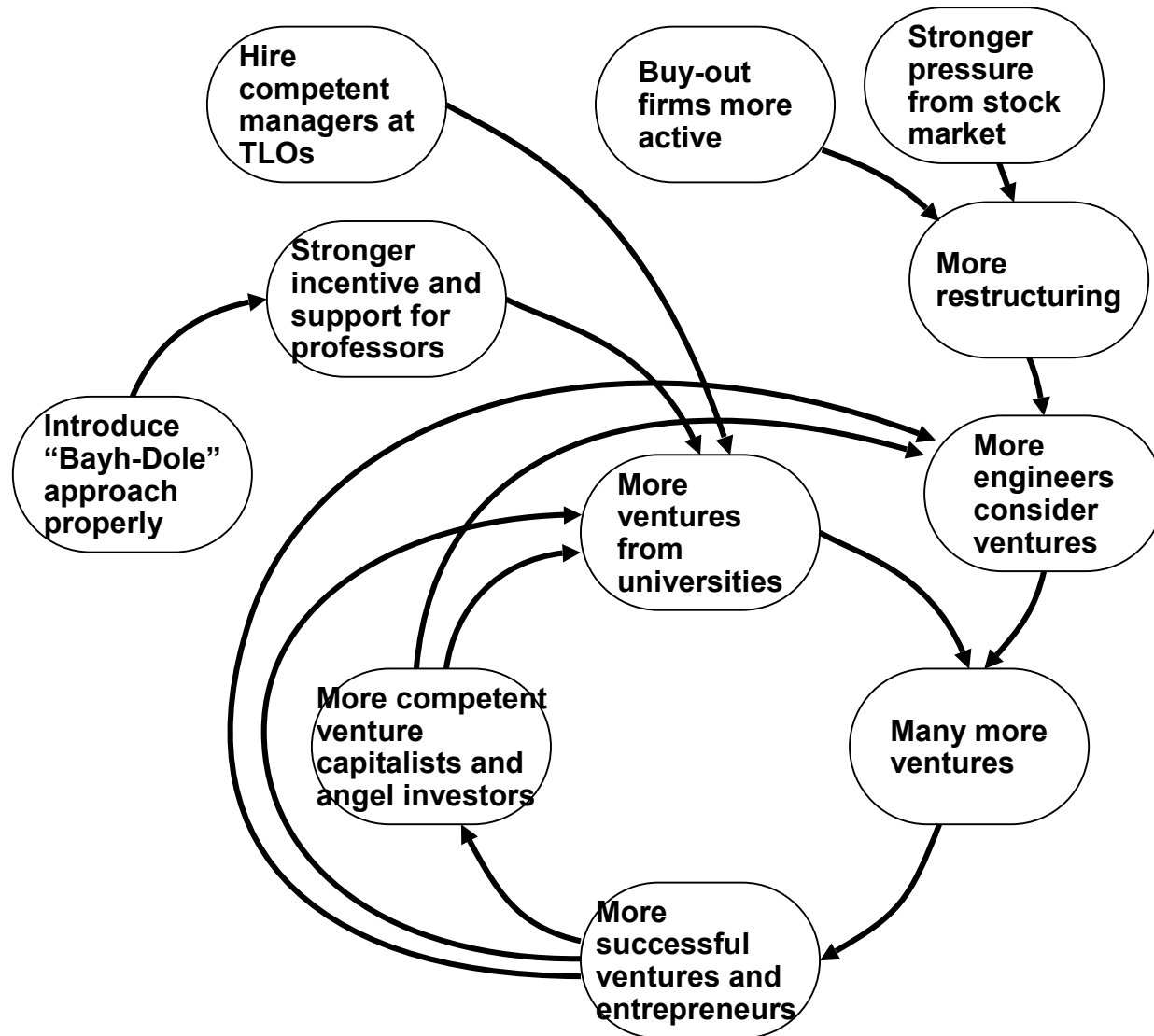
<b>Samsung SDS</b>	<b>Largest SI company in Korea</b>	<b>2,000 out of 6000</b>
<b>Samsung Research Institute</b>	<b>No.1 research institute in Korea</b>	<b>200-300 out of 700-800</b>
<b>ETRI</b>	<b>Leading research institute for telecommunication in Korea</b>	<b>500-600 out of 2500</b>

 **Many left and started ventures as a team, which helped them reach a critical mass quickly**

Source: Interview (October and November in 2000)

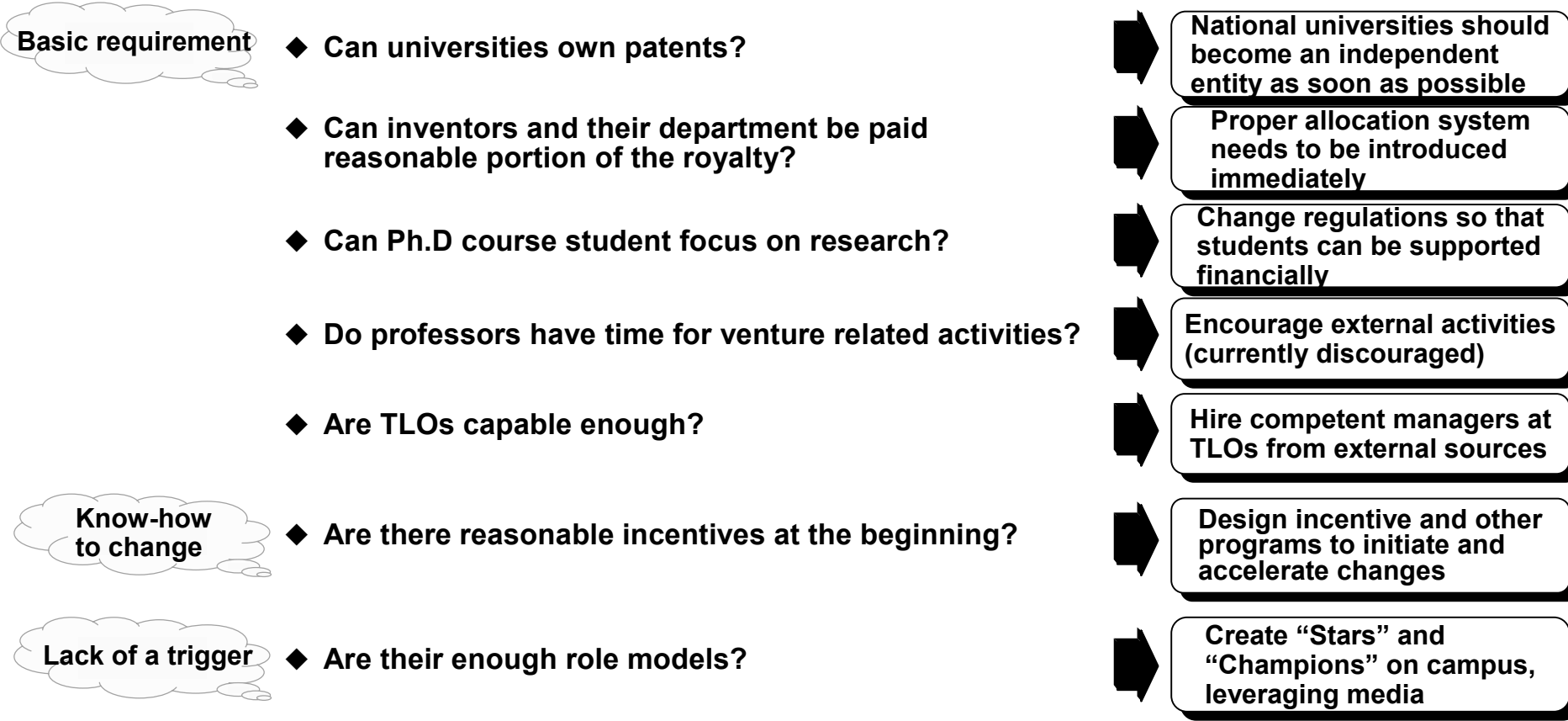


# Venture Development Mechanism in Japan



**Needs more time to expect more engineers leaving large companies. University ventures may contribute more quickly**

# True Reasons Why University Ventures are Not Successful Yet



-  **1. Basic requirement is not met yet**
- 2. Inter-ministry collaboration is critical**

\* In the case of MIT, one third of the royalty income after deducting 15% as expense will be paid to the professor who invented

# 4. What Should I Prepare?

## Typical Issues Seen at Ventures\*

### Lack of clear vision and strategy

- ◆ Core technology not reviewed properly from global competition point of view
- ◆ Insufficient differentiation. Lack of clear revenue model
- ◆ Too much dependence on other entities

### Weak management team

- ◆ Lack of management perspective
- ◆ Lack of top-quality people especially with logical and strategic thinking who can communicate clearly
- ◆ Dominated by Japanese and tends to lack global perspective and required aggressiveness

### Limited utilization of outside support

- ◆ Not familiar with venture capitals, angel investors and other external resources
- ◆ Not good at utilizing external board directors and advisory board members

\* Interview results with various venture capitalists and entrepreneurs in 2000-2001

# Action Needed to Start a Venture

## Action

**Develop a clear vision and strategy**

- ◆ **Develop a specific plan in a few pages with a clear image of product and revenue model. If there would be unknown factors, then develop scenarios for a several cases (often ignored)**
  - **Source of competitiveness**
  - **Specific product image (Customer needs, Target market, Competition, Product description)**
  - **How to secure revenue and increase profitability**
  - **How to utilize outside resources effectively instead of doing everything internally**
- ◆ **Create a group of entrepreneurs and challenge each other’s vision and strategy. Much easier and productive to do this way instead of trying individually (Needs to be done every three month)**
- ◆ **Create a series of opportunities to get to know entrepreneurs in other countries**

# Action Needed to Start a Venture

## Action

**Recruit a strong team first**

- ◆ Look for a co-founder who can share vision and value system
- ◆ Look for an international team of management and engineers to be robust and dynamic
- ◆ Look for people with working experience in foreign companies

**Actively approach venture capitals and angel investors**

- ◆ Look for a venture capitalist or an angel investors with strong problem solving capability
- ◆ Actively contact respectable entrepreneurs and share your vision and strategy
- ◆ Actively participate in angel investors forum, etc.

 **All points are doable. Required level is not lower just because the CEO is a student**

 **VCs are seriously looking for high-potential ventures even now**