

## Why Australian tech-startups should consider Japan for their business expansion?

*Touching upon various nuances to think about the Japanese market*

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### Abstract:

*Japan can offer promising business expansion opportunities for Australian technologically focused startups. While the developed country can be an attractive and potentially rewarding destination, it does not come without its cultural and regulatory challenges, which are at times underestimated. Although for the short term, in-market travel from Australia may not be feasible due to Covid-19, it can be worthwhile for Australian startups to get to the drawing board and educate themselves through a variety of resources to evaluate if Japan has the potential to be their next growth market.*

*Industrial Growth Platform, Inc. (IGPI) is Japan's premium strategy & M&A advisory firm with an APAC wide coverage, including Australia. This makes it well-established in providing knowledge, networks, and guided business consulting services to Australian startups for their Japan market ambitions. Using its experience from over 10 industries, IGPI can provide sincere advisory and consulting support on the Japanese market to ensure appropriate decision-making (go/no-go) and help mitigate cross-border risks. Furthermore, the tech entrepreneurs can be introduced to apt and established Japanese conglomerates, which can potentially provide the necessary local know-how, proof-of-concept (POC) opportunities, and financial capital to be successful in the Japanese market and beyond.*

### What makes Japan an interesting market to consider?

As we are aware, Japan is the world's third-largest economy with a GDP of ~US\$ 5 trillion<sup>1</sup>. The country boasts a highly industrialized market economy with a progressive per-capita income and a well-educated workforce. After World War II, Japan's economy grew rapidly and stably. As a result, Japan achieved a high employment rate among developed countries and established a relatively equal class structure. It thus comes as no surprise that the Japanese have a preference for premium high-quality goods, services, and overall high quality of living.

The Japanese market differentiates itself from many other global markets by prioritizing quality and innovation. Japan has consistently been ranked in the top three for investment in research & development globally, spending over 3.0% of its annual GDP on R&D. For every 1,000 employees in Japan, 10 are research professionals engaged in the conception or creation of new knowledge, products, processes, methods, and systems<sup>2</sup>. Japan was the third-highest patent-holding country globally in 2018 and in the same year announced more than 1,000 offshore acquisitions totaling a record \$191 billion (\$26 billion of that total was investment into Australia)<sup>3</sup>.

Built on strong foundations of innovation, Japan is the birthplace of mega-corporations in the world, which are well-diversified across sectors. They have a strong global orientation and willingness to invest in sustainable, long-term products and services. In fact, as per modelling by Australian and Japanese Economic Intelligence Institute shows that Japan's FDI into Australia by 2019 had reached \$116 billion. In addition, the Japanese portfolio investment into Australia in 2019 was \$90 billion, twelve times that from China.<sup>4</sup>

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<sup>1</sup> World Bank (2021)

<sup>2</sup> Japan External Trade Organization (JETRO)

<sup>3</sup> Austrade – Australian Trade and Investment Commission

<sup>4</sup> Japan External Trade Organization (JETRO) Australia

Furthermore, with Japanese companies in possession of more than \$890 billion in cash (2019), the scale of investment is likely to continue<sup>5</sup> (one can imagine that the number would still be sizable despite the impact of Covid-19).

Having said that, the Japanese economy is facing several issues particularly in the Energy, Agriculture, Healthcare etc. (as explained in the table below). Therefore, Australian startups that can provide solutions to the country's social, economic, and environmental challenges will be able to tap into new and attractive market opportunities, especially by leveraging any form of Japanese consulting support. From an Australian business's perspective, the strong bilateral ties between Japan and Australia will give more reasons to consider such market opportunities closely.

To corroborate further, at a 20,000ft view since this article is not intended to be sector-specific, below are some high-level themes (non-exhaustive) across select sectors that offers an abundance of opportunity areas:

Sector (e.g.)	Issues (e.g.)	Supporting description
Agriculture	Ageing population and decreasing rural population leading to labour/farmer shortages	<ul style="list-style-type: none"> <li>Japan has the highest percentage of population above 65 years old of any country, with 28.4% as of 2020<sup>6</sup></li> <li>Japan's proportion of population in rural areas has decreased drastically from 21.4% in 2000, to 8.3% in 2019<sup>4</sup></li> </ul>
	Food security concerns with a heavy reliance on food imports	<ul style="list-style-type: none"> <li>In 2019, Japan imported 63% of its food (given the disruption of global supply chains during COVID-19, this creates further food uncertainty)<sup>7</sup></li> <li>The Japanese government have stated a calorie-based self-sufficiency target of 45% by 2030<sup>5</sup></li> </ul>
	High usage levels of fertiliser and pesticide impacting sustainability	<ul style="list-style-type: none"> <li>The environmental load from agriculture in Japan (253.7 kg/ha arable land) remains above the world average (136.8 kg/ha arable land)<sup>4</sup></li> <li>Despite declining levels in the early 2000s, Japan still has some of the highest levels of fertiliser use in the OECD<sup>8</sup></li> </ul>
Energy	Slow progression towards achieving net-zero emissions	<ul style="list-style-type: none"> <li>Japan is the 5th highest CO<sub>2</sub> emitting country and approximately 70% of its power in 2019 was produced using fossil fuels<sup>9</sup></li> <li>Prime Minister (Yoshihide Suga) has pledged net carbon neutrality by 2050<sup>10</sup></li> </ul>
	Previous natural disasters have increased the nations reliance on fossil fuels	<ul style="list-style-type: none"> <li>Prior to the earthquakes in 2011, Japan relied on nuclear energy for 30% of the country's electricity (3% in 2020)<sup>11</sup></li> <li>Nuclear power plant closure post-earthquakes have been replaced by coal which has further increased emissions<sup>9</sup></li> </ul>
	Increasing demand from Japanese corporates for renewable energy	<ul style="list-style-type: none"> <li>40 major Japanese companies have pledged to source 100% renewable energy<sup>12</sup></li> <li>Companies such as Sony Corp have indicated relocation away from Japan if it is unable to provide clean energy<sup>10</sup></li> </ul>
Healthcare	Foreseeable burden in current and future healthcare System	<ul style="list-style-type: none"> <li>In 2019, Japan's number of doctors per 1000 population was 2.4 while OECD average is 3.5<sup>6</sup></li> <li>The average length of stay in the hospital, 17.2 days, is the longest in the OECD<sup>6</sup></li> </ul>
	Fiscal pressure due to ageing population and chronic diseases	<ul style="list-style-type: none"> <li>Japan's health expenditure reached 10.9% of GDP in 2018 and is projected to reach 12.1% by 2030<sup>6</sup></li> <li>Japan's demand for long-term home care workers is increasing<sup>6</sup></li> </ul>
	Mental wellbeing is an urgent matter especially due to Covid-19	<ul style="list-style-type: none"> <li>The suicide rate in Japan remains high compared to other OECD countries (6th highest amongst OECD countries in 2019)<sup>6</sup></li> </ul>

<sup>5</sup> Bloomberg Quint (2019)

<sup>6</sup> World Bank (2020)

<sup>7</sup> Japan Times (2020)

<sup>8</sup> OECD Library (2020)

<sup>9</sup> U.S. Energy Information Administration (2019)

<sup>10</sup> The Guardian 2020

<sup>11</sup> Federation of Electric Companies of Japan (2020)

<sup>12</sup> Bloomberg (2020)

		<ul style="list-style-type: none"> <li>• Suicide rate soared in 2020 due to COVID-19. Total number of suicide accounts for 20,919 while total fatalities due to COVID-19 is just around 2,000<sup>13</sup></li> </ul>
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Many more themes/opportunities exist in other segments too e.g., finance, smart cities, mobility, space, and more. The opportunities vary across B2B, B2B2C, and B2C segments. It is noteworthy to mention that Japan has lagged in its total number of entrepreneurs due to the perceived lack of job stability. In 2018, the number of entrepreneurs preparing to start their business, and entrepreneurs that had been around for less than 3.5 years equated to 5.3 people for every 1000<sup>14</sup>. All the above coupled together may yield opportunities for Australian startups to capitalize upon.

### How do typical Australian startups commence their Japanese expansion plans and how can the Government provide assistance?

Every startup is in its own unique situation, so their market journey can vary. But below are some of the ways startups approach the Japanese market:

- There are **several accelerator programs which help provide appropriate cross-cultural training and educational resources** for Australian startups. One example is the **Startup Boot Camp (SBC) program – it is a global family of industry-focused programs** that support early-stage tech founders globally expand their companies. These programs provide direct access to an international network of the most relevant mentors, partners, and investors with useful financial capital and influential marketing resources.<sup>15</sup> In particular, the *Startupbootcamp Scale Osaka program* is the specific program which is hosted in Japan.
- Several proven/mature startups usually use a variety of resources for their strategy planning. These include initial knowledge build-up, approaching **both Australian and Japanese Govt.** bodies for initial advice and **engaging industry experts and consultants** for consulting support to scratch beyond the surface, and custom hands-on-support to make their dent in Japan.

Also, Australia and Japan have a bilateral trade agreement and are both member countries of the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership*.

- The **Japan External Trade Organization (JETRO) is a Japanese government organization that provides free business consulting support services to companies expanding to Japan.** With the support of JETRO's dedicated staff, companies can incorporate their business; receive Visa, immigration, and HR support; find dedicated office space; identify local government subsidies; get tailored market studies; and more.<sup>16</sup>
- As the Australian government values entrepreneurs that seek to enhance Australia's international reputation, there are often **grants/financial assistance that is made available to Australian businesses** to further help strengthen international ties between the two nations (e.g. *Australia Japan Foundation Grant Program*).<sup>17</sup> Subject to eligibility and aptness, such grants can prove beneficial to Australian business contributing to the Japan-Australia relations.

### What are the key challenges that Australian businesses need to be aware of in IGPI's view and experience?

1. **Many Australian businesses underestimate the cultural differences between the two economies.** Among Japanese corporations, the English language is not widely spoken in business and government environments, except for trading partners who regularly work with their given international ties. More often than not, meetings that are in English are rare, making an interpreter a necessity. Furthermore, the country has a number of social norms, practices, and procedures that differ from the inherent customs of Australia. As Japan is largely a homogenous country while Australia is very multicultural, it can be

<sup>13</sup> Cable News Network (CNN)

<sup>14</sup> Australia Japan Business Co-operation Committee (2019)

<sup>15</sup> Startupbootcamp (2021)

<sup>16</sup> Japan External Trade Organization (JETRO) Australia

<sup>17</sup> Australian Government (2020)

difficult for people from both sides to understand the nuances of each other's culture. However, taking steps to understand and appreciate the differences can prove very beneficial to commence and nurture a journey based on trust and mutual respect. Although the internet is flooded with resources on this (deep) topic, a good and highly recommended starting point is an online publication - "[A Guide to Bridging the Cultural Divide](#)" The Australia Japan Business Co-Operation Committee (AJBCC) & The Japan Australia Business Co-Operation Committee (JABCC).

2. **The internal decision-making processes associated with large Japanese companies can be a long and tedious process.** This is predominantly due to the systemic hierarchical decision-making processes that govern Japanese organizational structures. The Japanese people are typically detail-oriented, careful, and value 'Nemawashi' - an informal process of laying the foundations for a proposed change or project by talking to the people concerned so as to gather support and feedback. Additionally, it is also due to the risk averseness in the Japanese culture that typically, Japanese executives will have to consult a number of individuals before concluding on a solution. Australian startups must be prepared to wait long periods of time for final decisions to be made and executed.
3. **Japanese laws and regulations are known to be more strict and conservative in comparison to Australia.** As a result, it can be challenging to overcome or work around regulatory hurdles associated with operating in Japan. For example, Japanese employees are strongly protected by labor laws and judicial precedents. Therefore, it is more difficult to lay off workers there than it is in Australia. This is why companies are encouraged to consult and attain the support of a specialist who is well-versed in the Japanese structures before hiring staff.

In 2019, the failure rate of startups was around 90% - with 21.5% failing in the first year, 30% in the second year, 50% in the fifth year, and 70% in the tenth year.<sup>18</sup> This failure rate is only heightened when entrepreneurs seek profitability in foreign destinations. It should be noted that the aforementioned challenges are faced by *even* the largest multinational companies. For instance, the Walmart supermarket chain failed to recognize the differing purchasing habits of local Japanese consumers, e.g., their love of luxury goods and preference towards purchasing in smaller amounts (as opposed to the American habit of 'stocking up'). Therefore, *if* the big retail giants can fall victim to the nuances of the Japanese market, startups that are still growing their business and have less financial cushion to help mitigate business risk must be cautious and educated. Ultimately, **Australian businesses should 'seek to understand before they seek to be understood'**.

#### **What are examples of some Australian startups that are making inroads in the Japanese market?**

In recent years, the popularity of the Japanese market has been gaining good traction amongst Australian startups. This can be observed by seeing Japan focused accelerators who help connect Australian startups with Japanese partners; and Government led initiative such as the 2018 Japan visit by Austrade which organized a business visit for selected Australian Fintech startups to Japan (activities included briefings on Japanese government incentives, pitching opportunities to investors, and a B2B conference). Below are two examples of Australian companies that have been making in-road into the Japanese market:

**(1) B2B/B2C: Canva, an Australian unicorn, was founded in Sydney in 2012 and specializes in design and publishing through an accessible graphic-design tool.** Through extensive market research and product development initiatives, the company has been able to localize aspects of their design tool software to provide appealing templates for the typical Japanese consumers. As Georgia Vidler (Canva's Director of Product) explained - "as Japan continues to be one of our fastest growing markets, the addition of our new vertical text feature means we are one step closer to becoming the go-to platform for all project-based learning in every school in Japan".<sup>19</sup>

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<sup>18</sup> Investopedia (2020)

<sup>19</sup> PR Wire (2021)



*Pic: Canva had announced the release of vertical text that will empowers educators and students to use the language's two orientations to create strong visual impact in Canva for Education<sup>17</sup>*

**(2) B2B: iCetana is a Perth-based Australian listed startup that produces Artificial Intelligence (AI) software for automatic identification of anomalous behaviors in large video camera installations.** This startup was selected in the *Startupbootcamp Scale Osaka program (SBC)* in 2019 and grabbed the attention of Hankyu and Sakura internet between November (2019) and January (2020). [iCetana](#) considered the Japanese market as they identified issues that their solution can address. Japan is faced with a declining population and a lack of younger people wanting to be physical security guards. iCetana enables security guards to be super human and have better situational awareness of their facility.

### How can IGPI add value to the Australian startups?

Japanese companies are often looking for opportunities to collaborate and partner with foreign companies who possess technologies and innovations that can help them start a new business or encourage technological advancements constantly in Japan. IGPI has been discussing and hearing the terms “digital transformation” (DX) more than ever before amongst its wide array of Japanese clients. Having some form of business collaboration/partnership with local firms is one of the most popular/common ways to complement each other’s’ strengths and effectively enter a new market.

We understand that the Japanese market and corporations may not be easy to navigate. But in all honesty, there is also no “one size fits all” approach that will effectively address this and companies need to employ different strategies based on the unique needs and environment they are operating in. IGPI has vast experience of supporting Fortune 500s, Government agencies, SMEs, and funded startups across Asia and beyond for their strategic business needs. Some of our business consulting services include hands-on support and innovation advisory which allows us to holistically understand the nuances of market entry. Our non-exhaustive list on capabilities to assist foreign companies enter Japan includes:

- Market landscape study and strategic decision making for go/no-go
- Tailored Japan market entry strategy (organic/in-organic)
- Custom hands-on support for strategy implementation
- Identifying and matching companies with relevant partners through our established network in Japan (IGPI have direct access to relevant department / personnel in many Japanese conglomerates, trading houses and SMEs)



## About the authors

**Mr. Rachit Khosla** is the Country Manager of IGPI Australia. Rachit is a seasoned strategy consulting professional with over 12 years' experience of leading and executing market entry and growth strategy (both organic and inorganic) and open innovation engagements for Fortune 500 businesses and large MNCs across Asia Pacific. He has advised clients in a diverse range of industries including automotive, fin-tech, industrial and manufacturing, med-tech & healthcare, smart cities, construction materials, travel, IT & telecommunications to name a few. Rachit was the former Country Manager and Director for YCP Solidiance (Japanese owned) and Founder and CEO of an online B2B marketplace startup for professional advisory services focused on Emerging Markets.

**Mr. Hui Fu Chua** is an Analyst in IGPI Singapore. Hui Fu started his career with IGPI, where he performs research and data analysis to support the team in strategic planning and decision making. In IGPI, he has been involved in assignments across different sectors such as renewables, mining, agriculture, healthcare amongst many others with high focus in the Australia, Japan and Southeast Asia markets. Prior to joining IGPI, he had multiple internships in the Hospitality, Venture Capitalist and Tech-startups industries with roles revolving around Business Development and Operations Strategy.

**Ms. Julia Clarke** is an Intern at IGPI Australia (March-May 2021). Julia is currently pursuing her Master's in Management from the University of Melbourne. Prior to this, she has completed a Bachelor of Commerce, majoring in Management Studies. She has had previous work experience in the Australian banking sector – Australian and New Zealand Banking Group Limited (ANZ).

## About IGPI

Industrial Growth Platform Inc. (IGPI) is a premier Japanese business consulting firm with presence and coverage across Asian markets. IGPI was established by former members of Industrial Revitalization Corporation of Japan (IRCJ) in 2007. IRCJ, a US \$100 billion Japanese sovereign wealth fund, is known as one of the most successful turn-around fund supported by the Japanese government.

In 2017, IGPI collaborated with Japan Bank for International Cooperation (JBIC) to form JBIC IG, providing investment advisory services and supporting overseas investment. In 2019, JBIC along with BaltCap has jointly established Nordic Ninja, a €100 million venture capital fund to focus on deep tech sectors such as autonomous mobility, digital health, AR/VR/MR, artificial intelligence, robotics and IoT in the Nordic and Baltic region. In 2019, IGPI established IGPI Technology to focus in the area of science and technology. The company invests in technological ventures and provides hands-on management support. The company also provides business development support towards commercialization and monetization of technologies.

IGPI Australia is a branch office of IGPI Singapore. The latter which was established in 2013 focuses on management consulting and M&A advisory in Southeast Asia across various sectors. We act as a bridge between Japan and wider APAC, having advised on market entry strategy, potential target search, valuation, due diligence, M&A process management, post-merger integration and change management for leading Japanese clients. In addition, we have helped businesses in Southeast Asia enter Japan and acted as sell-side advisor for SMEs and private equity fund looking to divest. IGPI Australia was established in 2020 with a dual focus of helping Australian businesses enter and grow in ASEAN / Japan and attracting Japanese investments into Australia. We have since successfully help to connect multiple Australian businesses with Japanese businesses within IGPI's network.

Get in touch with us on internationalization, strategic planning and fund raising related topics!

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