

# Let's Talk Japan Event: Report

at Bennett Jones LLP, Toronto

March 26, 2018

## PANELIST BIOS

### **Eric De Groot**

**President, Icynene Asia Pacific Inc.**



Eric De Groot is President of Tokyo-based Icynene Asia Pacific Inc. He previously worked in Japan for many years including the B.C. Government's Trade and Investment Office in Kobe and B.C. Wood Specialties Group. In 2003 he joined Forbo Industries, a Swiss-based manufacturer, as Japan Country Manager of the Flooring Systems Division before joining Icynene in 2014. Established in Mississauga in 1986, Icynene helps to build energy efficient residential and commercial structures in over 31 countries worldwide. As well as direct experience managing entities in Japan, Eric has also been active in broader areas related to policy and lobbying on behalf of foreign companies in Japan having been elected to a two-year term as President of the Canadian Chamber of Commerce in Japan (CCCJ) and continuing to serve as an officer on CCCJ's Board of Governors.

### **Ron Di Carlantonio**

**Founder and CEO, iNAGO**



Ron DiCarlantonio is the CEO and founder of iNAGO, a Tokyo/Toronto-based company creating next-generation conversational digital assistants. Graduating from Mathematics and Computer Science at the University of Waterloo, Ron moved to Japan and created the cult software AQUAZONE – a virtual aquarium with artificial life. Wanting more, Ron focused on making computers more human-like. In 1998, he founded iNAGO and created netpeople, a software platform enabling humans to interact naturally with computers. In Japan, Toyota, NEC and others have used netpeople in next-generation solutions from smartphones to robots. In 2015, Ron launched netpeople in North America to power automotive and all smart devices.

### **Robert Crane**

**Corporate Development Director of Equiom (Canada)**



Robert Crane the founder of Solid Japan KK and Solid Business Solutions Hong Kong Limited and served as Managing Director of both companies prior to their integration into the Equiom Group. He provides operation oversight and guidance to Equiom's Japan office and strategic regional business development and advisory services to Equiom's Hong Kong office. Most recently he's been appointed as the Corporate Development Director of Equiom (Canada) Limited. Robert has over 16 years of experience advising multinationals and startups in Tokyo and Hong Kong. He also served as Assistant Director for the Japan External Trade Organization (JETRO) from 2001 to 2006 where he focused on inward investment into Japan, and was in charge of research and FDI promotion. He has helped many companies set up their operations in Tokyo and Hong Kong and has an excellent knowledge of the Japanese market. A former president of the Entrepreneur Association of Tokyo, Robert was a founder of Tokyo Executives LLC, a high-level private business community in Tokyo. He is a graduate of McGill University and John Abbott College.



**Moderator:** Johnny Tan, Business Development, Team Lead, JETRO Toronto

## WELCOME AND OPENING REMARKS



JETRO Toronto Executive Director Takuji Sakai explained that, over the past 15 years, JETRO has supported 735 Canadian companies to develop business in Japan and 32 to set up their operations in Japan. Many of the Japan experts from our success cases are based in Japan, so we don't have so many opportunities to connect to them here in Toronto. Therefore, we held this Let's Talk Japan event in order to hear from 3 gentlemen who have long experience of setting up and operating businesses in Japan who have recently returned to Canada.

Consul-General Takako Ito emphasized that "Japan is Back!" and that, through various government initiatives, Japan has targeted a doubling of direct investment into Japan from 17.8 trillion yen (approx. CDN 220 billion) in 2012 to 35 trillion yen (approx. CDN 431 billion) in 2020. Japan aims to attract the best foreign technology and talent to Japan in order to stimulate employment and innovation as well as to make Japan the most attractive country in the world for foreign companies to operate. Consul-General Ito cited 2 examples of Ontario companies that have recently established in Japan, TD Bank re-entering Japan's bond market and Constellation Software through a joint venture partnership.

## SUMMARY OF PANEL DISCUSSION



**Question 1:** Please provide a bit of background on your Japan experience.

**Discussion:** Eric spent 26 years in Japan working for government and Canadian and European private sector entities in Japan's building sector space; Robert participated on the JET Programme, worked 5 years at JETRO Toronto and spent over 10 years supporting foreign companies' activities in Japan as an outsource service provider; Ron went to Japan after graduating from the University of Waterloo to work as a software engineer for Sony Techtronics and then a start-up in Japan. He then created his own company, based both in Toronto and Tokyo, and raised the initial financing in Japan.

**Question 2:** What is the current trend for foreign companies setting up businesses in Japan?

**Discussion:** Robert explained that it has become much easier to set up a company in Japan over the past 10 years. Whereas before you needed a minimal capital of 10 million yen (approx. CDN 100,000), you can do so now for only 1 yen, although that is not really recommended as it doesn't look so good. More recently, with some influence from JETRO, the law has changed so that you no longer need your representative director (DaihyoTorishimariyaku) to be based in Japan. The process of setting up a business is not all that different from other countries except that the documentation needs to be in Japanese and service providers can help you with that.

Eric mentioned that the change in law with regards representative directors allowed him to return to Canada and run Icnene Asia Pacific from Canada. It reflects the reality that companies are more mobile now. Ron also pointed out that it has become easier for start-ups to be established in Japan now.

On the other hand, the panel noted that despite the changes in law, some challenges remain. For example, even though a representative director resident in Japan is technically no longer needed, banks and landlords still prefer there to be a legally responsible person in Japan. Fortunately, there are ways to overcome this challenge using a service company as an outsourced representative director.

**Question3:** How do you sustain success in Japan once you've established your business there; how do you foster those initial relationships and diversify your partners?

**Discussion:** In answer, Ron noted that, for one thing, he believes there is a misconception that Japan doesn't want to work with foreign companies and that he has never found that. In fact, being a foreign company could actually open doors. Other key factors are, firstly, to show your differentiating points and, secondly, to understand the amount of service that is important to have in Japan. I think it's obvious that you follow the same best practices you follow in any market and that is to be able to explain your product, and then secondly, service your products. You have to be there and if there is a problem you've got to fix it.

Eric agreed noting that Japanese consumers and end users certainly want foreign products and there is less so-called 'Japan-passing', where companies skipped Japan to focus on China or India after finding that these markets have their own issues. He added that if you are looking for manufacturing partners, China might be bigger in scale, but Japanese precision manufacturing and quality of manufacturing are second to none.

One key advice that Eric had for Canadian companies going into the Japanese market was to get involved in local industry associations, or if you cannot officially join as a foreign company, keep tabs on the issues they are discussing. The reason is that these associations are key players in working with the Japanese government to introduce new regulations in that industry so you can get a heads up on key regulatory changes and adapt before it is too late. Recently, Icynene received Japan JIS accreditation, the first outside manufacturer to do so in North America and only the second in the world after a company from Taiwan. The need for this is related to changes to the subsidies given by the Japanese government for household insulation. By 2020, these subsidies will only be given if consumers use JIS certified products. Icynene heard about these crucial changes to their business in Japan through the foam insulation industry association grapevine.

**Question 4:** One question that we at JETRO get a lot from foreign companies is how to find the right person to represent them in Japan, whether it is a country manager or a bilingual sales expert with tech of background. It's a big issue. Any comments?

**Discussion:** Robert agreed that human resource has always been one of the biggest challenges. For a service business like Equiom, finding good people is the key. It is especially hard to find bilingual people in a smaller pool of potential candidates and then you need to persuade them to work for a small international company. As his company does payroll services for foreign companies, he knows that HR was a challenge for them as well. Many foreign companies rely on recruiting firms but they can have fairly high fees, about 35% of the employee's first year salary.

But there are people out there who do want that opportunity and may see a smaller international company providing them with a faster promotion track compared to a large Japanese organization.

Ron explained that, with iNAGO, as a smaller software company, it is a challenge to find good software developers or good sales person that can also speak English. We have about 25 people in Tokyo, mostly software engineers, and most are partially bilingual - they do their best, and that's all we ask for. Some people want to work for us because they want the opportunity to speak English and to work for a global company. We can give this advantage compared to a large Japanese firm. He found Recruit to be useful, cheaper than a headhunter but more customized than just posting jobs on your website.

Ron continued by stating the advantages of hiring staff in Japan. By having offices in Toronto and Tokyo, it means that his staff work together in a 24 hours cycle, with one office open while the other sleeps. And although this can make communication a challenge, the team in Tokyo is so dedicated that they will do everything to get the work done on time. And even though they hire less experienced software engineers in Japan, they work very hard to become good.

In contrast, Eric had a slightly different experience in Japan because when he started at Icynene, there was a need to downsize the Japanese unit. Some of the jobs were outsourced to service providers, such as payroll to Equiom Japan. This support services ecosystem is much more developed now and can be a great resource for foreign companies. One HR challenge that Icynene has is on the installation side because there is a shortage of such semi-skilled labour in Japan and young Japanese do not want such jobs. One labour-saving solution is to find ways to increase automation.

Ron agreed that, with its labour issues of growing elderly and declining youth populations, Japan will be a big market for automation. Japan will be very willing to try new automation technology such as artificial intelligence.

**Question 5:** What has been your recent experience of raising capital or financing in Japan?

**Discussion:** Robert mentioned that bank financing at good rates is quite easy to secure in Japan as long as you tick the boxes, for example having an entity in Japan and having 3 years of positive financial results, not so dissimilar to banks in Canada. However, the one thing that is a bit different in Japan is that usually the banks want a personal guarantor of loans, which sort of goes against the idea of having a limited liability company. Equiom has helped many of their clients to get bank loans in Japan and the Japanese banks have been easy to deal with.

Ron, as a start-up company in Japan, had experience of getting venture capital funding in Japan, raising 8 million dollars over the years. He didn't find any obstacles that are unusual for any other market. If you have a good business plan and give a good story, there is venture capital there. One obstacle to VC funding in Japan is that M&A is not so common in Japan so it is not a great exit strategy for investors. IPO is still number one and M&A traditionally has been used when a company is not succeeding. However, that is changing with new companies such as Softbank and Rakuten.

**Question 6:** Going forward, what changes do you think would be useful in the investment environment to encourage more foreign companies to enter Japan?

**Discussion:** Robert suggested that, even though it would not be so good for Equiom's business, there could be easier ways to register companies and do corporate filings on-line in order to remove some of the paperwork.

Eric noted that there were a number of personal issues related to expats living in Japan that were problematic in the past such as getting Canada and Japan's pensions aligned, but many of those problems have been solved a few years ago. There are still a few smaller issues that could be improved such as making international school fees taxed deductible as many expats bring their families to Japan.

Eric also mentioned that on the labour market side, there are challenges for companies to fire staff, similar to Europe, but it can be done. Robert agreed explaining that echoed the idea but said that, with due diligence, you can hire good people in Japan.

Ron added that on the Intellectual Property (IP) side, although there is the legal framework in place, Japan does not have a litigious culture so there might be some regulatory changes that could help to protect small companies. Eric agreed that, in Japan there is tremendous pressure to mediate and courts will basically force you together and lock you in a room to come out with a solution. So, even if you are not at fault, usually everybody ends up paying something in a dispute. Ron noted that this was similar when it comes to insurance in Japan; even if you were not at fault in an accident, usually both parties end up paying some portion. So, even if you win, you don't win.

**Question 7:** Can you comment on finding partners in Japan, which many JETRO clients have an interest in.

**Discussion:** Eric noted that of course it depends on your product, the market's dynamics and how much you are willing to service the end user. However, in general yes you need partners of some kind but don't rush into it. In the famous case of IKEA in Japan, they had so many problems with their original distributor that they ended up pulling right out of Japan and re-entering later by themselves. They invested heavily and built stores and now are extremely successful in Japan. They finally opened their first store in Funabashi, Tokyo, and the response was so overwhelming that they shut down the expressway due to massive traffic jams! Later, the store ran out of product.

Ron thought that this was good example of distributorship. You can have a distributor but you have to be very careful who the distributor is. You have to have very clear terms at the beginning and lay out the milestones. A small Japanese distributor may want exclusivity but I have never seen that model work. And if there was a one tiny issue, you need to be there servicing that customer. IBM is a huge success story in Japan and the reason why they're so successful in Japan is that they went direct, they hired in Japan and they build a unique Japanese IBM unit.

Roberts thoughts were similar: Japan is a market that deserves the appropriate attention. I've seen a lot of companies relying on a distributor that they don't know very well. They think it will be an easy way to enter the market but that doesn't work. You'd better go in there with a serious plan for Japan. Execute it and you will be very successful. But you need to be committed to the market. Your clients will demand that.

#### **Question 8:** Final thoughts?

**Discussion:** Robert pointed out that Canadian firms need to diversify away from the US and look at Japan. Ron gave advice for companies new to Japan that they should go there, set up meetings and find out if there is need for their product there. And Eric concluded by advising that Canadian companies going to Japan should use all the resources of JETRO, the Canadian Embassy in Tokyo, the Ontario Provincial Office in Tokyo and the Canadian Chambers of Commerce in Japan (CCCJ).

### **NETWORKING RECEPTION**



After the panel and a brief introduction of JETRO services, during the networking reception, a lively discussion continued between the panelists and audience members over delicious Japanese food and a special selection of Japanese sakes, which JETRO has been very active in promoting into the Canadian market.

### **SUPPORTING ORGANIZATIONS**

JETRO is very grateful to our supporting organizations, the Consul-General of Japan in Toronto, Global Affairs Canada, the Ontario Government and especially Bennett Jones LLP for being such a great host for the event. Ki Restaurant provided the catering.

