

Past JETRO Client
COVERITY, INC.



July 2009 – With origins in the Computer Systems Laboratory at Stanford University, Coverity Inc. develops software tools that detect bugs in source code to improve the quality, integrity, and security of software. JETRO spoke with Rich Cerruto, managing director of Asia-Pacific, about establishing Coverity's Japan branch office, his experience working with JETRO, and how with a direct Japan office he was able to grow Japan sales by 80 to 100 percent each year. Since establishing the office, Coverity's Japan revenue has also grown from six percent of total company revenue to more than 20 percent.

Opportunities in Japan and Market Entry

Because Coverity's main customers are manufacturers of consumer and industrial electronics, and because Japan is home to many global leaders in these sectors, Japan has always been a priority market for Coverity. Not only is Japan a large market, but Coverity's software delivers strong value to Japanese software developers, said Mr. Cerruto. Coverity detects defects more accurately than any other software. This helps developers maintain high levels of efficiency and deliver high quality products more consistently.

But as with any company, entering the Japan market is challenging. Prior to selling direct, Coverity sales from Japan amounted to just six percent of total company revenues. "High-tech companies in our field should be getting maybe 20 or 25 percent of their revenues from the Asia-Pacific," Mr. Cerruto said.

Before establishing the branch office in December 2007, Coverity had been selling directly to NTT DoCoMo and Mitsubishi and also selling through a small distributor in Japan. However, the distributor was a value-add company, which used Coverity's software but not the Coverity name. Coverity wanted to expose its product and brand to the Japanese market. The distributor was uninterested in selling the software under the Coverity name, so Coverity sought to either find another distributor or establish a direct presence. Mr. Cerruto set out to determine which path would be best.

In April 2007, Coverity held a press conference in Japan, announcing its product and intention to open an office in Japan, which led to some coverage in the media. The next month, Mr. Cerruto exhibited Coverity's product at the Embedded Systems Conference in Japan. Unlike many US

companies who exhibit in Japan using only English materials, Mr. Cerruto went prepared with booth panels in Japanese, printed literature and presentations in Japanese, and Japanese speakers at the booth. From this single trade show, he obtained 250 sales leads. “That convinced us that forming a direct operation was the right thing to do,” he said. “We really needed feet on the ground, people to conduct sales activities and let the customers evaluate the product.” In July, Coverity sent Mr. Cerruto and an engineer to Japan to establish the office.

Establishing the Office and Working with JETRO

A few months after moving to Japan, Mr. Cerruto and the engineer took advantage of the free temporary office provided by JETRO’s Tokyo IBSC. JETRO also put them in touch with an accountant who explained the different types of offices they could establish and the tax implications of each. JETRO then introduced them to a recruiting company, through which four personnel were hired. Even with Mr. Cerruto’s experience of having worked in Japan for various periods over the past 20 years, he said, “I was happy to accept and take advantage of whatever help that could be offered, and I was very appreciative of JETRO’s assistance in that early stage.”

Beginning with the recruiting company, Mr. Cerruto outsourced some important tasks to such service companies, further making parts of the office setup a smooth process. He said using the recruiting company made “hiring good people much easier than I expected. The abundance of talented people willing to join a small, foreign-capitalized company was surprising.” Mr. Cerruto also used an accounting firm to outsource the filing of documents to register the company and the establishment of payroll and payment of employee social benefits.

After moving out of JETRO’s IBSC, the growing Coverity team moved into a temporary office in the Nomura building located in Shinjuku and then moved into a permanent office in the same building in May 2009.

Doing Business in Japan vs. US

We asked Mr. Cerruto to compare some aspects of doing business in Japan to those in the US. The following is a summary of his responses:

| | Japan | U.S. |
|------------------------|--|---|
| Working with customers | Challenging to get companies to sign nondisclosure agreements (NDAs) prior to evaluating your product | Companies are less adverse to signing NDAs prior to evaluating a product |
| Gaining new customers | Customer testimonials are not as commonly used as they are in the US, so using them in Japan as 'references' is effective in gaining new customers | Customer testimonials are more commonly used, therefore may carry less weight in some cases |
| Human resources | Government-run pension, social benefits (equivalent to Social Security in the US), and health benefits. Easier to provide benefits to employees. Less expensive than in the US. Recruiters charge a higher fee than in the US. Employers are expected to pay for employees' train fare and physical exams. | Often need to shop around for policies and providers |
| Marketing | Use mostly the same methods as in the US: trade shows, seminars, press conferences. For press conferences, many reporters gather in one room and sessions is finished in one hour. | Webinars are used, whereas they are not yet used in Japan. Meetings with reporters are often done on a one-on-one basis, very labor intensive. |

Results and Outlook

Since registering the branch office in December 2007, the team has grown from two people to eight and plans to add three more personnel in the near future. Furthermore, since 2006, Japan revenue has grown 80 to 100 percent each year, increasing the revenue from Japan of the company total from six percent to more than 20 percent. Revenue from Japan has been growing at a rate that exceeds Coverity's other regions, which include the US, Europe, Canada, and four other Asian countries. Because of this growth, Mr. Cerruto said, "Coverity is committed to continuing to invest in this market."

Business Tip Highlight: Do as much as you can in Japanese

The piece of advice that stood out from speaking with Mr. Cerruto for companies seeking to do business in Japan was to conduct as much business as possible in the Japanese language and using Japanese business practices. This may seem obvious, but a surprisingly large number of companies go to Japan without much, if any, of such preparation. This was something Mr. Cerruto

observed from his extensive experience working in Japan, so he knew it would be key to Coverity's success there. Therefore, immediately after arriving in Japan, Mr. Cerruto insisted the user's manual, sales materials and agreements all be made into Japanese. Furthermore, he made all business quotations in Japanese yen and even used Japanese paper, which is of different dimensions from paper used in the US. "As basic as that sounds," he said, "had I not done all of these things, progress would have been much more difficult."

Japan Company Profile

| | |
|-----------------|---|
| Japan Company: | Coverity Japan Branch Office |
| Established: | December 2007 |
| Employees: | 8 (soon adding 3) |
| Business: | Software that identifies defects and security vulnerabilities in source code |
| Location: | Shinjuku Nomura Bldg., 10 Fl. 1-26-2 Nishi-Shinjuku, Shinjuku-ku Tokyo 163-0510 Japan |
| URL: | http://www.coverity.com/html_ja |
| Parent company: | Coverity, Inc. |

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**Note: The opinions contained in this article are based on the experiences of the interviewee. They are not representative of all experiences in Japan or working with Japanese companies, and do not reflect the opinions of JETRO.*

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