

未来 *Mirai*

IT
IS
"Coming
of
Age"

IN JAPAN

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eCommerce:
Changing the Face of Trade

Technological Darwinism:
When You Don't know What You Don't Know

eCredit Enters Japan



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"Mirai" means "a promising future" in Japanese

The High Tech Dating Game

— Jack Plimpton, President, Japan Entry Corporation

Oh, for the good old days! Permanent employment, seniority, and the simple ambition of Japan's middle class to own a color TV, cooler (air conditioner) and a car—the so-called "3C's" which fueled the Japanese economic miracle. Well, nostalgia may have its place, but certainly not in today's rough and tumble Internet economy where brash 30-year-olds are millionaires, and Japan's big banks are forced to merge, restructure, or die.

Blame it on liberalization of the financial markets. Or blame it on three brand new Japanese stock markets since 1999, which have created a red-hot IPO climate. Or blame it on the Black Ships of the Internet economy, those aggressive U.S. companies which have established beachheads in Japan by offering double salaries and option-fueled shots at true riches.

Japan's adolescent IT marketplace is being undeniably challenged by Western IT innovation, and a fledgling network of wireless gadgets invented in Japan.

This works to the advantage of the U.S. software vendor, particularly in the embedded and enterprise markets. These venture companies are able to form a "dream

team" with Japan's mega-corporations, offering complementary expertise in hardware engineering, distribution, custom application development, and financing.

It is not just U.S. IPO's that are attracting the top talent, but IPO's of U.S. subsidiaries on the new Japanese stock markets. So-called "J-IPO's" are now becoming common in Japan, typically at a multiple of revenues that is three times higher than the U.S. parent. Oracle, eTrade, ValueClick, and others are reaping the benefit of Japan's hunger for quality growth companies.

One of the best bets for forming a "dream team" capable of going public in Japan is through a joint venture, which establishes instant credibility, access to resources, and dedicated personnel. Japan's leading trading companies have stepped aggressively onto the high-stakes JV dance floor, even to the point of forming previously forbidden alliances among themselves. They, and an array of Japanese systems integrators, manufacturers, and old-line financial institutions are on the prowl for U.S. dance partners.

Stay tuned. Japan's IT is now coming of age, so the high-technology dating game has only just begun!

Network Associates

Network Associates is a nearly \$1B provider of anti-virus, security and systems management software whose Japanese subsidiary was struggling to grow sales. Japan Entry helped Network Associates to successfully identify and negotiate two strategic partnerships that have doubled revenues in Japan. One challenge was working under strict confidentiality to avoid impacting the existing sales channels prematurely, while assisting the partners to develop business plans and work with key personnel at NAI's Japanese subsidiary.

Japan Entry recruited Ashisuto, a leading distributor of corporate application software, and Sumitomo Corporation, Japan's largest trading company, to each create dedicated 20-person sales teams and commit \$20M in incremental revenue. Based on the success of these relationships, both firms made equity investments in NAI K.K., along with Japan Entry, with the intention of staging an IPO in Japan in 2001.

An Interview with Richard Hornstein

Former General Counsel & Senior Vice President of Corporate Development
Network Associates, Inc.
Santa Clara, CA



How can companies position themselves to make money on the Internet?

The way to run a successful Internet business model is to partner with the best and the greatest to reduce your costs and increase your revenues. We've just announced that we're partnering with IBM. That means I don't have to hire software engineers because IBM already has the talent, and now I have the intangible value of the association.

At the end of the day, with the Internet especially, it's all about partnering.



How is Network Associates (developer of McAfee VirusScan) re-defining its business model?

Network Associates is migrating to an ASP model. It's switching from a product model to a service model where corporate customers and individuals will pay a small annual fee per computer to access NAI's host site. The software no longer needs to be installed on the hard drive.



How did Japan Entry help NAI enter the Japanese market?

We had had a series of missteps in Japan in our previous attempts. Japan Entry was able to get us immediate access to the Keiretsu. Jack Plimpton, Japan Entry's President, and Ken Sumitani, Japan Entry's General Manager Tokyo Office, did the proper introductions and laid the groundwork in advance. They primed the people from the companies in advance about what we were looking for.

I think Japan Entry did a tremendous job. They had tremendous skill and understanding of our business model and technology, and both Jack and Ken are wonderful to work with. I speak very highly about what they did for us in Japan.

Richard Hornstein presently serves as Chief Financial Officer & General Counsel with AsiaDemand, Inc., in Diamond Bar, California, an Internet service provider that enables large private enterprise companies to quickly become e-enabled and bring their off-line business online.



e c o m m e r c e : c h a n g

During the Doll Festival every year on March 3, Japanese girls set up a feudal hierarchy in their living rooms with dolls of a Japanese lord and lady, their retinue, merchants, and peasants arranged on a seven-step dais. But Japan's corporate pecking order, the fabled seniority system, is being democratized by email. Moreover, keiretsu are crumbling due to the ease of collaborating with previously unknown trading partners through eCommerce. A supplier's product specifications, quality, pricing, inventory, delivery, and creditworthiness are easily ascertained on-line, at arms-length. Cross-ownership was once indispensable to achieve this level of tight, trusted coordination and insulate companies from fluctuations in demand. Due to the Internet, corporate fiefdoms have been thrust into a self-service economy.

Keiretsu, vertically integrated company families that trade with one another to reduce costs and risk, have long been a driving force in Japan's economy. Toyota's kanban system, a hallmark of American business school case studies, is based on the simple mechanism of placing a "reorder slip" towards the end of a supply bin in order to trigger replenishment. This rudimentary supply chain management system depends on the unquestioned fealty of Toyota suppliers such as Denso, who because they are majority owned by Toyota and staffed by ex-Toyota executives, seldom entertain competing offers that would introduce supply risk.

The Internet is challenging the wisdom of traditional trading and distribution relationships. Nissan Motors (part of the Fuyo Group), and NEC (part of the Sumitomo Group), have each announced that they would shift in excess of \$15 billion in procurement transactions to the open market via the Internet.



Calico Commerce

One of the early eBusiness winners in Japan is Calico Commerce, a leading provider of product configuration guidance and sales quotation software which enables corporations to eliminate product returns due to incorrect specification of customer requirements. Based in San Jose, California, Calico is publicly traded (NASDAQ: CLIC) with annual revenues of over \$45M and nearly 300 employees.

ing the face of trade



Japan's B2C eCommerce volume is projected to reach \$32B, approximately one seventh the size of the U.S. market, and B2B eCommerce \$684B, nearly one half the size of the U.S. market, and 11.2% of all inter-company trade in Japan, according to a report issued by the Ministry of Post & Telecommunications and Andersen Consulting. By 2003, 40% of Japan's electronics and automotive transactions, and 5% of petrochemicals, metals, textiles, and equipment transactions will be conducted over the Internet.

A massive Internet land grab is taking place. The trading companies, as consummate middlemen, have the most to lose through disintermediation. Averaging \$150B in consolidated revenues with just 8,000 employees, Mitsui, Mitsubishi and Sumitomo are the linchpins of Japan's top three corporate groups. The trading companies' revenues are derived from razor thin commissions on goods ranging from corn starch to communications satellites. They have formed dozens of Internet sites to trade commodities, by leveraging know-how from U.S. start-ups.

Japan is the world's second largest IT marketplace. Major eCommerce vendors are just now getting started in Japan. Ariba formed a joint venture with Softbank in October, 2000, which will sell to its 450 portfolio companies and establish 10 vertical exchanges. CommerceOne established an office equipment MRO portal pilot with NTT Communications, Mitsubishi, Nihon Unisys, Ricoh, and Canon Sales which is expected to drive \$140B in transactions by 2003.

The days are numbered for Japan's antiquated and inefficient keiretsu relationships. U.S. eCommerce software developers are facing unprecedented opportunities to capitalize on Japan's Internet growth.



Japan Entry recruited six leading B2B eCommerce system integrators to sell and service Calico's solutions, including NEC, Hitachi, CTC, Mitsui, ISID, and Ines. In addition, Japan Entry recruited a Japan Country Manager who formerly served as Country Manager of Tibco, and who brought a six-man professional services and sales team with him to jumpstart Calico's Japanese operations.

i-MODE

A common sight in Tokyo is a gaggle of teenage girls sporting glitter and the latest accessory, an i-mode phone the size of a small toothpaste tube. These teenagers jostle with the samurai of Japan's corporate titans, who plot economic warfare over wireless email.

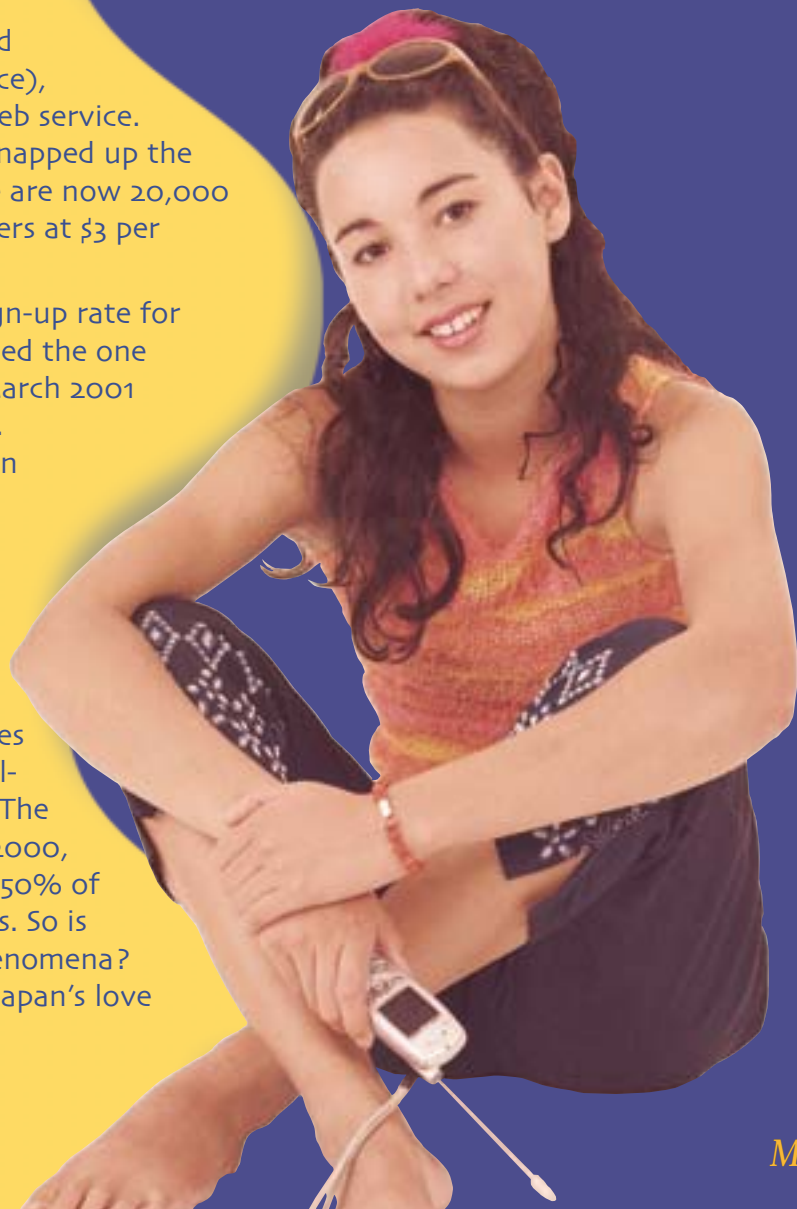
The 62 million cellphone market is dominated by Japan's largest cellular carrier, NTT DoCoMo, the wireless subsidiary of Nippon Telephone and Telegraph, which has over 65% market share. DoCoMo is an abbreviation for "do communications mobile" and is a play on words with the Japanese word for "anywhere."

In February 1999, DoCoMo launched i-mode, a SMS (short message service), email, and Compact HTML-based web service. Gadget-crazy Japanese users have snapped up the i-mode phones like hotcakes. There are now 20,000 content sites available to i-mode users at \$3 per month each.

In November 2000, the monthly sign-up rate for NTT DoCoMo's i-mode service crossed the one million mark and the forecast for March 2001 subscribers was raised to 20 million. NTT DoCoMo's market capitalization reached \$260B and it formed a strategic partnership with AOL, taking over control of AOL Japan.

Clearly, NTT DoCoMo is on a roll. Yet WAP-based providers KDDI and J-Phone are hot on i-mode's heels. Overall, "web-enabled" mobile phones will constitute 90% of the Japan cell-phone subscriber base in two years. The devices will generate \$2.4 billion in 2000, and \$29.3 billion by 2005, with over 50% of this coming from corporate accounts. So is i-mode a corporate or consumer phenomena? Really it is both, and the credit for Japan's love affair with cellphones must go to "The Young and the Wireless."

Meet Japan's 3rd Generation: "The Young and the Wireless"



Like a teenager maturing, the IT industry in Japan is half-adult, half-child. Japan is the first kid on the block to have ubiquitous wireless Internet access, but is only in the formative stages of developing robust eBusiness platforms and applications.

IDC projects that 41 million Japanese users will access the Internet via wireless devices by 2003. Wireless Internet users will account for 40% of all of Japan's Internet population. For consumers, untethered usage transforms the Internet into a personal fixture, like a wristwatch, wallet, or Walkman. For businesses it defines a new level of connectivity and "anywhere, anytime" access to business critical information. "Internet time" will accelerate.

In NTT DoCoMo Laboratories' showroom, the Internet usage paradigm shift is evident in working prototypes of video cellphones, wristband phones, wireless music players, palmtops with plastic roll-out LCD screens, heads-up PDA's, and smart-glove "handsets." The glove-phone looks like a whacky device out of the "Get Smart" TV series. The user holds his thumb to one ear and a pinky to his mouth and...you guessed it...carries on a conversation! The gloves will evolve so that some day, users will be able to transmit text by translating finger movements into Japanese characters through "motion recognition" technology.

NTT DoCoMo's spring 2001 launch of the high-speed third generation (3G) cellular system, IMT-2000, makes Japan the first country in the world to offer 3G, and further cements Japan's world leadership. Initial data transmission rates of 64kbps will be rapidly upgraded to 384kbps and eventually reach 2mbps, which is faster than T1 data rates! This increased bandwidth is a quantum leap from i-mode's paltry 9.6kbps and enables robust corporate and multimedia applications.

So much for the half adult, because the IT infrastructure to which i-mode connects is still very unsophisticated. Legacy systems are poorly integrated with the Internet, because Japanese adoption of B2B, EIP, EAI, knowledge management, and ASP technology lags the U.S. by two years or more.

The fault lies in the symbiotic relationship between Japanese customers and their IT suppliers. For decades, Fujitsu, Hitachi, NEC and their hundreds of SI subsidiaries fostered customer dependence through closed or custom solutions that only they could maintain. In addition, the large SI shops (there are over 1,000 SI's each employing in excess of 1,000 people)

offer cradle-to-grave service to their captive customers. The Asian financial crisis served as a wake-up call. Today these same IT service providers rely on off-the-shelf technology, much of it imported from the West.

In the U.S., change is fostered by entrepreneurs, frustrated with hidebound corporate bureaucracies, who leave their companies, raise venture capital, hire talent and start world-beating companies. The large companies are left struggling to keep up. But in Japan, it's the big companies that innovate through internal reinvention. Yamaha started as an organ company, then became a powerhouse in pianos, synthesizers, and integrated circuits. Its woodworking skills led to boat-building, pre-fab houses, and vacation resorts. Yamaha's foray into boats led to dominance in boat engines and motorcycles.

Japanese behemoths can and will evolve, and leverage their cash to fuel an Internet revolution. In June 1999, Fujitsu, a \$50 billion company with 190,000 employees that dominates the Japanese computer industry, proclaimed that every facet of the company would be focused on the Internet. A spate of Nikkei 100 firms followed suit with massive Internet spending programs.

it

is

continued...

"Coming
of
Age"

IN JAPAN

Coming of Age, continued...

Japan is a famously overworked country in desperate need of the convenience and efficiencies of eCommerce. Businessmen fall asleep in mid-sentence in meetings and commuters sleep standing up on subways. Housewives increasingly take part-time jobs, and even those who don't, struggle to meet the demands of the Japanese educational system. Even when they can, shopping in stifling crowds is a chore. Online shopping will also enable the Japanese to cut out inefficiencies that are comical to foreigners. The Japanese penchant for hyper-service and full employment results in flotillions of "elevator girls" who announce the floors in carefully cultivated helium voices, or gas station attendants who dash into the street to help ease a customer's way back into traffic in a reenactment of the 1950's parody in "Back to the Future." Similar anachronisms abound in the B2B arena.

eCommerce is taking off in Japan. Suddenly there is access to venture capital, and there are three newly minted stock exchanges with much relaxed listing requirements. The ranks of entrepreneurs in Japan's "Bit Valley" (a play on words for the Shibuya area of Tokyo) are growing. Moreover, the establishment by government fiat of flat-rate local phone calls will spur usage.

But implementation of eCommerce systems is taking a slightly different tack in Japan. There is resistance to using credit cards on-line and to leaving valuable

merchandise on people's doorsteps. Now, consumers can stop at a self-service kiosk at any nearby convenience store (or "conbini" in Japanese) to order, pick up and pay for tickets, music, digital photo printing, PCs, cell-phones, flowers, gifts, books, etc., on-line. There are 36,000 conbini in Japan. The first B2C delivery system was pioneered by 7-Eleven (72% owner of the U.S. franchise) through a website called Sevendream.com, a \$48M joint venture with NEC, NRI, Sony, Mitsui, Japan Travel Bureau, Sony Marketing, and Kinotrope, which is targeting \$1.8 billion in on-line sales by 2002.

Although Japan may appear convention-bound and backwards, it has repeatedly demonstrated the ability to leapfrog ahead. After the Meiji Restoration in 1868, Japan transformed itself in less than a decade from a feudal agricultural state to a modern industrial nation, then into an empire wannabe which conquered Russia in 1905. After the devastation of World War II, the country got back on its feet through U.S. aid and the Japanese people's hard work. Since the 1960's, Japan's manufacturing excellence has led U.S. academics to proclaim that "Japan is Number One."

Japanese companies are eager for sophisticated technology and inevitably, will succeed in the transition from cyber-adolescence to IT maturity. This process offers U.S. enterprises a golden opportunity to form world-beating strategic partnerships in Japan.



"Before we begin our performance, we would like to request that you turn off your pager, cellphone, PDA, wearable wireless webcam,smartglove..."

Managing the customer

It's hard enough to manage employees. But managing the customer is enough to make you wanna

SCREAM!

Broadbase (Servicesoft)

The Japanese say "The customer is God," thus placing the customer in a loftier position than a customer in the West who is merely "King." A strong believer in this credo is Servicesoft, a U.S. provider of automated e-mail response, helpdesk knowledgebase, VoIP and remote control software that enables businesses to provide superior customer service via the Internet. Based in Natick, Massachusetts, Servicesoft has over 250 employees and was acquired in late 2000 by Broadbase.

Japan Entry identified and negotiated a partnership with Japanese distribution and localization partner, CTC (C. Itoh Technoscience Corporation), which is the #1 reseller worldwide of Sun, Cisco, Broadvision, and a leading reseller of various call center and Internet software solutions. As part of the partnership, CTC made a \$1M strategic investment in Servicesoft. Thanks to CTC, the company has achieved dozens of design-in wins in Japan's \$20B call center and helpdesk marketplace.



TECHNOLOGICAL

"640K ought to be enough for anybody."
— Bill Gates, 1981

DARWINISM

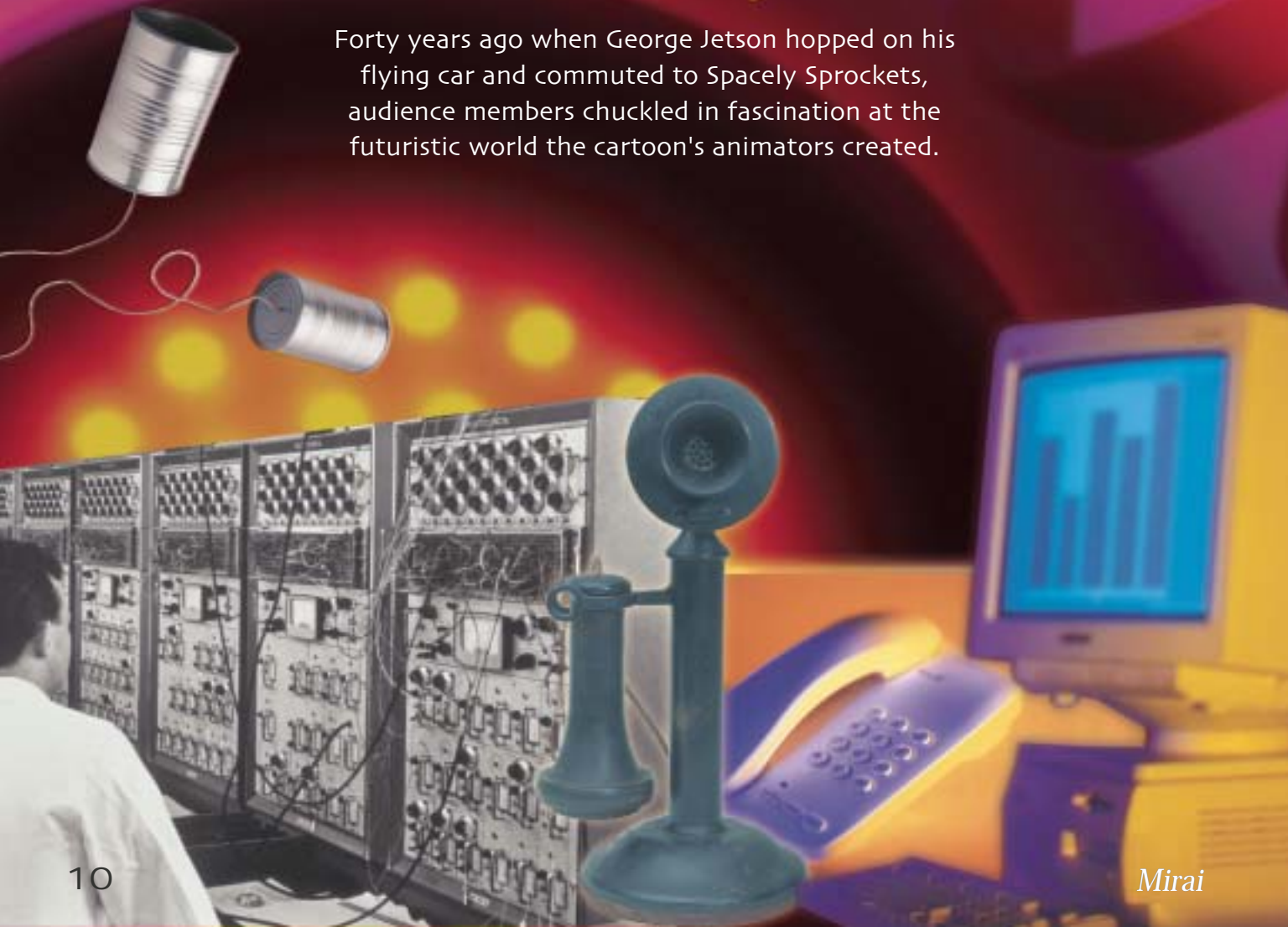
"There is no reason for any individual to have a computer in their home"
— Ken Olson, President of the World Future Society Convention, 1977

WHEN *you don't know...*

"Everything that can be invented has been invented"
— Charles H. Duell, Commissioner, U.S. Office of Patents, 1899

...WHAT *you don't know*

Forty years ago when George Jetson hopped on his flying car and commuted to Spacely Sprockets, audience members chuckled in fascination at the futuristic world the cartoon's animators created.



But the Jetson's world of holograms, video telephones, and skyways missed something crucial about the future. Rooted in the culture of the early 1960's, the show's creators could not have predicted the transition of today's economy from manufacturing to services. In fact, if George Jetson were real today, he'd be a telecommuting businessman, or a software geek programming a B2B system for a fab-less semiconductor start-up.

Therein lies the paradox of technology. The future is difficult to predict because, most often, you don't know what you don't know. Even five years ago, it was impossible to envision the current trend toward ASP's, the dominance of AOL, the proliferation of hand-held devices, or the Internet. So-called "Internet time" has accelerated change. In 1997, Regis McKenna wrote in *Real Time: Preparing for the Age of the Never Satisfied Customer* "Imagine a world in which time seems to vanish and space seems completely malleable. Where the gap between need or desire and fulfillment collapses to zero ..."

In 1991, with the advent of "multimedia" Microsoft predicted that users would embed video clips in all of their Microsoft Word documents. In 1994, within the space of one year, "pen computing" went from buzzword to bust. "Push" technology was supposed to supplant browsers in 1996, and thin-client computing was to have replaced stand-alone desktop machines in 1998.

Now, take the hand-held devices that are so prevalent among Japanese society today. Will they become ubiquitous like that other Japanese innovation, the facsimile, and replace the business PC as

we know it, or will we have to wait for voice-controlled headmount displays to streamline the business collaboration process into one seamless step?

These may be tongue in cheek predictions, but consider how critical Wang Laboratories' word processors were to businesses just 15 years ago. Until Apple Computer's WYSIWYG desktop publishing revolution pulled the rug out from under it, Wang appeared to be on the verge of creating a proprietary system around its word processing format.

The fable of smooth incremental empowerment of the user that has grown up around personal computing is a Hollywood version of Bill Gates' diary. It simplifies the story by putting all those technical dodos in the background (get those Pen PC's and iTV's off the set!), and it speeds up the action by making the Internet inevitable.

Bottomline: The fittest shall survive by continually catching each successive technological wave, some in the form of tsunami from distant Japan.

fusionOne

Entering Japan is never a certainty for any company. But it was a necessity for fusionOne, a developer of services for synchronizing calendar, contact and URL "favorites" between PDA's and PC's.

Japan Entry recruited a Country Manager to spearhead fusionOne's Japan operation who formerly served as president of BMC Software Japan and achieved 15% of worldwide sales during his tenure at Boole & Babbage. Moreover, Japan Entry recruited fusionOne Japan's Vice President Sales & Marketing who brought extensive consumer Internet experience to the company.

fusionOne has formed a joint venture in Japan with investments from Mitsui, NEC, and SoftBank Capital, and launched its Japanese service which supports NTT DoCoMo's i-mode wireless Internet system.



SecureMedia

Six-person San Francisco-based RPK SecureMedia, a provider of encryption technology for streaming media, was faced with the daunting task of staking out turf in the tumultuous music-on-the-Internet arena. With Japan Entry's assistance, it garnered a multimillion "make-the-company" investment from Sony and Transcosmos.

Transcosmos is the joint venture partner of Real Networks in Japan, and created the world's first Akamai-like caching service in partnership with NTT PC Communications and KDD. Japan Entry's work for RPK is a dramatic illustration of how bold, calculated activity in the Japanese market can overshadow opportunities in the U.S.



Repeated record industry attempts to behead the file-swapping monster have prompted the on-line market to serve up a medusa-like tangle of unruly offspring.

Japan Entry is a strategic consulting firm dedicated to assisting U.S. software and service companies to enter or enhance their presence in the Japanese market. Since 1989, Japan Entry has directed the establishment of more than 80 distribution partnerships, 30 Japanese subsidiaries, and raised more than \$100M in funding commitments, including \$45M in private placements.

The firm is headquartered north of Boston, with a subsidiary office in downtown Tokyo.

Japan Entry is built upon the leadership of founder, Jack Plimpton, formerly General Manager of Lotus Development Japan, a start-up he developed into a 35-person organization with \$10M in first-year revenues. Mr. Plimpton is completely bilingual in spoken and written Japanese, holds an MBA from Stanford University, received a Rotary Fellowship to Tohoku University, and graduated summa cum laude, Phi Beta Kappa, from Harvard College.

Ken Sumitani serves as the director of Japan Entry's Tokyo-based operations, holding the title, General Manager Japan Office. Prior to joining Japan Entry, Mr. Sumitani was Vice President in charge of the Executive Search Division, Recruit Human Resources Center.

During his tenure at Recruit, he established and managed its Los Angeles-based U.S. subsidiary. Mr. Sumitani graduated with a degree in economics from Keio University.

Japan Entry services include:

- strategic business development
- identification and selection of distribution, joint venture, or M&A partners
- investment sourcing
- partnership negotiation
- executive recruitment and subsidiary set-up

Advantages of using Japan Entry include:

- personal high-level access to Japan's foremost IT companies, including trading companies, systems integrators, OEM's, venture capitalists, and leading-edge customers
- extensive experience in bicultural business development
- guidance on how to maximize revenues and business opportunities in Japan

Agile
Asymetrix (AimTech)
Applix
Attachmate
Aventail
Avid
BackWeb
Calico
Centra
Centric
Cisco (American Internet)
Cisco (WebLine)
Citrix
Computer Associates (Preferred Systems)
Eastman Software
eCopy
eCredit.com
eGain (Big Science)
Engage
Evergreen Solar
fusionOne
iLux
Informix (Ardent)
Insignia
Ipswitch
Leading Market Technologies
Lernout & Hauspie (Dragon)
MacroMedia (Authorware)
Magic
Mapics
MapInfo

Mastech
MatrixOne
Media 100
Microsoft (Exos)
Microsoft (Vxtreme)
Motorola (Wavemark)
Natural Microsystems
Netegrity
NetIQ
Network Associates
Novadigm
Oak Technology (Motorola)
Object Design
Open Market
OpenText (Dataware)
PeopleSoft
PictureTel
Red Hat Software
Reflection
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