

The Geography of Tokyo's Startup Ecosystem – a Research Note

What does the geography of the Tokyo startup ecosystem look like?

During the wave of popularity in startups in the late 1990s, the Shibuya region gained popularity as a focal point among Japan's emerging startup community. Silicon Valley, in the midst of its "dot com" boom sparked by the advent of the Internet and a wave of IPOs of Internet related firms, was seen as the global hub of Internet-based startups. The IPO of Netscape was a watershed, leading to a spike in venture capital investment and a wave of IPOs. In Japan, the Shibuya region for startups was nicknamed "Bit Valley." After the dot-com bubble in Silicon Valley burst, and the initial interest in Japan's "Bit Valley" waned for some time, Japan is currently undergoing another wave of interest in startups.

A question now is whether or not Shibuya is still the main focal point for Japan's startup ecosystem. We decided to use real data to map out Tokyo-based startups, VCs and accelerators and incubators to see if Tokyo's startup ecosystem players are indeed flocking to the Shibuya area. The more general question we seek to answer is: what does the geography of the Tokyo startup ecosystem look like?

Startups

First, we looked at the location of startups. Several approaches to this question are possible. One approach is to look at new company creation – where the new companies are created. This approach requires data that is not immediately available to us, and it raises the question of company creation versus survival – the area where most startups are created may not be a good match for which startups survive the initial stages of fundraising to become successful startups.

Our approach was to look at the startups that had raised the most capital from venture capitalists. Since venture capitalists were placing their heaviest bets on the success of these startups, we can deem these startups to be showing the most promise. So where are the most promising startups created and located?

We gathered information on headquarter locations from company websites. For our selection of startups, we used two lists: 1) the top-funded 25 Japanese startups according to data from CB

insights and, 2) the top-funded 50 Japanese startups according to data from the Japan Venture Research run website, Entrepredia's Venture Map database.

We find three major clusterings: Shibuya, Roppongi, and a slightly broader area surrounding Tokyo station. While there were a few startups in the Shinjuku and areas near Shinagawa, notably absent were startups in the northern part of Tokyo.

Anecdotally, the Shibuya area seems popular with engineers. The slightly chaotic but highly developed urban feel has long been a center of fashion and youth culture. Also anecdotally, the Roppongi area has also been popular, with a focal point on Roppongi Hills, a premier piece of real estate that hosts one of Japan's largest skyscrapers with the largest floor space. Many foreign financial firms are headquartered there, with luxury apartments and upscale dining within the complex. While some assume that startups which received major VC investments aim for the glamorous and lavish lifestyle sported by some notable entrepreneurs of the late 1990s, in particular Takafumi Horie, who was later jailed for financial impropriety with his startup, Livedoor, other contend that Roppongi Hills offers the largest floor space available in Tokyo – critical to keeping teams together without breaking them apart into multiple floors.

Venture Capital

Next, we looked at the broader startup ecosystem. Since VCs in Silicon Valley often like to have startups they invest in close to themselves so they can engage in sustained monitoring and mentoring of the startups, we looked at the location of Tokyo's major VCs.

Our list of VCs is taken from the Japan Venture Capital Association's (JVCA) member database. JVCA members are listed into two categories – VC members, which includes independent, finance-related and university-related VC, and CVC members, which encompasses the VC funds of all non-financial corporations. Based on JVCA's categorizations, on our map we have used the following groupings: Finance-related VC, Independent VC, University VC, and CVC. While again, this is not a comprehensive list of all of the available VC in the Tokyo area, the list is a good assortment of different kinds of active VC in the area.

Unsurprisingly, there is a clustering of financial VCs in the Otemachi area near Tokyo Station, where the headquarters of most traditional Japanese financial firms are located. Others are distributed in various parts of the city, but notably, not clustered in the same way as startups. Kojimachi, near Yotsuya, is home to Globis, a prominent independent VC, and CVCs run by major manufacturing firms and other corporations are located near their headquarters throughout Tokyo. The university affiliated VCs are, unsurprisingly, in their respective universities.

Here it is probably critical to note that Tokyo's highly developed public transportation system allows travel within most of downtown Tokyo in twenty minutes or less, and often shorter than that for taxi rides.

Accelerators and Incubators

Finally, the list of accelerators and incubators are compiled from a number of sources including TechinAsia and the Bridge. We have only included accelerators and incubators that are Tokyo-based, and while this is not a complete list, we have tried to list those that are generally easily searchable online, and are generally included in recommendations for entrepreneurs and startups in the Tokyo area.

There is a wide geographic distribution of accelerators and incubators. It is notable, in fact, that we do not see a concentrated clustering. There are real questions as to the relative effectiveness of some accelerators over others, or at all, so the list we compiled does not capture anything about the impact of various accelerators.

Additional Discussion:

We find that Tokyo's geographic distribution of the startup ecosystem is less concentrated in the Shibuya area than one might expect, given the past focus on Shibuya's "Bit Valley" conception. It should be noted, however, transportation within downtown Tokyo is easier and faster than ever before. Public transportation, with trains and subways (including new subway lines that opened within the past twenty years, and direct pass-throughs of trains to subways) brings most of downtown Tokyo within twenty minutes of other areas. Daytime traffic on the roads is also far less severe than many other urban areas, including major cities in Asia and Silicon Valley, enabling ground transportation such as taxis to also be a time efficient way to get around. Therefore, geographic proximity between investors and startups may not be as critical as one might think. However, the area north of the Tozai Subway line (East-West line), which roughly bisects the downtown, is notable for having very little in terms of the ecosystem.

This project inspires several ideas for future studies: Where are early-stage startups located in Tokyo? How do entrepreneurs choose the location for their startup offices? How do the locations of where successful startups start versus where they end up, compare? Are there special relations between investors and the startups, or accelerators, startups, and investors?

These are issues we will be investigating, and we welcome any interested collaborators.