

Past JETRO Client

From Silicon Valley to “Cyber Silkroad” (Hachioji, Tokyo) Taking advantage of government incentive programs

Interview with Mr. Tamotsu Kimura, Managing Director
NeoPhotonics Japan (Tokyo)



February 2013 — NeoPhotonics is a leading provider of photonic integrated circuit (PIC) based modules and subsystems for use in optical communications networks. Headquartered in San Jose, the capital of Silicon Valley, the company has rapidly expanded their global presence since 1996. Their worldwide headquarters in San Jose and their Chinese headquarters in Shenzhen serve as their key manufacturing locations, with sales offices located in North America, Europe, and Asia. Their Japanese R&D office was opened in 2011 to serve three functions: R&D, sales support, and part procurement support.

NeoPhotonics' Japanese office is located in the city of Hachioji, an area with unique advantages for businesses in the technology sector. In an interview with JETRO, **Mr. Tamotsu Kimura, Managing Director of NeoPhotonics Japan**, revealed the reasoning behind the company's expansion from Silicon Valley to Hachioji, as well as the benefits of the Japanese government's incentive programs for foreign businesses.

Hachioji as Base Ground



Timothy Jenks, Chief Executive Officer (left) and Tamotsu Kimura, Managing Director (right)

Mr. Kimura began his career at NeoPhotonics Japan from JETRO's temporary office space, the “Invest Japan Business Support Center (IBSC).” He spent a month and a half there as he searched for a permanent office location. While companies heavily focused on sales require easy-access locations with public transportation close by, such conveniences are not a high priority for companies focusing on the R&D end. “To be frank, we could have chosen anywhere at all [in Japan],” said Mr. Kimura. He decided to select an area he was already familiar with, where the price of land was not very expensive.

The company settled on Hachioji, a city located in the west end of Tokyo (about an hour away from the center of Tokyo by train). The price of land was relatively cheap compared with the Tokyo metropolitan area, which already made the decision an easy one, but there were still other reasons for Hachioji's appeal.

Originally one of the major towns used in the transportation of silk, the city of Hachioji has more recently begun industrializing the area, working to create an attractive location for businesses. As part of this initiative, a group called “**Cyber Silkroad Hachioji**” was formed, led by the city of Hachioji and the Chamber of Commerce. The group’s mission is to make the city as appealing as possible for technology-related companies to proactively do business, and its efforts have paid off. The area is now considered a mega technopark of high-tech businesses in nanotechnology, biotechnology, and IT.

There are a variety of other manufacturing companies in photonics-related industries nearby. In Kita-Hachioji, just one train stop away from Hachioji, there is an industrial complex that attracts high-tech and optical measuring device manufacturers, such as measurement company Agilent Technologies. Hachioji is also home to Japanese manufacturer FiBest, which specializes in optical transmission and receiving devices, as well as LAPIS Semiconductor, an affiliate of the semiconductor company ROHM.

The Cyber Silkroad project has been jointly organized by the local government and the Chamber of Commerce, which means they dedicate a great deal of their resources to local businesses. They host technical conferences that connect their local high-tech companies with outside businesses, creating new business opportunities. Seminars are organized for small-and-medium-sized business owners. Advisors are on hand to help anyone inquiring about setting up a business in the area. Internship programs are extended to include local school students, allowing companies to find future talent. “It is very appealing that we can receive necessary government support specific to this area,” Mr. Kimura commented.

There are also many universities in Hachioji. Due to increased land prices in Tokyo, several major universities in Tokyo have moved or expanded to the Hachioji area. This has made the area ideal for recruiting student talent, as well as creating joint development programs with universities.

R&D Is All About Talent, and Japan Has It All

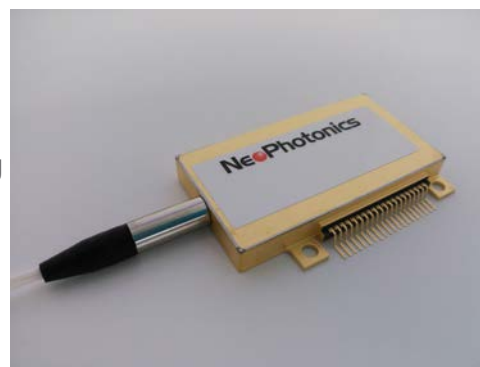
“The most important element for R&D is talent,” stated Mr. Kimura. He believes that the Japanese optical industry maintains highly skilled engineers. Until 2000, Japan and the U.S. were the leaders in optical technology. Major Japanese manufacturing companies invested huge amounts into their R&D divisions, able to leverage their huge profits from other business divisions. But when the results (output) of many R&D departments did not match the companies’ massive investments, most of them sold their optical business divisions, downsized the divisions, or discontinued the business altogether. As a result, many talented engineers were transferred to other areas of their companies, with their skills going largely unused.

Mr. Kimura took note of such talents and decided to reach out to them as he began hiring. But as it had been over a decade since the optical industry bubble popped, the engineers had been working at their companies in other departments for ten years, putting them in fairly senior positions. “It was challenging to ask them to start over [with me at NeoPhotonics], like in our old days,” Mr. Kimura commented. “But engineers, myself included, seem to have a unique mindset. We want to continue to challenge ourselves, no matter how old we are, and to stay competitive.” The fact that NeoPhotonics was a foreign company worked to Mr. Kimura’s advantage when he asked engineers to join him there. He explained that their success would be judged by their skills and the quality of their work, not by their level of seniority. This incentive made some engineers decide to make the leap to NeoPhotonics.

For startup companies seeking immediate achievements, it is important to hire people whose capabilities you are absolutely sure of. Mr. Kimura compares his hiring practices to marriage: “You must be confident in your choice of a person, so that down the road you don’t look back thinking, ‘This wasn’t how it was supposed to be!’”

Japanese Analog Skills of Manufacturing

Mr. Kimura says that there are two types of skills used when manufacturing products: analog skills and digital skills. While digital skills are used to assemble a product from many different parts just like jigsaw puzzles, analog skills involve engineers trying to select which combination of parts should be integrated into a product to achieve the best result. The goals to achieve cannot be perfectly written down in a manual. Engineers have to use their experience to find the answers themselves.



Integrated Coherent Receiver / ICR

“What NeoPhotonics is doing here is analog design,” explained Mr. Kimura. “Even if we make an excellent part, our job isn’t over yet. That part we made must perform well not just on its own, but also as part of a whole. We need to design with the entire system in mind, taking into consideration how other parts can best be integrated with our own... And I believe Japanese engineers are exceptionally good at that way of thinking.”

In Japan, Mr. Kimura observed, job descriptions are generally vague, especially in comparison to the clearly-defined job descriptions of the U.S. This results in many of engineers going beyond just what they are “supposed” to do in their work when they are seeking a solution. They may go visit a factory where the parts will be produced, for example, to see if there are any problems at the factory that they need to adjust to in accordance with their product design. “If you are creating an analog product,

you need to have an analog mindset as well,” Mr. Kimura stated. “If you look at the features of the technology you are making, you will know the best place to do the job: in Japan, in China, or in the U.S.”

U.S. Headquarters, China and Japan



Japan Office

NeoPhotonics currently operates three manufacturing sites: the U.S. headquarters, the Chinese headquarters, and Japan. Each site complements the other two by maximizing the unique qualities and advantages of its respective local market; for example, if you were to compare NeoPhotonics’ business with car manufacturing, Japan would be in charge of designing the car’s engine, the U.S. would design the car that the engine is to be loaded into, and the China would handle mass production.

NeoPhotonics fully recognizes that Japan is the best place for developing high-end parts, for a variety of reasons. For example, Japan’s turnover rate is relatively low, which is considered to be more suitable for long-span R&D work. Mr. Kimura noted, “My goal is to leverage such advantages so that the Japanese location can play its role to the hilt within the company.”

Utilizing the Japanese Subsidy Program

The **Subsidy Program for Projects Promoting Asian Site Location in Japan**, offered by the Japanese Ministry of Economy, Trade, and Industry (METI) and administered by JETRO, supports internationally-operated companies who establish new high-value sites in Japan, such as regional headquarters and R&D sites, by providing up to 500,000,000 yen in subsidies and other assistance. The program also aims at strategically and proactively inviting and building high-value business functions that match the strength of the Japanese economy.

It was the first time NeoPhotonics had received a government subsidy. It helped lower their overall costs of entering the market. “[The subsidy program] encouraged the company to invest in Japan,” Mr. Kimura said. “It definitely raised expectations for the Japanese market within the company.”

Matt Stephens, Deputy Director of Business Development at JETRO San Francisco, worked closely with NeoPhotonics on obtaining the subsidy program and other government assistance. “It is great to see a leading technology company such as NeoPhotonics take full advantage of the available incentives to grow the company’s presence in Japan,” Mr. Stephens commented.

There is budding interest in the subsidy program among foreign companies in Japan, and three other U.S.-based companies were recently selected for the same subsidy as NeoPhotonics. Mr. Stephens is hopeful that the trend will continue. “The Japanese government is serious about helping foreign companies do business in Japan, as evidenced by the range of assistance being offered. I would certainly encourage more companies from the U.S. and around the world to consider the benefits that Japan offers as an investment destination,” he said.

About Selected Projects Under the Japanese Subsidy Program

Announcement of Projects selected for the Japanese Fiscal Year 2012 Subsidy Program for Projects Promoting Asian Site Location in Japan (Feb. 6, 2013)

<http://www.jetro.go.jp/en/invest/newsroom/announcements/2012/20121227014.html>

Announcement of Projects Selected for the Japanese Fiscal Year 2011 Subsidy Program for Projects Promoting Asian Site Location in Japan (Dec. 21, 2011)

<http://www.jetro.go.jp/en/invest/newsroom/announcements/2011/20111202251.html>

For questions about the subsidy program or to apply, contact your nearest JETRO office:

<http://www.jetro.org/usa/contact/>

About NeoPhotonics

Worldwide Headquarters

NeoPhotonics Corporation (NYSE: NPTN)

San Jose, California, USA

Year founded: 1996

Employees: approximately 3,000

Chief Executive Officer: Timothy Jenks

Japan Office

NeoPhotonics Japan G.K.

Hachioji, Tokyo

Year founded: 2011

Employees: 9 (as of March 1, 2013)

Managing Director: Tamotsu Kimura

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