

New Networking:
From the Perspective of Web 2.0
and Rise of Internet Companies

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Trend of Web2.0: Web 2.0 Summit 2006

- **The Largest Web 2.0 Conference in 3 years**
 - The largest number of applicants
 - Participation permission of 1000 people against over 5000 application
 - The best presenters ever
 - Over 50 presenters: CEOs who represents the ICT Industry, Entrepreneurs, VCs, Visionaries
 - Purpose : The Web 2.0 Summit focuses on emerging business and technology developments that utilize the Web as a platform and defines how the Web will drive business in the future.
 - Web2.0Expo 2007, April 15-18, San Francisco, California
 - Web2.0Expo 2007 Japan, November 15-17, Tokyo

Main Players : Bringing new Web based Services to the market one after another at high speed

- **Google** - *Eric Schmidt (CEO)*
 - “Google Docs & Spreadsheets”
 - Acquisition of YouTube
- **Microsoft** - *Ray Ozzie (CTO)*
 - Photosynth (3D Mapping Service)
 - Windows Vista "The biggest thing that Vista can do is to provide a safe environment for interaction on the Web."
- **Amazon** - *Jeff Bezos (CEO)*
 - Elastic Compute Cloud (EC2:Web Services for Developers)
 - Simple Storage Service (S3: Hosted Storage Service for Developers)
- **Yahoo!** - *Brad Garlinghouse (SVP)*
 - New Yahoo Mail (embed instant messaging in e-mail)
- Others:AOL, Adobe, Intel, IBM, eBay, etc.

Ventures: Getting heavy attention and almost all of them are pure Internet players

- **LaunchPad**
 - 13 startups out of more than 200 companies are selected to launch their new services
 - In the Chair, Instructables, Klostu, Sphere, Sharpcast, stikki, Turn, Omnidrive, Adify, 3B, oDesk, Venyo, Timebridge
- **High profile Ventures**
 - **Social Site: Six Apart, Digg, craigslist, Ning.com**
 - **SNS: Cyworld, MySpace, Facebook**
 - **ERP: Salesforce.com, Zimbra**
- All of these startups are providing services which promote user communication / interaction on the Web

Venture Capital: Global Venture Capital Investment in Web 2.0 Companies on the Rise

- **Venture capitalists continued to favor the innovative activity of Web 2.0 companies**
 - US\$844.4 million was directed into 167 deals in 2006, more than twice as much money and nearly twice as many deals as occurred in 2005.
 - The U.S. dominated the Web 2.0 market, with 126 deals and US\$682.7 million invested in 2006
 - 83% increase in deals from 2005 and a 136% increase in capital.
 - Europe has also shown significant interest with 2.0 deals in 2006.
 - The amount invested in Europe, US\$100.5 million, is more than a 200% increase from 2005.

*Ernst & Young and Dow Jones VentureOne at the Web Ventures Conference in California Venture One
(March 21, 2007)*

Entrepreneurial Environment: Low-cost

- **Start-up financing for Web2.0 Business needs low budget**

- “There’s never been a better time to be an entrepreneur because it’s never been cheaper to be one”

Joe Kraus (Founder of Exite)

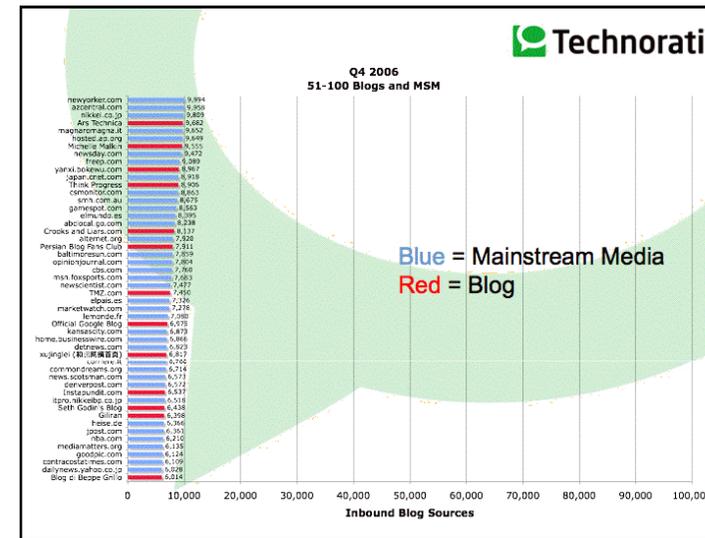
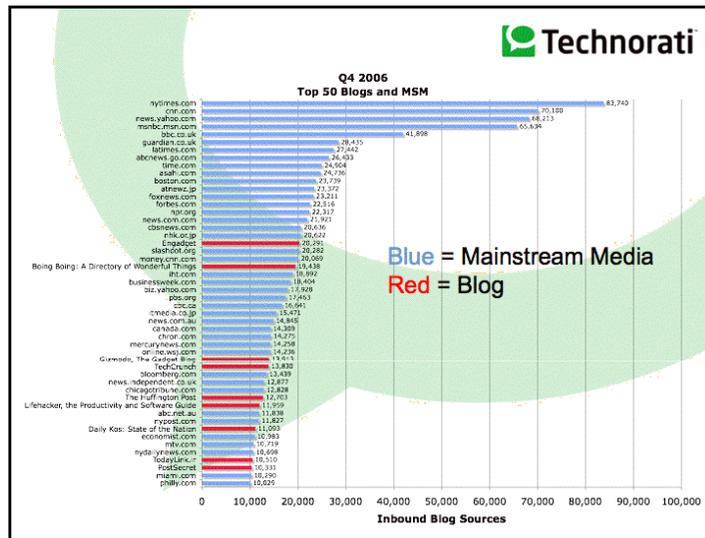
- Exite : From idea to startup \$3M
- JotSpot : \$100,000
- Price decline of hardware and Infrastructure, OSS
- Utilization of Open API (ex. Google, Amazon)
- Internet Bubble : Investor Initiative
- Web2.0 : Engineer Initiative

Non stop stream to the Web as a Social Media

- **Industry Trends shows Future**
 - Main Players
 - Openness, User Participation, Promotion of Interaction, Speedy Release of New Services, Web as a Platform
 - Ventures
 - Development of New Communication / Collaboration Tools
 - VCs
 - Vigorous Investment in Web2.0 Startups
 - Entrepreneurial Environment
 - Startups needs lower budget by utilizing OSS and Open API
- **The Web itself is becoming “Social Media”**

UGC is Rising: Long Tail Phenomena of Media

Popularity of Blogs vs. the MSM



Source: "The State of the Live Web, April 2007" (April 5, 2007) Technorati

- Q3 2006 : only 12 blogs in the Top 100 most popular sites
- Q4 2006 : 22 blogs on the list

Main Stream Media Trying to Adjust to the New Networking

- washingtonpost.com, NYTimes.com
 - In every article, Preparing the logo and the link of social media like Digg.
 - Users can send their article to the social media by one click

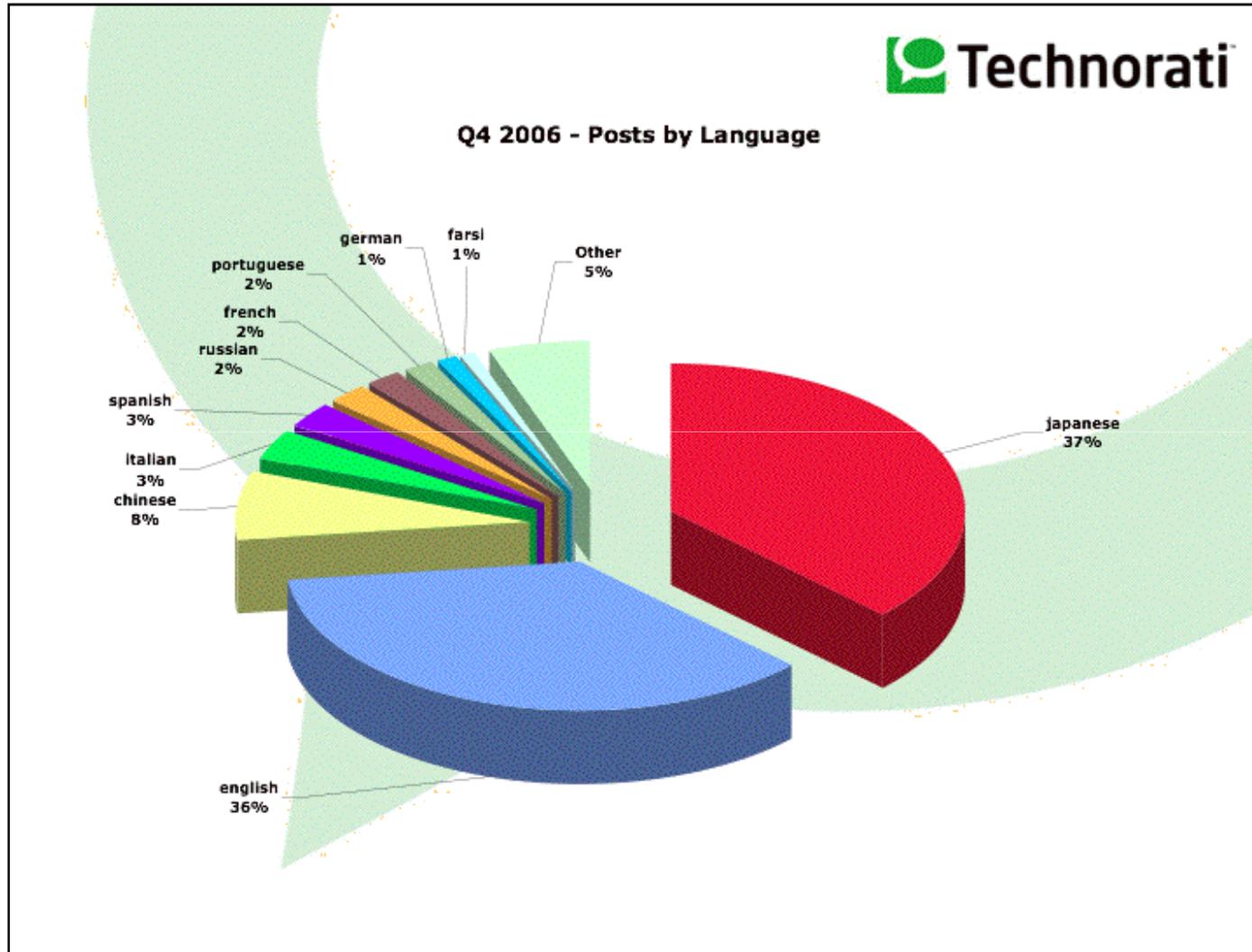


washingtonpost.com



NYTimes.com

Japanese lead in blogosphere



Source: "The State of the Live Web, April 2007" (April 5, 2007) Technorati

Japan's Web 2.0 is led by Internet Startups

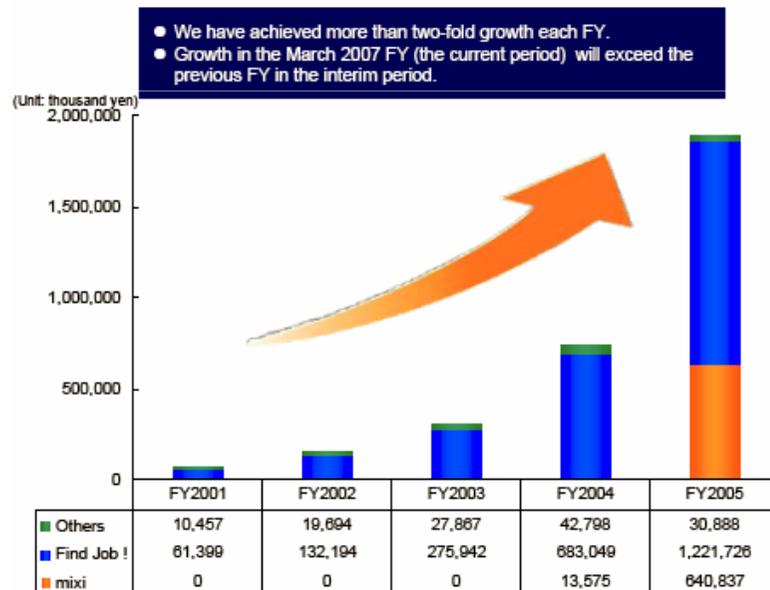
- Major Blog Service Provider (establishment Year)
 - FC2 (1999)
 - Livedoor (1997)
 - Yahoo! Japan (1996)
 - GMO Media Holdings (2006)
 - Cyber Agent (1998)
- Major Social Bookmark Service Provider(establishment Year)
 - Hatena (2001)
 - EC Navi (1999)
 - Livedoor (1997)

Source: FRI (Based on the number of Active Users (Blog) and the number of total entry (SB))

Case: Mixi Rising

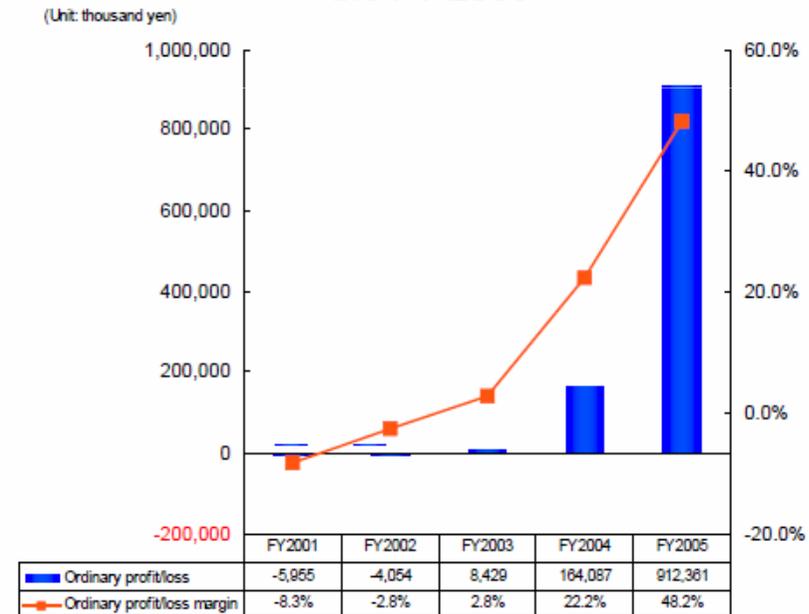
- Mixi (1999)
 - SNS, Online Job Search
 - 6.6 million membership (Japan's No1 SNS)
 - Second ranked site for PV
 - First ranked site in terms of usage time per person and PV per person

More than two-fold growth each FY



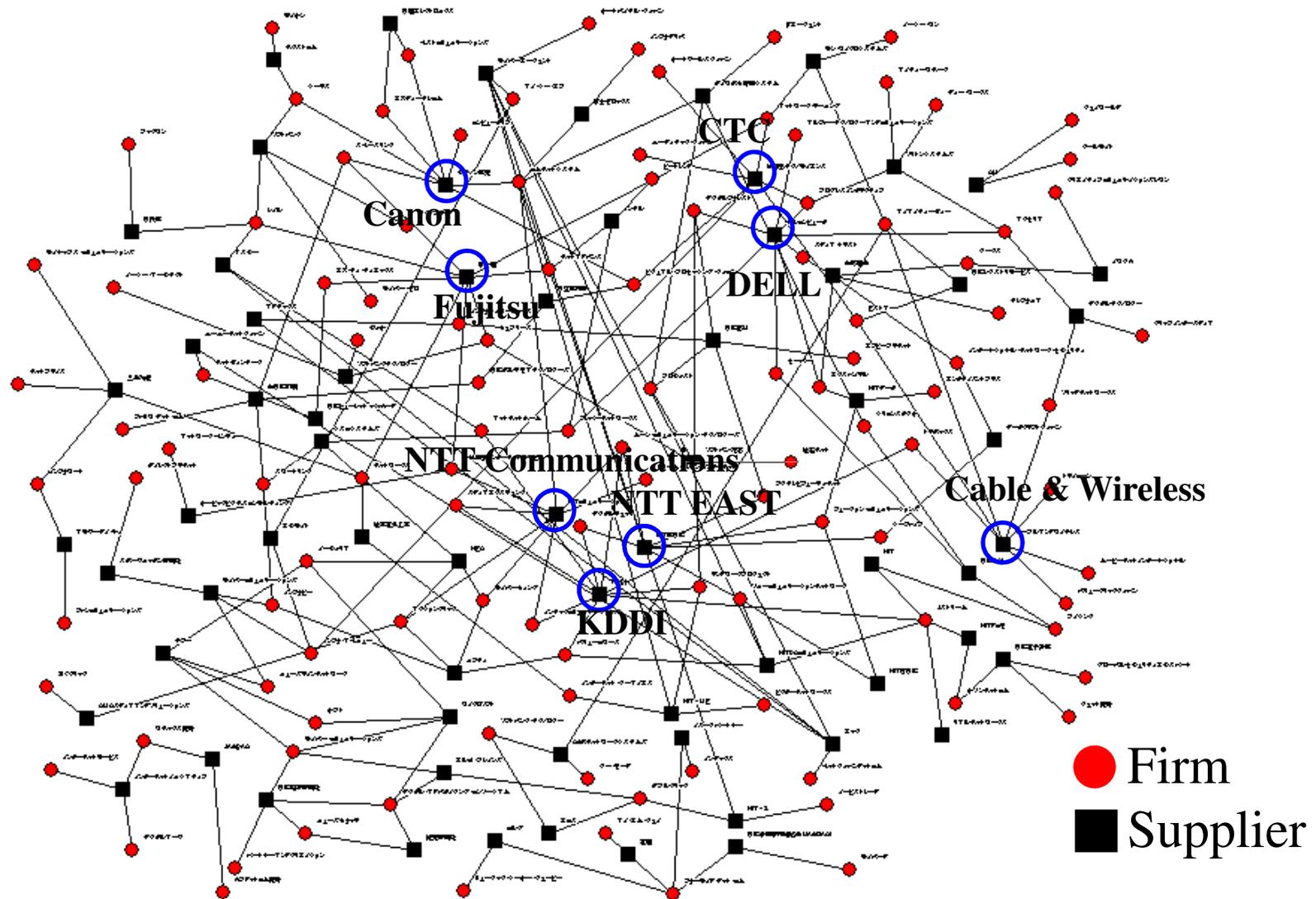
• Others refers to the News Release distributing Service "@Press", the operation of which was transferred to Netage Capital Partners, INC. as of August 31, 2005.
 • FY2006 represents the term ending of March 31, 2007.
 • Net sales in the interim period ended September 2006 is 1,947,834 thousand yen while the net sales forecast for the FY March 2006 will be 4,789,541 thousand yen.

Ordinary Profit Margin Ratio 48.2% for the FY 2006



• Ordinary profit is the profit computed by the calculation of Operating profit ± (non-operating income – non-operating expenses).
 • Ordinary income in the interim period ended September 2006 is 843,360 thousand yen while the ordinary income forecast for the FY March 2006 will be 1,719,951 thousand yen.

Network of Internet Companies and Suppliers



Number of Suppliers=68/569 (Among the 569 suppliers of 259 firms, 68 supply more than two firms. Other 501 suppliers are isolates.)

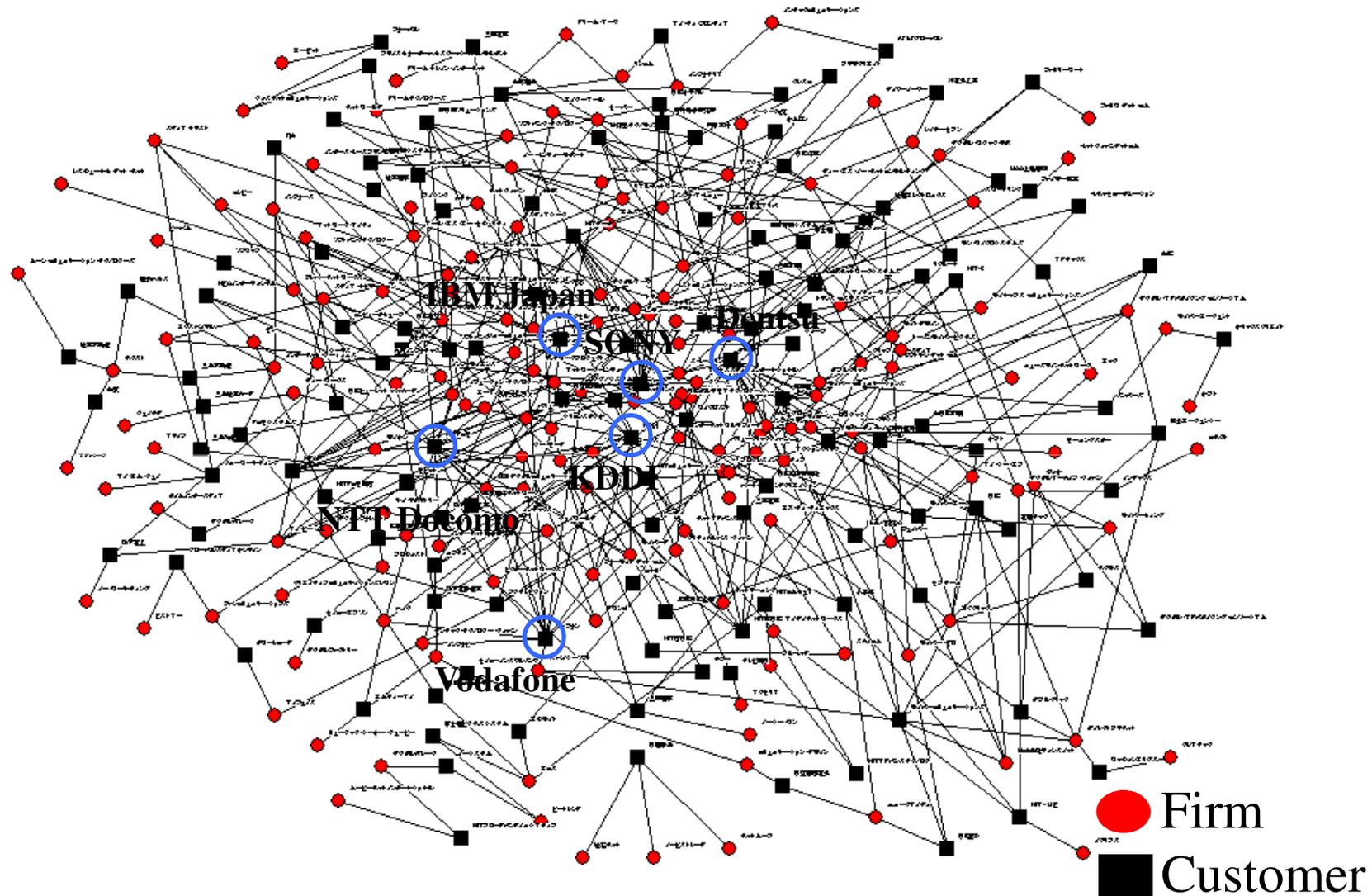
Number of Firms=116/259 (Among the 259 firms, 116 share common suppliers. Other 143 firms are isolates.)

Relationship of Internet Companies and Suppliers

- Goods purchased by Internet companies are likely to be access lines, PCs, and printers
- Breakdown of Suppliers
 - Telecommunication: 9 (13%), Information Technology: 35 (51%), Advertisement: 5 (7%), Mass Media: 12 (18%), Other: 7 (10%)
- Number of Ties
 - Telecommunication: 45(20%), Information Technology: 117(52%), Advertisement: 11(5%), Mass Media: 31(14%), Other: 23(10%)

KDDI	9	NTT EAST	7
NTT Communications	8	Canon	7
DELL	8	Cable & Wireless	7
Fujitsu	8	ITOCHU TECHNO-SCIENCE (CTC)	7

Network of Internet Companies and Customers



Number of Customers=132/692 (Among the 692 customers of 259 firms, 132 are customers of more than two firms. Other 560 customers are isolates.)

Number of Firms=172/259 (Among the 259 firms, 172 share common customers. Other 87 firms are isolates.)

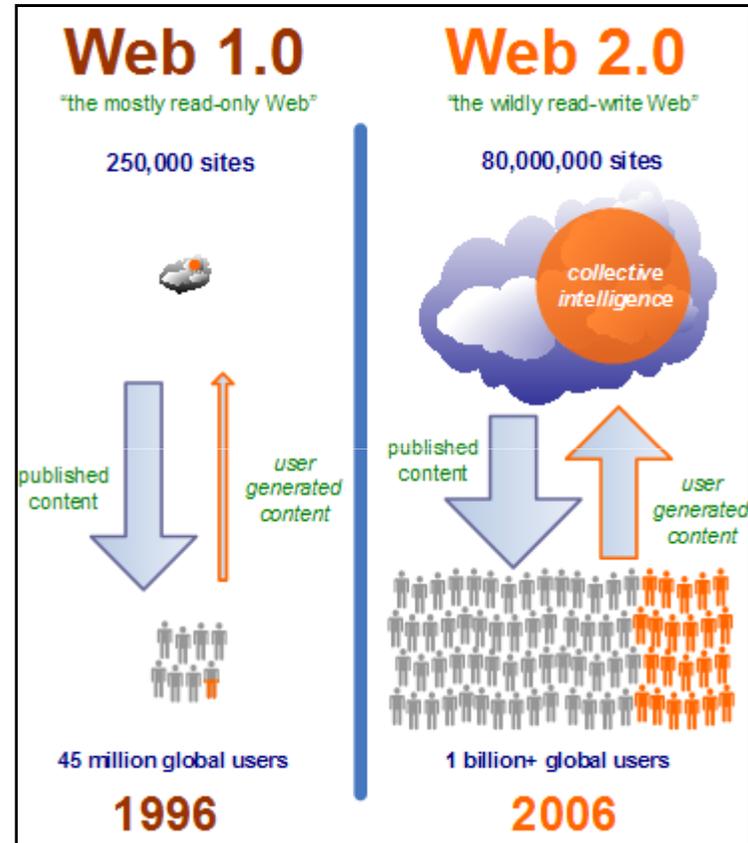
Relationship of Internet Companies and Customers

- Sales of information systems and digital contents to large mobile communication companies is highly competitive
- Breakdown of Customers
 - Telecommunication: 11 (8%), Information Technology: 51 (39%), Advertisement: 18 (14%), Mass Media: 17 (13%), Other: 35 (27%)
- Number of Ties
 - Telecommunication: 80(16%), Information Technology: 199 (40%), Advertisement: 84(17%), Mass Media: 45(9%), Other: 93(19%)

NTT DoCoMo	19	Vodafone	12
Dentsu	15	SONY	12
KDDI	14	IBM Japan	12

Conclusion (1) : Expanding UGC

- The number of User is growing steadily.
- Interaction Tools are evolving.
- It pass the point of no return.
 - Will Blogosphere draw down?
 - Will Long Tail diminish?
 - Will user satisfy with the services which will not contain “participation” or “collective intelligence”?



Source : Dion Hinchcliffe's Web2.0 Blog

Conclusion (2) :
Startups lead Web 2.0 Business in Japan

- **Japanese Internet users are active to participate in the Web based communication and collaboration.**
- **The platform of these activities are mainly provided by Internet startups.**
- **But Internet companies are heavily dependent on the existing large ICT companies.**

Definition of Internet Company

Infrastructure

- Network-related Technology
- ISP
- **Server Rental / Hosting**
/ Registry / Domain Acquisition
- Internet Data Center

Intermediary

- Intermediary on the Internet (Online brokerages, Online travel Agencies, etc.)
- Content providers, **aggregators**
- Internet Advertising / Marketing / Research
- **Community site management**
- Market Palace / Online Mall

Internet-related Services (Official Statistics)

- Consulting
(HP Design, Planning)
- Development of Internet-related System, Software, Database and Contents
- **ASP**

- Online Shopping in general
- * Mostly, EC of Information goods
(Software, Music etc.)

Application

Electronic Commerce

Applied correspondingly the framework of “Measuring the Internet Economy 1999-2001” (Cisco Systems, University of Texas)

Target Company of Research

1. **Internet Company**
2. **Own their own Homepage**
3. **Established after 1994**
4. **Situated Head Quarters in 23 ward area of Tokyo**
 - **Firm level Analysis (not establishment level)**

Survey Method

Construction of Original Database:

- Data Entry from “*Company Info*” of Each company’s Homepage

NTT Telephone Directory
(12,407)

Existing DB, Internet Directory
(about 2,300)

Literature Review
Books, Magazines, Mail-magazines, etc.

Existing FRI’s Internet Company DB
(1,541)

Company Search – Verification of Business Content by HP – Extraction of Company

Construction of Original Database (1,442)

Data Collection:

- Business Content
- Current Status of the Company (IPO, M&A, etc.)
- Year of Establishment, History
- Number of Employees
- VC Investment, etc.