



STANFORD SV-NJ CASE STUDY SERIES:
JAPANESE FIRMS IN SILICON VALLEY (STARTUP-UPS)



Company Name: ChatWork

Arrival to Silicon Valley: 2012

Business Location: Plug and Play Tech Center, 440 N Wolfe Rd, Sunnyvale, CA 94085

Interviewee: Toshiyuki Yamamoto

Interview Date: July 1, 2016

Website: <http://www.chatwork.com>

US Entity Type: Delaware Corporation

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Company Overview:¹ What is the company's business purpose?

ChatWork provides a real-time communication tool for businesses, aimed to increase productivity in teams. This cloud based group chat platform is named ChatWork, which is the same as the company's name.

ChatWork provides a number of functions including secure messaging, video chat, task management, and file sharing. One of the best features of ChatWork is a task management system. Using ChatWork, users are able to delegate tasks to different team members, assign due dates, and keep track of progress within their teams. All group members are able to keep track of all their assigned tasks in one place, and mark completed tasks. At any time, members can look at all messages and files that have been shared in the past, allowing even new members to pick up where their team members left off without any briefing. Users usually make chat groups according to projects, and manage it by a group. All features above contribute to the increased productivity of teams.

ChatWork runs a secure platform, and has acquired several internationally recognized security certifications. Among these certifications are the ISO 27001 / ISMS authentication, encryption of communication and the implementation of security audits and a third-party organization, and ISO 27018 certification in the protection of Personally Identifiable Information (PII) on the Cloud. ChatWork is the second company in Japan to acquire this last certification and the first

¹ Company overview information is collected from the company's website and marketing materials. Any merits of the company's abilities and technologies expressed herein do not reflect the opinions of Stanford nor SV-NJ.

business chat platform to pass this rigorous compliance certification. In addition, ChatWork clears its business affiliate KDDI's security regulations.

Currently, more than 104,000 companies including prestigious large companies, universities, and hospitals, use ChatWork. ChatWork has adopted a "Freemium" business model, providing its services free of charge. However, if the number of users in a group exceeds 14, ChatWork charges 4 dollars per person. The proportion of users who pay fees for ChatWork's service is above the average of general conversion rate (2-5%).

In order to increase its user base, ChatWork targets accountants, lawyers, and consultants who have many customers, and are able to advertise ChatWork's service by word of mouth to a whole range of networks. For instance, an accountant who is able to manage more than twice as many customers as before by using ChatWork, will be pleased with this dramatic increase in productivity, and recommends ChatWork to his/her clients, acting as an informal advertising channel for the company.

Company Story: What are the company's origins and connections to Silicon Valley?

In 2000, Yamamoto founded EC Studio, renamed to ChatWork in 2012. EC studio started as a consulting business aimed to help small and medium enterprises (SMEs) increase online sales through company homepages. Before popular chat services such as LINE had emerged, Yamamoto had begun to pay close attention to chat tools such as ICQ, MSN messenger and Skype Chat, recognizing their usability and convenience as communication tools, and using these services for internal communications at his firm.

At this point EC Studio had become quite established, catering to 50,000 customers. However, Yamamoto began to wonder if the momentum of his specialized business had peaked, and was beginning to see the increasing vulnerability of his company as more and more competitors had begun to offer similar kinds of services. Yamamoto decided to refocus his efforts into making a better chat platform exclusively for work. He wanted to do something like Google apps before Google apps came out, envisioning a platform composed of some existing solutions such as Skype, Mind Map, and image capture software. His new business idea was not only to sell the platform itself, but also to provide services to teach businesses how to use it. However, all the updates and changes to these existing solutions were not necessarily what he wanted, prompting him to begin to develop his own solution. Out of the existing solutions, he saw the most potential in Skype as a basis for his new productivity enhancing business communication tool. As a result of his market research, he discovered that there wasn't anyone else doing this sort of thing at the time – even after a one-year development process, there was only one potential competitor in the US, so it wasn't too much of a threat. Market testing on existing customers led to generally positive feedback, convincing Yamamoto that this new business would be successful in the world. However, at this point, there had been no previous examples of any widespread global usage of Japanese software.

In March 2011, ChatWork was released in Japan, and in July its English version was released. However, despite Yamamoto's confidence in his new service, Japanese companies were hesitant to adopt it. ChatWork's service and core concept was just too progressive for Japan at the time. Yamamoto decided to turn to the Silicon Valley market with the hope that companies in Silicon Valley on the leading edge of IT would understand. In the summer of 2011, Yamamoto made a presentation at "San Francisco New Tech." There were about 350 participants, and the presentation was broadcasted on Ustream. Although he attracted the interest of two venture capitalists who offered to invest between 500 million to 1 billion yen in his idea, users still were not interested. Yamamoto concluded that the reason why it wasn't catching on was because he didn't understand the way that Americans worked and managed and marketed. Yamamoto decided to intern at a U.S. company for two months in the summer of 2012 in order to understand the way of business in the U.S. In August, he and his family moved to Silicon Valley.

His experience at this U.S. company quickly brought about the realization that everything, especially management and marketing, was so different (than Japan) – not wrong, just so different. Yamamoto decided to transfer or finish all of his existing businesses and focus only on ChatWork. In 2012, Yamamoto changed the name of his business from EC Studio to ChatWork and launched his business in Silicon Valley. The lesson that he learned through this internship and his time spent in Silicon Valley was that Japanese companies should take advantage of Silicon Valley's strongpoints in marketing, partnership opportunities, product design (UI/UX), and project management.

Human Capital: Who are the key leaders and employees of the company, and what plans exist for personnel expansion?

The company's core members are Toshiyuki Yamamoto (CEO), Masaki Yamamoto (CTO), and Katsuyuki Yamaguchi (COO). In particular, Masaki Yamamoto, Toshiyuki's little brother, has played a significant role as an expert of IT.

Growing up, the two Yamamoto brothers couldn't have been more different – Toshiyuki was a self-proclaimed technophobe, and Masaki, an "otaku" who spent all his time developing game software when he was a high school student. However, it was Masaki who made his brother realize the potential of IT. Yamamoto recalls finally recognizing the amazing potential in IT when, masked behind a computer screen, he, a high school student, was able to do business with company executives on a leveled playing field, and generate revenue through online trade. This newfound interest made him decide to establish a legitimate business utilizing IT before graduating a university. Masaki has been engaged in the company as a core member since the beginning of the first business, although he quit the company once.

Masaki also played a huge part in the development of the service, as ChatWork was his idea initially. Yamamoto recalls rejecting the idea of a Freemium chat platform business at first, as he saw no way it could compete with Skype. However, the first prototype that Masaki showed him after a year of development, made Yamamoto change his mind. The product was so straightforward and easy to use that even he could figure it out. This became a key idea behind

the development of ChatWork – “I wanted a product that even I would be able to figure out – if I could figure out how to use it, anyone would be able to use it.” Although he was confident that this service that they had developed was sure to be a success, they approached very cautiously when making a new business model, as they had put a lot of money into the development of an earlier Freemium system that had ended in failure.

When looking for employees, Yamamoto stated that finding people who have had experience in the startup field, and have the high motivation necessary for this area, has been very important when growing his team. Yamamoto realized that if ChatWork was to make it in Silicon Valley, he would need to start hiring local employees who were knowledgeable about the US, and could provide them with the insight they needed into Silicon Valley. The company has used recruiting agencies to find qualified, talented employees in Silicon Valley. Among his first employees was a Japanese who had been a manager at a Silicon Valley startup, a half Japanese, half American university student, and another half Japanese, half American employee with experience with startups. There are currently 6 employees in Silicon Valley office.

Around half of these employees are women. One woman is a leader in charge of public relations. In Japan, there are around 15 employees in the Osaka main office and 50 employees in the Tokyo Branch. The proportion of women employees is about 25%. As the company hires a large proportion of engineers (a traditionally more male dominated field up to this point), they get more men in the Japan office. In Osaka, it has been easier to hire talented engineers compared to Tokyo, where there are many more competitors. Yamamoto cites that this has been one of the great advantages of placing the main office in Osaka.

Funding: What are the sources of funding for the company?

- In April 2015, ChatWork raised 2.5 million dollars from GMO Venture Partners, in its first round of funding.
- In January 2016, ChatWork raised 12.5 million dollars of funds from JAFSCO, Shinsei Corporate Investment, SMBC Venture Partners, and GMO Venture Partners as its second round.

Business Challenges: What challenges does the company face?

Yamamoto has faced a lot of hurdles in the U.S., one of the largest being the management of his employees. In Japan, management has worked very well, and ChatWork received the first customer satisfaction award in Japan. However, from his time in the U.S., Yamamoto has found that U.S. culture is quite different from Japanese culture, and with regards to employee management, this meant the adoption of a completely different management style. In the U.S, there is a strict work life-personal life dichotomy; for Americans, a healthy work-life balance means a distinct separation of these two realms. On the other hand, in Japan, these boundaries are slightly more blurred, with more time spent with colleagues outside of the office. Here in the U.S., Yamamoto has learnt to respect the privacy of his employees and their lives outside of the

office. Yamamoto compares the navigation of these cultural differences to driving a car in the U.S. versus Japan; “the acceleration and brake pedal are both there, but if you drive the same way you will crash.”

Yamamoto came up with a unique program for employees in Japan to better understand what is happening in Silicon Valley, in order to bridge some of the distance between his cross national teams. He brings about 4 or 5 employees at a time from the Japan offices to the U.S. to have them see what they do at their Silicon Valley office. However, this experience is not just limited to the workplace – Yamamoto has his Japanese employees experience every aspect of their lives in Silicon Valley – from morning commute to lunch to happy hour, in hopes that this full integration will provide a better understanding not just of the work culture in Silicon Valley, but of the entire lifestyle here. Some large companies have now started to use this experience model as well.

Recently, the business environment has dramatically changed as more and more competitors have emerged. However, ChatWork has acquired a dominating market share in Japan, which is still the third largest economy in the world, and has several barriers to foreign companies. ChatWork has an appealing business base that is expected to generate a certain level of revenue in Japan. Also, in general, while it is hard to globalize a big service in Japan, ChatWork has styled its basic service after Skype, which has contributed to better acceptance due to a certain level of familiarity on the international market. ChatWork has other advantages as well. While existing chat tools have provided services for internal communication, ChatWork provides a service that extends to external communications between firms as well. ChatWork also holds a technological lead over its competitors in mass data storage solutions. ChatWork has developed a system to address server issues caused by the accumulation of massive amounts of customer data in a server – an issue that all cloud based platform businesses inevitably face and must address.

Tools, Reference, & Resources: What technology and professional resources are used by the company?

When ChatWork first expanded into Silicon Valley in February 2012, it rented office space at Plug and Play Tech Center – an accelerator located in Palo Alto. The company moved to its current office space at the Plug and Play Tech Center in Sunnyvale two months later. They use professional resources such as lawyers and accountants based in Silicon Valley. They use ChatWork for all of their internal and external communication.



About the SV-NJ Case Studies Series: Japanese Silicon Valley Firms (Start-Ups)

The Stanford Silicon Valley – New Japan Project case study series investigates Japanese firms in Silicon Valley. The purpose is to understand each firm’s business purpose, its journey from Japan to Silicon Valley, human capital issues, business challenges and best practices, funding, and resources utilized. Information was compiled by interviewing leaders of start-ups based in Silicon Valley with one or more Japanese nationals as founders. The subject companies range from bootstrapped to fully funded companies with or without a presence in Japan, but all of which contain a technology element such that they are scalable enterprises. For more information or to refer a case study interviewee, please email stanford.svnj@gmail.com.