



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



Company Name: Mercari, Inc.
Arrival to Silicon Valley: April 2014
Business Location: 225 Bush Street, Ste. 1150, San Francisco, CA
Interviewee: Ryo Ishizuka
Interview Date: June 30, 2015
Website: www.mercari.com
US Entity Type: Delaware Corporation
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Company Overview:¹ What is the company's business purpose?

The Mercari app is the biggest C2C mobile marketplace in Japan connecting millions of buyers and sellers every day. Mercari offers a safe platform for people to buy and sell a wide range of items including fashion, electronics and handmade items, resulting in millions of dollars worth of transactions taking place every month. In Japan, Mercari has over 15 million downloads to date and have hundreds of thousands of new listings daily. Nearly one out of four smartphone owners in Japan has used Mercari within its first two years of business. Mercari, now also doing business in the United States, describes themselves as a mobile Craigslist with added features of payment escrow systems, shipping logistics, buyer guarantee, and a rating system. Mercari creates profits by taking a commission from the buyer side sale of goods.

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

Founded in February 2013 and launched in July 2013, Mercari's origins are in Japan. Created by a team of serial entrepreneurs who are driven by a desire to deliver lifestyle products that bring pleasure to millions of people, Mercari's vision is to become the biggest community-powered shopping app. In April 2014, Mercari established a US subsidiary, and subsequently released a US version of the Mercari app that September.

Mercari's founders began their pursuit with intentions of being a truly global company. They acknowledged the idea that to be globally competitive they must succeed in the US market for

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.

both credibility and access. The company claims Silicon Valley was the natural fit because of the technology entrepreneurship environment and their familiarity with the region from previous experience. Therefore, Mercari opened in Silicon Valley as a Japan office subsidiary, and operates as a Delaware corporation. They launched in the Bay Area at Digital Garage, a well-known venture capital and incubation office that offers co-working space. The connection between Mercari and Digital Garage stemmed from a referral by a friend of Ishizuka.

Mercari has been quick to grow in the US with download numbers already exceeding 2 million, and success and growth patterns emulating those achieved in Japan. As success in the USA grows and the company becomes more confident that it can grow on its own, Europe will be the next targeted region for expansion. It is likely that the United Kingdom will be the first place to expand, primarily because English is spoken there. Mercari hopes to expand to Europe within the next year, but to date there is no set timeline.

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

Mercari was founded by three serial entrepreneurs from the social gaming industry with experience in leading gaming companies. All Japanese nationals, two founders work at the Tokyo headquarters, and Ishizuka leads the San Francisco based operations for North America. Armed with successful previous ventures, all three co-founders wish to build a truly global company.

Ishizuka, born in Japan, spent a great deal of his early life in the United States. After graduating from Johns Hopkins University with a bachelor of arts in economics in 2001, he moved to the Bay Area to start RockYou, a tech startup funded by Sequoia and Softbank, with his college roommates. Subsequently, Ishizuka moved to Japan to be the head of RockYou Asia, but eventually left the company, and began to create Mercari with his cofounders Shintaro Yamada, founder of Unoh Inc., subsequently sold to Zynga Japan, and Tommy Tomishima, founder of Bank of Innovation. Ishizuka credits Shintaro Yamada as the catalyst for creating Mercari via his conversations with Tommy Tomishima.

The San Francisco Mercari office moved to Bush Street in January 2015, and currently has 20 people employed in the United States, all of whom are local hires. Of the 20 employees, about 16-17 are customer service agents, with the remainder being the office manager, accountant, and vice president of operations.

As Silicon Valley office grows, Ishizuka anticipates employee numbers to remain under 100 people, of which many will be customer service agents. Once employee numbers reach around 70 people, it is likely Mercari will include a product team. Eventually the majority of customer agents will be located outside of the United States, and recently Mercari began employing about a dozen customer service agents in the Philippines who are dedicated purely to web-based support for their North American business. Mercari chose Philippines based support purely because of cost.

All engineers, product designers, product managers, and others are services provided via the parent company in Japan. However, Japan side employees fly over from Japan for a few months to work on a particular project and work closely with US counterparts, and also to learn more about US culture and US market. This seems to be a successful model as it helps Japanese employees experience how American customers use mobile apps such as Uber, Square, AirBnB, etc.

Mercari does not have a diversity and inclusion program; however, the vice president of operations is a female.

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

Mercari is a Japanese venture capital backed company that raised \$40MM USD, currently Series C from Globis, Itochu, World Innovation Lab, and East Ventures (angel), amongst others.

Business Challenges: What challenges does the company face?

Mercari expressed its biggest challenge in the United States is that it is hard to define their ideal market, as compared to Japan. Mercari is able to easily understand how Japanese use mobile apps and it was therefore easy to design a product for the Japan market. However, it is much more challenging to know how the users in the US use mobile apps. User behavior is different like in the example of frequent credit card charge backs in the US, a rarity in Japan. Quality control is also an issue in American business where there is a higher rate of scamming and product manipulation. Another challenge is on deciding on user interface details for the American market's tastes, and Mercari utilizes AB testing to aid in this process.

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

Technology Resources:

- Redmine - ticket platform to resolve bugs or platform issues
- Zenefits – human resources
- Slack – intercompany communications
- Yammer – corporate channel Facebook type platform
- LinkedIn – for recruiting

Professional Resources:

- Corporate Attorney – Yoichiro Taku of Wilson Sonsini Goodrich & Rosati
- Immigration Attorney – Minami Tamaki LLP
- Translation – full time translators in Japan translate emails and Skype calls
- Human Resources – various recruiters, but all managers by referral only

Ishizuka's advice to future Japanese entrepreneurs is: Hire local people and let them do their work. Make Japan headquarters stay out of the way. Ask yourself why are you doing your

business? What value do you add to others? Why do you qualify? Keep in mind that just being Japanese is not really a strength.



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.