



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



Company Name: FRONTEO (formerly UBIC, Inc.)

Arrival to Silicon Valley: 2007

Business Location: 611 Mission Street, San Francisco, CA 94105

Interviewee: Yoshikatsu Shirai

Interview Date: August 3, 2016

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

US Entity Type: Foreign Business Corporation

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

FRONTEO is a publicly traded global technology and services company specializing in big data, artificial intelligence, information governance, managed review, and consulting in a one-stop solution for the e-discovery market.

KIBIT, FRONTEO's artificial intelligence engine, developed to support technical judgments of attorneys in the cross-border litigation field, has an unsurpassed ability to understand the human mind and help humans make decisions in various fields of society. The main feature of KIBIT is a capability to identify tacit knowledge of experts, and utilize it in making decisions. FRONTEO helps clients cut down on labor time and costs by letting its AI technology learn the decision criteria of attorneys and classify the vast amounts of documents that may include evidence.

FRONTEO is currently looking to expand its services into areas such as business intelligence, healthcare, and marketing. In the healthcare industry, the uses of AI for the elderly, for example, is an area gaining a lot of traction recently. Developing programs that can sort through and analyze nurse records to assess the needs of patients and identify higher-risk individuals could potentially significantly limit the number of falling injuries amongst the elderly. Another example is marketing – FRONTEO is developing an engine that is able to analyze a person's underlying preferences that even they might not be aware of, based on restaurants they like, for example, and use this information to generate suggestions for other things, such as hotels. Although sales from these categories are minimal at the moment, the company has high hopes that their work in these areas will continue to develop and grow.

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.

Although FRONTEO's engine is simple to teach and can be used relatively easily, teaching clients how to use their service correctly is a key component of their business in terms of maximizing the engine's performance. The KIBIT is very good at learning, but can only do a job based on what it has been taught to do. If the service isn't used correctly and clients are dissatisfied, this ultimately reflects badly on the company. Using the engine correctly is essential to maximize utility and see its full capabilities.

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

FRONTEO, then UBIC,² was founded in 2003 to provide electronic discovery solutions and preventative strategies in the cross-border litigation field. "E-discovery" is a critical issue for companies. When they get involved in lawsuits with a US entity, lawyers are able to demand electronic files, requiring both plaintiffs and defendants to disclose case-relevant evidence. The e-discovery industry now includes thousands of firms, however, FRONTEO's services are optimized for Asian languages, which are usually quite difficult to program, and have been a notable weakness for other global-scale firms.

In June 2007, the company listed on Tokyo Stock Exchange Mothers. At this point, FRONTEO was still a smaller, newer company. As a third party company tasked with handling confidential, internal information from clients, there was a need to build trust and reliability. A move like this signals to the public the company's commitment to transparency and helps build credibility. 6 years later, the company would list on NASDAQ for similar reasons.

In December of this same year, the company established its US subsidiary, UBIC North America, Inc., in Redwood City, California. The team was drawn to the technological advancements in Silicon Valley, and America's sizable e-discovery industry, which was at this time, the biggest in the world. Furthermore, the founding team had envisioned (accurately) the expansion of their services, and wanted to better ingrain themselves in the IT world. Silicon Valley was the best place to acquire the kind of talent required for the direction that they were headed in. In 2011, the company also established subsidiaries in Taiwan and in Korea.

In 2013, the company listed on NASDAQ. As mentioned earlier, the motivations for this move were somewhat similar to the company's previous IPO – an IPO usually demonstrates that a company is trustworthy, and is also a way to expand the brand. Furthermore, the world of lawyers is relatively closed to newcomers, and many are independent contractors who require the support and resources of a public company.

FRONTEO's services have evolved over the years, riding the wave of global digitization. At the very beginning, the company helped its clients sort through physical files and documents. As legal documents have gradually all become digitized, FRONTEO began to offer a cloud-based database, accessible to clients who could then use a search function to sort through large amounts

² The company changed its trade name from UBIC to FRONTEO Inc. earlier this year in July.

of digital data. When even this kind of service by itself became inadequate for the massive amounts of data that FRONTEO now dealt with, in as early as 2011, FRONTEO began the development of its artificial intelligence engine, KIBIT. KIBIT, derived from the Japanese word “Kibi,” representing tacit knowledge or the subtleties in our judgment and feelings which are often difficult to express in words, finds and organizes related data, making connections based on human like instinct and judgment calls. In November 2016, FRONTEO started to take pre-orders for its KIBIT powered communication robot, Kibiro. As a personal companion robot, the Kibiro is able to learn tastes and preferences through simple interactions and observed behavior of an individual, and compute this data into meaningful information. Through the development of the Kibiro, FRONTEO is engaging in further R&D activities intended to enhance data analytics in the field of marketing.

In July of this year, the company changed its trade name to FRONTEO, Inc., and in the same month, conducted an absorption-type merger with UBIC North America, Inc., and TechLaw Solutions Inc., and established FRONTEO USA, Inc.

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

FRONTEO was founded by current CEO Masahiro Morimoto. Current director and vice president Naritomo Ikeue, joined the company shortly after. Both men had previously worked at Applied Materials Japan. Morimoto went to Japan’s Defense University, and spent five years in the Self Defense Forces prior to joining Applied Materials Japan. Ikeue later took charge of the North America development of the company.

Syusaku Nozaki, joined the company as the head of legal around 2 years after establishment. Shirai joined the company in 2007, and took the position of CTO a year later, and CCTO in 2013. Hideki Takeda joined the company in 2009, and became CTO in 2013.

The company experienced quite an astonishing growth in numbers in a few years – from a two person launch team, to a 20-person team in 2007, to over 500 employees today. The company has constantly expanded in the last decade. In order to achieve the kind of rapid expansion that the leaders had envisioned for the company, FRONTEO came to the realization that doing this by hiring employees one by one was difficult and costly, and ultimately, despite the time and effort put into individual hires, the company was plagued with a low retention rate due to the high mobility of lawyers between law firms.

Instead, they decided to expand through M&A – a strategy that not only expanded their numbers, but also gave them new business partners and connections. In 2014, FRONTEO acquired a Washington DC based e-discovery support company, TechLaw Solutions, Inc., making it a consolidated subsidiary. However, TechLaw Solutions was not a very large company, and FRONTEO needed a stronger foothold in the west coast e-discovery industry. In 2015, the company acquired US-based e-discovery support company EvD, Inc., making it a consolidated

subsidiary. The company had a large team of around 200 employees, and also many subsidiaries on the West Coast.

FRONTEO has also recruited talented programmers from outside of the company to do contract work. This has proven to produce extremely high-level results and substantial improvements in its services.

Right now, the company has a total of about 500 employees. Although regional managers are hired locally, top management is mostly Japanese, and about 30% of the company's employees are Japanese. Most new hires are in the legal department, and a lot of the company's employees work between the US and Japan teams. FRONTEO's AI development team is heavily concentrated in Japan. Although the proportion varies depending on department, women make up approximately 40% of the company's workforce.

Business Challenges: What challenges does the company face?

Recruiting, hiring, and putting together a team has and always will be a challenge. FRONTEO faced some challenges in hiring appropriate management and finding people with sufficient knowledge on the US market at first. Another challenge comes from the fact that most of the company's business entails a larger number of cross border projects. Cultural differences aside, some major challenges have been trying to figure out how to make decisions unanimously, how to work together as a team, and how to distribute sales commissions. If it is one project that two separate teams in the US and in Japan are working on – who ultimately is able to take credit? How can commission be divided? Such issues inevitably present themselves when managing a cross-national team.



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

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 startups 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 us at: stanford.svnj@gmail.com