

Stanford

SILICON VALLEY NEW JAPAN
PROJECT



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

SmartNews

Company Name: SmartNews, Inc.

Arrival to Silicon Valley: August 2014

Business Location: 144 Second St., Second Floor, San Francisco, CA 94105

Interviewee: Ken Suzuki, Vincent Chang

Interview Date: March 24th, 2016

Website: <https://www.smartnews.com/en/>

US Entity Type: Delaware Corporation

Prepared by: Kei M. Ashizawa, Esq.

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

SmartNews' mission is to smoothly and efficiently deliver trending, influential, and high quality stories right to its users. Its free app utilizes machine-learning algorithms that curate millions of articles shared across the world, and picks out columns at any given time and location. SmartNews hopes that this algorithm will soon learn to deliver culturally relevant and country-specific news. SmartNews has been downloaded more than 18 million times all over the world (as of July 2016).

However, SmartNews does not aim to personalize news, but rather the opposite. The generalization of news is critical for delivering a broad range of stories, both familiar and

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.

unfamiliar to the users. It gives them a feeling of serendipity; a feeling of discovery; a feeling much like that of looking through a newspaper.

The reason behind SmartNews' immense popularity is in its barrier-free and frictionless interface setup. Its SmartView feature displays simply the text and essential images of an article, allowing users to not only read more conveniently, but also cut back more than 90% on data usage. Another one of its traits is ChannelView - an intuitive tabbed interface that allows users to swiftly explore multiple story headlines at once. With all stories pre-loaded (behind-the-scene refresh feature), users can stay in touch with the latest stories without having to worry about network connection. The key technologies they have are machine-learning algorithms and off line mode, which would allow them to expand SmartNews to the world market easily due to their universality. In particular, machine-learning algorithms would contribute to not only delivering stories right to its users in the smooth and efficient way, but also effective advertising.

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

Ken Suzuki, co-founder of SmartNews, was bothered by the millions of people playing mindless games on their phones on the crowded Tokyo subways. He felt the need to entice those people to do something more productive. This being a major incentive, Suzuki came up with SmartNews - a news app without the previous barriers that existed between the users and the news. They could now stay up-to-date in the most effortless way possible, even in places with spotty network connection like the subway.

Suzuki's entrepreneurial spirit was first kindled when he met a startup founder in Silicon Valley. Setting foot on this man's lavish company floor and feeling his passion first-hand was a big inspiration for Suzuki. Awestruck by the dauntlessness of entrepreneurs, Suzuki knew that that was the lifestyle he wanted. He also knew that it could only be done in Silicon Valley where data scientists are copious (50 times that of in Japan), global expansion amongst companies are commonplace, and the balmy Californian sun shines all year round.

SmartNews was founded in June 15, 2012 in Japan by Ken Suzuki and Kaisei Hamamoto, and launched its product in December 2012. After great success in the Japanese market, SmartNews successfully opened its San Francisco office in August 2014 and launched its US product in October 2014.

SmartNews' initial relationship with Silicon Valley began by referrals. It was the winter of 2013 when Suzuki was invited to a tech conference in Japan where he had the opportunity to meet Aoyagi, chief executive officer of GREE's U.S. subsidiary, GREE International, Inc. His kind advice was to move to Silicon Valley for global expansion. It was a step Suzuki was willing to take. Another tip he gave Suzuki was not to hire a Japanese vice president, but a local one - one who was well connected and accustomed to the community. Most of SmartNews' seed funding

and early employees were also gathered through referrals. This shows just how cogent personal connections can be.

For a news discovery and distributing app like SmartNews, having long-lasting, positive ties with publishers is crucial for its self-sustaining business model. A turbulence-free relationship between news app and publisher was previously seldom heard of, but by utilizing key employees' professional networks, SmartNews was able to build stable relationships with prominent publishers in the fastest way possible.

Although SmartNews' algorithm finds articles from non-partners as well, partnership is always preferred since it brings the most out of SmartNews' app feature - ChannelPlus. A fair deal and full analytics report is prepared for publishers, which can then be used to improve future articles. Publishers can also use SmartNews as a platform to match their works with users, and vice versa. This triangular relationship where all three sides - SmartNews, publishers, and users - are equally benefitting is one of the main reasons behind SmartNews' unwavering growth.

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

Kaisei Hamamoto, co-founder and co-CEO of SmartNews, manages the tech side of the company, and Ken Suzuki, also co-founder and co-CEO of SmartNews, takes care of everything else from business operations to product vision and strategy. Hamamoto, with a love for programming since age 13, previous experience in startups (ag. Blogopolis, Crowsnest), and numerous award nominations including the 2009 Yahoo! Japan Internet Creative Award and the NTT Open Lab award, is the tech genius behind SmartNews. Suzuki, on the other hand, has a Ph.D. in complex systems from the University of Tokyo, is academically renown for his book publication, and has national recognition as one of the most significant thinkers about the Internet society. He is the perfect fit as the company's visionary leader.

SmartNews currently holds nine employees in Silicon Valley and two employees in New York for publisher management. Unlike other news distributing companies, it has no editors but talented engineers instead. It seeks to mimic Google's 50% engineering rule - have engineers account for half the employee population.

There is no specific diversity and inclusion initiative at the moment, but all sorts of employees are vitalizing SmartNews' work environment. What it weighs most when hiring, aside from talent, is one's passion towards sustainable journalism and interest in global culture. Despite the expensive cost, it encourages employees to travel. Their cultural learning, hands-on local market research, and application testing is seen as priceless compared to the cost. International communication is also a must-have skill for employees for they will have to attend frequent global meetings. Just like its algorithm picks out the best articles, their hiring criterion picks out

the best talent. Numbers tell the story - SmartNews' Silicon Valley office has marked a 100% employee retention for two years straight.

As for future plans, SmartNews hopes to establish its position in the US market by next year, followed by its global news app launch. Its goal is to deliver culture and language relevant news; a truly global take on news distribution. In order for this grand scheme to unfold, it must continue to expand its positive network with publishers.

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

4.2M/Series A	Undisclosed amount/Seed
August 2013	February 2014
Investors:	Investors: Social Starts
Globis Capital Partners	

36M/Series B	10M/Series C
August 2014	March 2015
Investors:	GREE
Atomico	Atomico
GREE	Globis Capital Partners
Globis Capital Partners	Social Venture Partners
Mixi, Inc. (Japan)	
Shogo Kawada	
William Lohse	

38M/Series D
July 2015
Development Bank of Japan
SMBC Venture Capital
Japan Co-Invest L.P. (Sumitomo Mitsui Trust Investment)

Business Challenges: What challenges does the company face?

Just like many other Japanese founded startups, the hiring process is a large obstacle for SmartNews. It took it 3.5 years to hire just 50 employees. Not only is finding talent like looking for Waldo, the company's rigorous criteria makes things even more painstaking. In Japan, hiring is done through a process of 10-12 interviews/conference calls, but in the US, due to its differing retention rate, 8-10 interviews/conference calls must be conducted. However, this prudent process is what keeps SmartNews' global team one.

SmartNews also puts emphasis on giving back to its local community - something uncommon in Japan where companies tend to be very insular. Disseminating SmartNews' vision, values, and virtues is the best way to attract talent.

A large issue that not only SmartNews faces but the US media as a whole faces is how to mediate the voices of liberals and conservatives in a way that will retain readers from either side. US engagement is intricately tied with politics.

Setting up an office in Silicon Valley was easier said than done for Suzuki. Despite his few initial ties with founders and friends in Silicon Valley, they were not enough for him to distinguish trustworthy advice. Gathering a reliable primary team, obtaining visas, and managing the Japanese office all at the same time were arduous tasks for him as well.

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

Technology Resources:

- Meetup – community
- Slack – communication
- LinkedIn – recruiting
- Qiita – doc publishing
- Google Office
- GitHub – engineer community
- Amazon Web Services – cloud storage
- Concur – expense management
- TriNet – Human Resources
- OneLogin – identity management
- Chartio – analytics
- Spark/Scala/Java – programming language

Professional Resources:

- Corporate Attorney – Yokum Taku of Wilson Sonsini
- Recruiting – Wahl & Case
- Gym benefits
- VISA – Tomita Law Office
- Economic development – SFAsia
- Outside quality insurance – one outside contractor in US
- Case-by-case sponsoring
- PR – internal
- Accounting – internal

SmartNews' advice to Japanese entrepreneurs is: It's important to hire the right people from the very beginning. Through a very rigorous recruitment process, SmartNews has managed to find extremely qualified individuals who are passionate about their mission and happy to work at SmartNews. It is also important to have a great working space that reflects work habits, and the culture that you want to inspire. In San Francisco, SmartNews has designed an office space that reflects the creativity and uniqueness of San Francisco, but also respects the wish of some Japanese employees who want to have a quieter working environment. Therefore in the office, there is a shoes-off area, and a quiet area with a kotatsu, but at the other side, there are hammocks, turntable sound systems, a bicycle rack and standing desks. Engineers don't like to spend all their time at their desks, so they have created an office that caters to that, and found that that has worked very well for them, and that this has also helped with the recruitment process, because engineers will come and feel comfortable and want to work for them.



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 Stanford.svnj@gmail.com