

endeavor

ENDEAVOR REVIEW

"LINIO MAFIA"

One Mexican Company's
Multiplier Effect

2019





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So the term “PayPal mafia” refers to the original PayPal crew like me, Peter Thiel, Max Levchin, Elon Musk, David Sacks, Jeremy Stoppelman, and a few others who have since gone on to launch their own companies and invest in others. And I do hate that term “PayPal Mafia.”

I prefer the term PayPal network. If you have four or five people who are really dedicated, who trust each other, working together, they can be the core of an exponentially larger network around them—because they can be forming them, they can be setting the rules, the norms; they can be facilitating, bringing projects to life.

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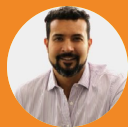
Reid Hoffman | *Co-Founder, LinkedIn; Partner, Greylock Partners
Board Member Endeavor*

INTRODUCTION

The “PayPal Mafia” has received much attention surrounding its substantial impact on the entrepreneurship ecosystem. Many founders and former employees like **Peter Thiel, Elon Musk, and Reid Hoffman** left PayPal and started what are today many prominent tech companies, including YouTube, Tesla, LinkedIn, and Yelp. But, the story of one company unleashing a subsequent wave of entrepreneurs and follow-on startups is not unique to PayPal nor Silicon Valley. In fact, a clear case can be found right here in Mexico City: Linio.

Linio opened in Mexico as one of the first entrants to the e-commerce market. Without an existing ecosystem, Linio's team had to create support systems in logistics and payment, push forward the cultural adoption of e-commerce, and train an inexperienced workforce. This investment in market creation catalyzed the growth of the e-commerce ecosystem we see in Mexico today. Former Linio employees alone went on to start at least 66 additional companies headquartered in Latin America, including some of the most notable names in e-commerce in Mexico such as Apli, Kavak, Luuna, Mercadoni, Petsy.mx, and UnDosTres. We refer to the entrepreneurs behind these companies and their counterparts as the "Linio Mafia."

To further investigate the "Linio Mafia" and its influence in the creation of a Latin American e-commerce ecosystem, we collected and analyzed data on ex-employees of Linio and their startups from self-reported LinkedIn profiles and from Crunchbase. We also interviewed three key players in the founding of Linio:



Ulrick Noel, Managing Partner at Everdeen Capital

Co-founder of Rocket Internet Mexico and Venture Partner of Linio



Bernardo Cordero, Founding Partner STARTegy Venture Builder

Co-founder and Former Managing Director of Linio



Carlos García Ottati, Founder and CEO/Chairman Kavak

Former Chief Marketplace Officer & Group Managing Director of Linio

in emerging markets. Their portfolio today includes Delivery Hero, Easy Taxi, HelloFresh, Jumia, Lamudi, and Zalando.

In 2009, Ulrick Noel, then an MBA student at MIT's Sloan School of Management, met Marc and Oliver Samwer and received an offer to work for Rocket anywhere in the world. Without a Rocket office in Latin America, Noel declined the offer, but with the promise that Marc and Oliver would call him when they planned on expanding to the region.

In 2012, after two years at consulting firm A.T. Kearney, Noel got that call while in a cab in New York. That very night, he got on a red eye flight to Mexico City. Within the next two weeks, he had traveled to Brazil and Berlin to see their Rocket operations and agreed to open Rocket's next office in Mexico City. To get off the ground, Noel registered several companies in Mexico, one of which was for e-commerce site Bazaya. But, after no one could write or pronounce it, the founding team quickly changed the name to Linio.

Over the initial chaotic months, the founding team was in a constant state of flux, but, at different points, included Antonio Nunes, Bernardo Cordero, Cristian Cortez, Fernando D'Alessio, Pedro Freire, Rodrigo Mayo, Ulrick Noel, and Wilson Cimino. Like the staff they subsequently hired, many came from top business schools, consulting firms, and investment banks. Together, they took on various roles in building out Linio and pushing forward e-commerce in Mexico before the assumed arrival of Amazon to the market.

One of the original founders, Bernardo Cordero, who would become Linio's Managing Director, explained that from this point the Linio team went through four primary stages in building their e-commerce company: (1) Proof of Concept, (2) Determining Business Model, (3) Scaling Up, and (4) Improving Profitability.

FOUNDING OF LINIO

After starting and selling two companies for a collective US\$320 million, brothers Marc, Oliver and Alexander Samwer opened Rocket Internet in Berlin in 2007. The venture builder focuses on taking proven internet-based business models and replicating them primarily

Phase 1: Proof of Concept

In 2012, Mercado Libre was not yet relevant in Mexico and Amazon had not yet entered the market. In articulating their value proposition, Cordero shared, “The perspective at the time was that Mexicans didn’t like to shop online. Our vision was a little different. Rather than a dislike of online shopping, we thought that a proper e-commerce portal with sufficient offerings just didn’t exist yet.” However, major suppliers like Apple, Samsung, and LG refused to supply their products to such a new company. To prove their viability, Linio launched with thousands of products, but no inventory. When they received orders, they would cross the street to buy the product at a different store and then ship it out directly to the customer.

Phase 2: Determining Business Model

After proving Mexicans would shop online, Linio focused on finding the right business model. Though they initially relied on a retail model of buying, owning, and then reselling products, the Linio team started pivoting to a marketplace model that provided a digital platform for other suppliers. Carlos García Ottati was brought in as Chief Marketplace Officer and Linio Group Managing Director to carry out the development of the e-commerce marketplace. As García explained, though the marketplace started off as only one part of the larger company, it proved most efficient and grew substantially. The Linio team recognized its strategic value and made it their primary business model. In less than a year and a half, according to García, the marketplace grew to represent over 60% of Linio’s total business.

Phase 3 & 4: Scaling Up and Improving Profitability

With their business model in place, Linio experienced exponential growth. In fact, Linio’s marketplace quickly expanded its operations to four new countries: Chile, Argentina, Panama, and Ecuador. Over the same time, Linio built relationships with thousands of suppliers and business partners and expanded to a 2,300-person team across the region. After achieving sufficient scale, Linio’s management team pivoted their focus to improving their strategy and bolstering their profitability

through decreasing costs and increasing revenue. For example, they centralized repeated functions, optimized the size of teams and the use of talent, deployed resources more efficiently, and provided more value to suppliers in order to charge them more.

CREATING AN ECOSYSTEM

Throughout the previous phases, Linio’s team had to not only build a successful company, but also the greater e-commerce ecosystem and the relevant support systems that at that point in time did not yet exist. As Cordero observed, when Linio first opened, there was little e-commerce activity in Mexico, and the management team had to create the whole ecosystem largely from nothing. “You had to improve the logistics, you had to improve payments, you had to wait for connectivity to improve, and at the same time push consumers to start purchasing products online for the first time.”

Logistics

“ Logistics to deliver a product didn’t exist. DHL and FedEx hadn’t arrived in Peru or Colombia. In Mexico, they were only just starting to work on the issue. Nothing existed. The playing field was completely open, and we had to build everything. ”

Carlos García

When Linio first began in Mexico, managing the logistics of package delivery proved difficult. For the most part, B2C (business-to-consumer) logistics did not yet exist. Instead, offline retailers were more accustomed to maintaining their own shipment and delivery fleets, and delivery companies managed office to office shipments rather than those from office to home. Linio was the first company to make major investments in B2C shipping.

Payment

“ No one pushed the world of online payment in Mexico like Linio did. ”

Bernardo Cordero

From the outset, it was a challenge to charge clients for online purchases. According to Carlos García, outside of Argentina, entrepreneurs had to work within the first generation of an online payment system that existed external to financial institutions and had less than 10% of the capacity of the current system. In response, they built an integrated payment system, invested in anti-fraud processes, and pioneered innovative ways for consumers to pay in cash for online payments, including at convenience stores and with cash-on-delivery. Their work, according to Cordero, opened the banks' eyes to the world of e-commerce.

Adoption

“ [We had] a commercial challenge to train an industry that was not trained in selling online. ”

Carlos García

To set up an e-commerce marketplace, Linio had to bring about a culture shift among multiple stakeholders and convince them to adopt the new technology. Consumers needed to learn to trust online products and payment systems, suppliers had to grow accustomed to new norms of selling and doing business, and investors had to gain confidence in the sector, all of which took time, money, education, and relationship building. According to Noel, Linio lost a lot of money in the beginning due to high customer acquisition costs.

Talent

“ We passed through a fast track of learning... There were no experts in this, so we converted [our employees] into industry experts. ”

Carlos García

When Linio first opened, there were few people in Mexico with experience in e-commerce. Linio had to invest in creating that expertise themselves and had a clear profile in mind when hiring, according to Cordero. They looked for and hired young people with a hunger to innovate, to change things for the better, and to accomplish their professional and personal goals. Young people entered without experience, took on leadership roles, learned substantially, and became experts in their categories or roles. **Cordero, García, and Noel all agreed that building this talent was one of, if not the most important impact Linio had on the e-commerce and entrepreneurship ecosystem due to its multiplier effect.**

Through building out the necessary support systems and investing in talent, Linio opened the e-commerce market, created an entrepreneurial ecosystem, and spurred a multiplier effect of activity in the sector. Cordero emphasized this point, “One part that isn't talked about enough is all the impact that Linio had on the ecosystem in terms of payments, logistics, teaching consumers to shop online. Someone had to invest, someone had to open the market, and without a doubt that was Linio.” Building this ecosystem unleashed a flurry of entrepreneurial activity, principally in the e-commerce sector.

García explained how, as a result of creating this ecosystem, Linio generated millions of dollars in external market value. Building out logistics and payment systems, pushing cultural change and e-commerce adoption, and training talent all lowered barriers to entry for future e-commerce companies. Developing e-commerce expertise positioned Linio's founders and employees to recognize opportunities in the market. And, as young, hungry innovators trained in an entrepreneurial company culture, many started their own companies to directly address the issues and opportunities they saw. Others went on to work for their co-workers' startups as well as for major tech companies in Mexico. The most successful then paid it forward as investors and mentors helping to cultivate a thriving entrepreneurial ecosystem, including many who participate as mentors in the Endeavor network. All these factors together resulted in the “Linio Mafia” we see today.

THE "LINIO MAFIA"

Overall, founders and former employees of Linio went on to start at least 66 companies that we identified in our search, including some of the most important e-commerce companies in Mexico today.

Of the founders we spoke to, Ulrich Noel helped start Everdeen Capital, a better investment bank focused on long-term relationships as opposed to short-term commissions. He also works as a technology innovation lead for Deloitte. Bernardo Cordero opened STARTegy Venture Builder, which has created Worky.mx and Covela to help SMEs manage human capital and insurance, respectively. Carlos García Ottati founded Kavak, an online marketplace for used cars which has raised \$16 million dollars.

Although Noel, Cordero, and García wouldn't refer to themselves and their counterparts as a "Linio Mafia", the original Linio management team is still in contact as friends, role models, colleagues, and mentors. Together, the founding team along with their new companies and former employees make up the main network pushing e-commerce forward in Mexico.

Their companies provide new e-commerce platforms (Mercadoni, Juntoz.com), focus on specific e-commerce verticals like petcare (Petsy.mx), cars (Kavak), and mattresses (Luuna), and facilitate business processes such as hiring (Apli), delivery (EnvíoClick), human resources (Worky.mx), and insurance (Covela). Additionally, almost one-fourth of all companies founded are digital agencies that provide a full range of services related to e-commerce and digital marketing. As seen in Graph 1, the most successful companies in terms of investment and employees operate in e-commerce, had a founder or high level executive from Linio on the founding team, or both. Additionally, successful companies also had more connections to and former employees from Linio.

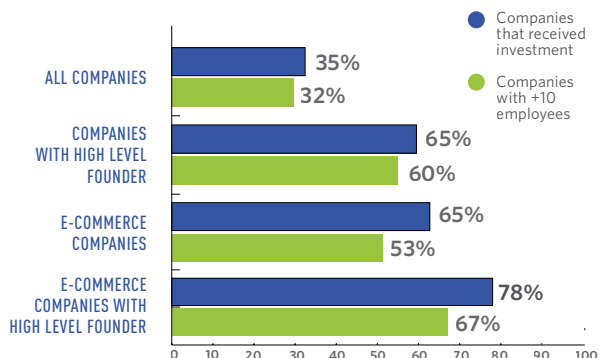
After building the e-commerce ecosystem, the "Linio

Mafia" continues to spur growth both outside of and within their network. Outside the network, Bernardo Cordero helped start the Mexican Association for Online Sales (AMVO by its Spanish initials), a trade association focused on Mexican e-commerce where he currently serves as Vice President. According to Cordero, AMVO's 260 members represent 90-95% of Mexican e-commerce, including Linio, Kavak, Luuna, EnvíoClick, and Maskota (parent company of Petsy.mx).

Meanwhile, "Linio Mafia" companies grow "more rapidly than otherwise possible without these connections," according to Cordero, including through talent, collaboration, and investment. For example, García estimates that 10-15% of Kavak employees formerly worked for Linio, as well as 70% of potential strategic hires. Further, "Linio Mafia" companies collaborate as partners, clients, and suppliers. This especially helps new startups get off the ground by acquiring first customers. For example, Cordero explained how Kavak was one of the first customers of his new HR company Worky.mx. Finally, there are also some small cases of overlap in financing. Carlos Salinas, co-founder and CEO of Luuna, is an investor in Kavak. Additionally, venture capital firm Mountain Nazca invested in Luuna, Kavak, Petsy.mx, and Urbvan.

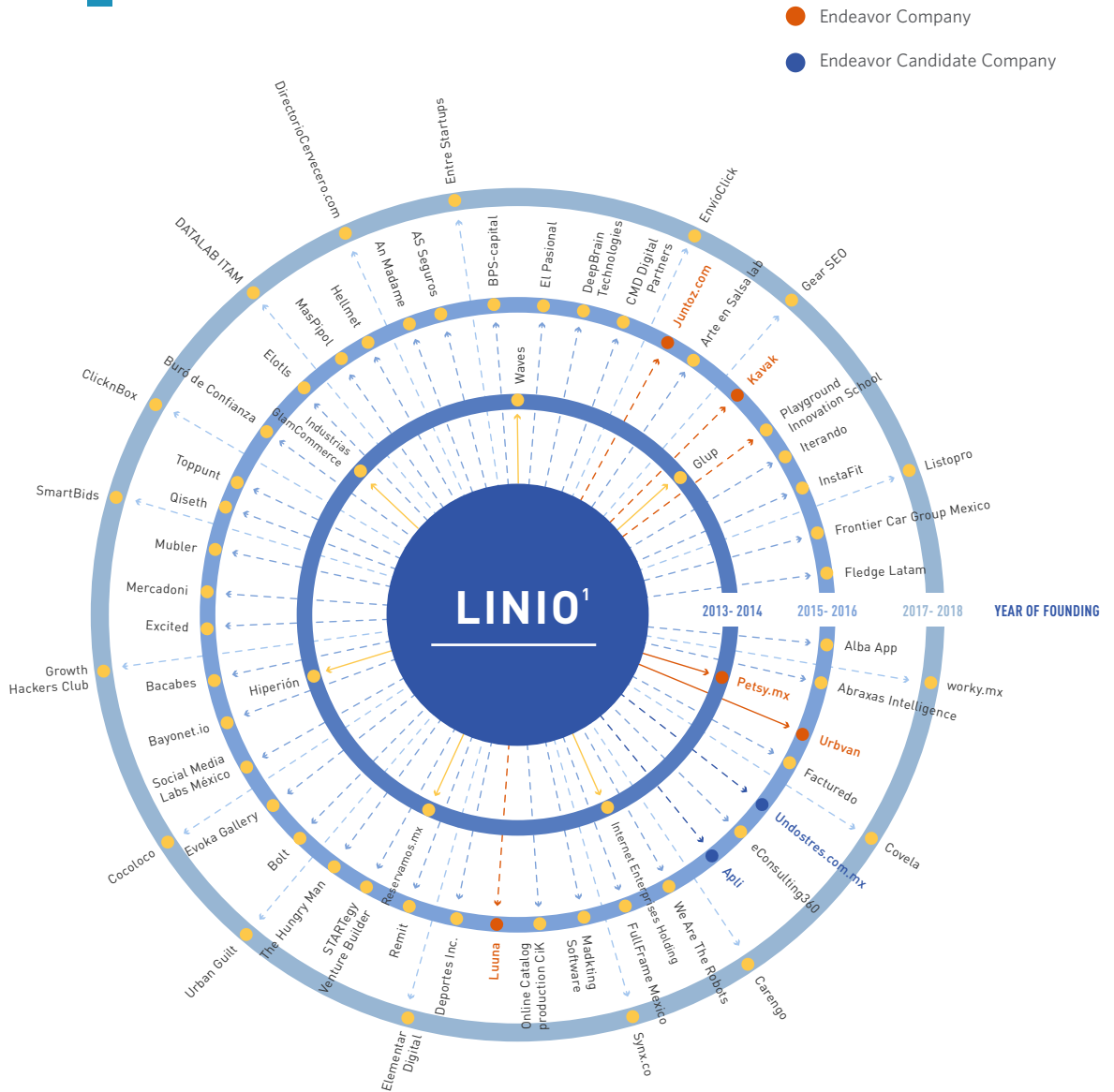
With Linio, one rapidly scaling company created an entire entrepreneurial ecosystem focused principally on the e-commerce market. This ecosystem facilitated an outpouring of entrepreneurial ideas backed up by the talent, mentors, networks, connections, and support

GRAPH 1: COMPARATIVE RESULTS



Source: Endeavor Intelligence, 2018; N=66

MAP OF "LINIO MAFIA"



¹**Methodology:** To gather the data in this section, our team relied on publicly available and often self-reported data from personal and company profiles on LinkedIn. When necessary, this data was supplemented with other sources, particularly Crunchbase for investment data. We identified the list of companies by filtering for LinkedIn profiles of former employees of Linio in Latin America that included any variation of the word founder in both English and Spanish. We then identified connections to Linio by filtering for LinkedIn profiles of former employees of Linio (or of Rocket Internet at Linio) that included any mention of the identified companies. Each founder, company, and connection was then verified individually. Number of employees, company location, and year of founding were taken directly from company LinkedIn profiles. Companies were then categorized into sectors by our team.

KEY RESULTS

GRAPH 2: LOCATION



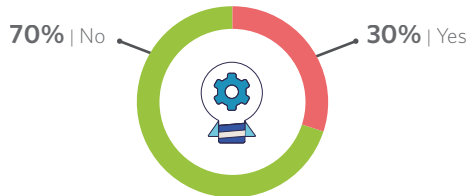
Source: Endeavor Intelligence, 2018; N=66

GRAPH 3: YEAR OF FOUNDING



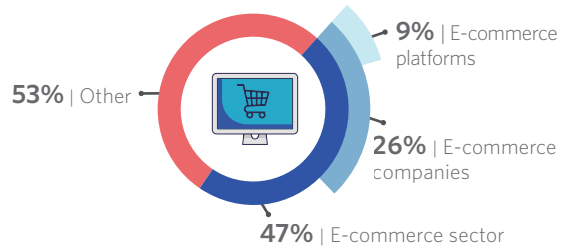
Source: Endeavor Intelligence, 2018; N=66

GRAPH 4: HIGH LEVEL FOUNDER*



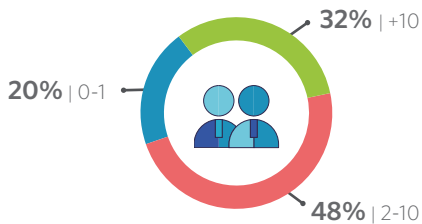
* High level founders of the identified companies are defined as the original founders, C-suite executives, or regional department heads of Linio.
Source: Endeavor Intelligence, 2018; N=66

GRAPH 5: SECTOR



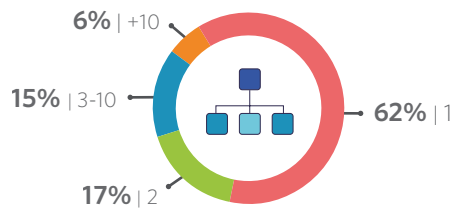
Source: Endeavor Intelligence, 2018; N=66

GRAPH 6: EMPLOYEES



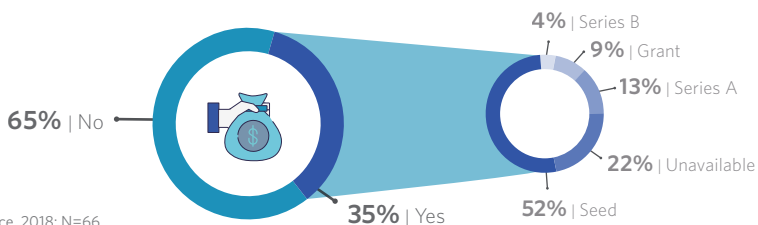
Source: Endeavor Intelligence, 2018; N=66

GRAPH 7: CONNECTIONS TO LINIO*



* The most connections are Kavak (11), Luuna (12), Juntoz.com (16) & Mercadoni (22).
Source: Endeavor Intelligence, 2018; N=66

GRAPH 8: RECEIVED INVESTMENT & HIGHEST ROUND



Source: Endeavor Intelligence, 2018; N=66

SUCCESS CASES

■ Apli

Founded in 2016 by a three-person team that included the former Chief Marketing Officer of Linio, Apli is Latin America's first on-demand jobs marketplace. Today, Apli has 55 employees, has raised US\$1.5M, and has 6 total connections to Linio.

■ EnvíoClick

Founded in 2017 by the Regional Head of Customer Relationship Management and the Commercial Regional Managing Director of Linio, EnvíoClick offers comparison and management of logistics services. Today, EnvíoClick has 26 employees, has raised US\$660,000, and has 8 total connections to Linio.

■ Juntoz.com

Founded in 2015 by the founder and CEO of Linio Peru, Juntoz.com is an online shopping mall where each brand manages its own virtual space. Today, Juntoz.com has 53 employees, has raised US\$2.8M, and has 16 total connections to Linio. Juntoz.com is also an Endeavor company.

■ Kavak

Founded in 2016 by the Chief Marketplace Officer and Sales Managing Director of Linio, Kavak is an online platform for the buying and selling of used cars. Today, Kavak has 150 employees, has raised US\$16M, and has 11 total connections to Linio. Kavak is also an Endeavor company.

■ Luuna

Founded in 2015 by three high level Linio managers, Luuna is disrupting the mattress and sleep industry. Today, Luuna has 44 employees, has raised MXN\$115M, and has 12 connections to Linio. Luuna is also an Endeavor company.

■ Mercadoni

Founded in 2015 by 4 Linio founders and executives, Mercadoni operates an online shopping platform. Today, Mercadoni has 118 employees, has raised US\$17.2M, and has 22 total Linio connections.

■ Petsy.mx

Founded in 2013 with a former Linio Marketing Manager on the founding team, Petsy.mx is the primary online retailer of pet products and supplies in Mexico. In July 2018, Petsy.mx was acquired by Maskota, the largest Mexican petcare retailer. Petsy.mx was part of the Endeavor network.

■ UnDosTres

Founded in 2015 by the Linio Director of Mobile and the Director of Pricing, UnDosTres is a portal for online payments like mobile and TAG recharges and movie tickets. Today, UnDosTres has 12 employees, has raised US\$8.2M, and has two connections to Linio.

■ Urbvan

Founded in 2016 by a two-person team including the former Linio Regional Head of Electronics Marketing, Urbvan is a daily commute transportation center in Mexico. Today, Urbvan has 15 employees, has raised US\$2.2M, and has three connections to Linio. Urbvan is also an Endeavor company.

As mentioned, many ex-Linio employees also went on to work for and help grow major companies in Mexico and Latin America. Some key examples include:



Federico Ranero, General Manager Uber Mexico

*Former Managing Director
of Operations Linio Mexico*



Rodrigo Arévalo, Head of Uber Eats Europe, Middle East and Africa

Former Head of Online Marketing at Linio



Rodrigo Mayo, Partner Bain & Company Mexico

Former co-founder Linio Mexico



Matias Casoy, General Manager Rappi Argentina

Former General Manager Linio Argentina

On August 1st, 2018, Chilean retailer Falabella acquired Linio for US\$138 million dollars, a clear sign of the growth of and competition over the Latin American e-commerce market, which was projected to grow another 17.9% to US\$53.20 billion in 2018, according to eMarketer.² However, it is unclear whether this deal can truly be considered a success for either party involved. According to Noel, though publicly it may look like a great achievement, behind closed doors it could've been much better. On the day of the sale, Falabella's stock fell nearly 6%. Since then, it has fallen another 14%.³ Moreover, the acquisition price of US\$138 million dollars is substantially lower than the approximately US\$230 million dollars invested in Linio.⁴ But, Noel urged, Linio must be evaluated not only on its financial outcomes, but also on the multiplier effect of its impact on the greater e-commerce ecosystem.

Despite the strong ecosystem created by Linio and the impressive growth exhibited by the "Linio Mafia" companies, some still believe that the e-commerce market in Mexico is only just starting to wake up. Consumers and investors are being drawn more and more into the sector, and e-commerce companies are starting to achieve greater scale. In the words of Carlos García, "This mafia is going to continue onwards; it is only just starting...Within the next five years, we are going to really start to see the outpouring from the 'Linio Mafia'."

A special thanks to the Linio team and especially to Ulrick Noel, Bernardo Cordero, and Carlos García Ottati for donating their personal time to this project, sitting for interviews with Endeavor staff, and reviewing the final report. Your contributions were invaluable in providing context to the data our team gathered and assuring the accuracy of the final product.

² Ceurvels, Matteo. "Latin America Ecommerce 2018: Digital Buyer Trends for Argentina, Brazil and Mexico." eMarketer. <https://www.emarketer.com/content/latin-america-ecommerce-2018> (accessed December 10, 2018).

³ Calculated as of December 10, 2018.

⁴ Crunchbase reports US\$224M in total funding (<https://www.crunchbase.com/organization/linio#section-overview>).

Pitchbook reports a total of approximately \$224 (<https://pitchbook.com/newsletter/online-retailer-linio-bags-79m-financing-round>, <https://pitchbook.com/newsletter/linio-rounds-up-55m>). Investment could not be confirmed with Linio or the founding team.



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ABOUT ENDEAVOR

Established in 1997, Endeavor leads a global High Impact Entrepreneurship movement and promotes economic growth and job creation by selecting, mentoring and accelerating the best High Impact Entrepreneurs in the world. To date, Endeavor has evaluated more than 70,000 entrepreneurs and selected over 1,800 leading 1,100 high growth companies. Supported by the Endeavor global network of mentors, these high-impact entrepreneurs have created more than 3 million jobs, generated more than \$20 billion in revenue in 2018, and inspired future generations to innovate and take risks. Headquartered in New York City, Endeavor operates in 34 markets in Europe, Latin America, North America, Africa, Asia and the Middle East.

