

Current status of the startup ecosystem in SEA

The key to investing in local start-ups to get results

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By Kohki Sakata (CEO, IGPI Singapore)

These days, I hear Japanese company managers say, "I want to work with SEA start-ups to innovate, but I don't know how to proceed." "I want to find a startup with unique technology and bring it back to Japan, but it is challenging to find such a target." On the other hand, conglomerates in SEA say, "I would like to support start-ups in my country to generate synergies with my core business, but I do not know how to support them". Many companies are investing in venture capital or forming corporate venture capital, but unfortunately, they hardly accomplish their original purposes.

In this report, after explaining the current state of the startup ecosystem in SEA, I would like to provide my views on how to work together with start-ups to gain results.

There are two types of start-ups: "global type", which has the potential to expand into the world due to its excellent technology and business model, and "local type", which solves the problems specific to each country and region. When collaborating with SEA start-ups, unlike in Silicon Valley and Shenzhen, we must first understand that there are only basic "local" start-ups in SEA.

GOJEK, one of Indonesia's unicorn companies, is a typical "local type", started its business from organizing regional bike taxis. In the past, users had to physically find a bike taxi, negotiate a price, and guide the driver to get to their destination. GOJEK has solved this complicated process for foreign travelers through this single app. In addition, by building a cash-on-delivery mechanism, GOJEK has overcome the problem of low credit card penetration, which has been an obstacle for EC growth in Indonesia. In addition to establishing a system for collecting money from users, GOJEK has established a mechanism for depositing money in an E wallet, and it has grown into a leading financial institution in Indonesia. This is just one example of GOJEK's functions, and GOJEK has established its position in Indonesia by controlling the basic infrastructure of payment and logistics under a dominant strategy.

Why is the "local type" business, GOJEK expanding into Vietnam and Singapore? The SEA

startup ecosystem has a big influence on it. SEA, experiencing rapid economic growth, has been attracting attention from investors all over the world, but the size of the economy per country is small so it is not easy to find an investment target. For investments in early stage start-ups, it would be good if we could exit when start-ups grow to a decent size. But without exit, the ecosystem will not be maintained. To be an attractive company, such as Google, Alibaba, and SoftBank, it is necessary not to become a dominant player in one country but to become a regional player that operates in multiple countries and regions. Considering this background, GOJEK is attempting to expand overseas, but in SEA the number of supporters and management know-how to expand from one country to multiple countries is limited, so there are many start-ups forced to close their business. Such issues are particularly noticeable in Malaysia and Thailand, where the population is relatively small and social issues are rare.

So how do Japanese companies and local conglomerates invest in start-ups to get results?

There are three important points. These are ① Clarifying the issue you want to solve, ②

Finding a reasonable startup, and ③ Using your own capabilities to support the global expansion of start-ups.

① Clarifying the issue you want to solve

It's not just about collaboration with start-ups. You can't get results if you just follow trend and do not clarify the issues. Cash flow management, balanced scorecards, IoT, AI, fintech, are examples of trend. Adopting these trends does not always mean that management will improve. These are just tools, and there will be no achievement without considering how to use them. It is very important to clarify "which problem you want solve", and this will clarify "what you want from start-ups".

② Finding a reasonable startup

Companies often focus on the uniqueness of technology and business models when making investment decisions, but the most important thing to get a return on investment is to buy at a reasonable price. Such start-ups are relatively easy to be find in Malaysia and Thailand, where the supply-demand gap in financing is huge.

③ Using your own capabilities to support the global expansion of start-ups

Quick business synergies between companies and start-ups are not easy. However, it's not

difficult to leverage companies' capabilities to help start-ups expand business globally. For example, companies can quickly lend their own free space or introduce an existing customer in a country where the startup has not yet expanded. We can say that gradually increasing mutual trust by supporting regional development of "local type" start-ups and then creating business synergies is one of the ways to minimize the burden on both parties

Please feel free to contact us if you have any questions regarding collaboration with start-ups in SEA.



Kohki Sakata

Chief Executive Officer

+65 81682503

k.sakata@igpi.co.jp

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