

Toward the Creation of Innovations Starting from Southeast Asia

~ The Key to Successful Partnerships with Local Startups ~

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By: Jongwoo Lee (Manager, IGPI Singapore)

The Startup Ecosystem in Southeast Asia Moves to the Next Stage

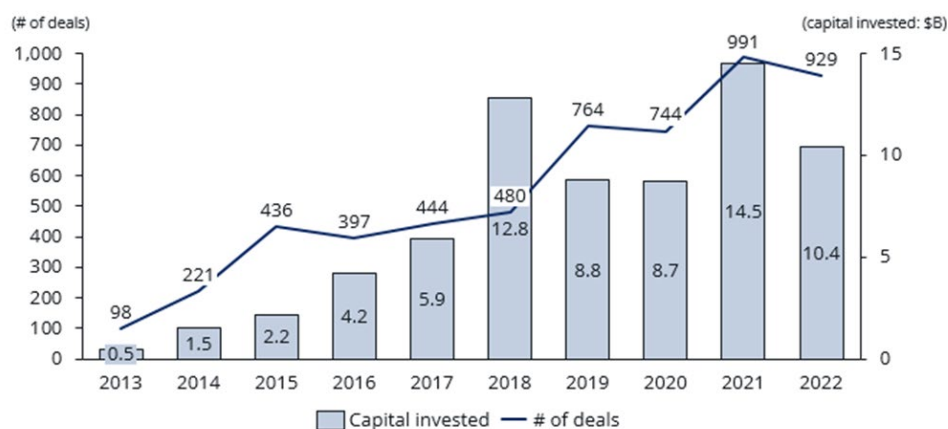
In Southeast Asia, the rapid proliferation of the Internet and smartphones in the 2010s, combined with the emergence of a middle class that has accompanied sustained economic growth, has spawned numerous startups that provide digital services that take advantage of the internet and mobile devices. Some of these ASEAN startups, such as Grab and Gojek, have become major regional platform companies, and some Japanese companies have been trying to create innovation in the region through strategic alliances with such platform companies.

In particular, the startup ecosystem in Southeast Asia is becoming more mature in the 2020s, and the assumptions have changed from those of the 2010s.

First, from a macroeconomic perspective, the attractiveness of the region is increasing due to the demographic dividend and the rise of the middle class, and the size of the Internet economy is growing more than fivefold, from \$32 billion in 2015 to \$174 billion in 2021.

Moreover, investments in startups have seen a significant increase. The market, which had \$0.5 billion in investments and 98 deals in 2013, skyrocketed within less than a decade to \$10.4 billion and 929 deals in 2022 (Graph 1). The number of unicorns also increased to 30 as of September 2023 (Table 1).

Graph 1. SE Asia capital invested by year, \$B and deals done #¹



¹ Source: CENTO VENTURES : Southeast Asia Tech Investment – 2022

Table 1. The list of unicorns in Southeast Asia Region (as of September 2023)²

No	Company	Valuation (\$B)	Country	Industry	No	Company	Valuation (\$B)	Country	Industry
1	J&T Express	20.00	Indonesia	Industrials	16	eFishery	1.30	Indonesia	Industrials
2	HyalRoute	3.50	Singapore	Industrials	17	DANA	1.13	Indonesia	Financial Services
3	Traveloka	3.00	Indonesia	Consumer & Retail	18	Carousell	1.10	Singapore	Consumer & Retail
4	Sky Mavis	3.00	Vietnam	Media & Entertainment	19	Matrixport	1.05	Singapore	Financial Services
5	Moglix	2.60	Singapore	Industrials	20	Xendit	1.00	Indonesia	Financial Services
6	Coda Payments	2.50	Singapore	Financial Services	21	Ajaib	1.00	Indonesia	Financial Services
7	MoMo	2.27	Vietnam	Financial Services	22	Kopi Kenangan	1.00	Indonesia	Consumer & Retail
8	Akulaku	2.00	Indonesia	Financial Services	23	Revolution Precrafted	1.00	Philippines	Industrials
9	Advance Intelligence Group	2.00	Singapore	Financial Services	24	PatSnap	1.00	Singapore	Enterprise Tech
10	Trax	2.00	Singapore	Consumer & Retail	25	Carro	1.00	Singapore	Industrials
11	NIUM	2.00	Singapore	Financial Services	26	Ninja Van	1.00	Singapore	Consumer & Retail
12	Carsome	1.70	Malaysia	Industrials	27	ONE	1.00	Singapore	Media & Entertainment
13	Kredivo Holdings	1.66	Singapore	Financial Services	28	LINE MAN Wongnai	1.00	Thailand	Consumer & Retail
14	boltttech	1.50	Singapore	Insurance	29	Flash Express	1.00	Thailand	Industrials
15	Ascend Money	1.50	Thailand	Financial Services					

With the rise in investment amounts, deal counts, and the number of unicorns, both entrepreneurs and investors have gained substantial experience. This has resulted in a substantial support network for startups, including incubators and accelerators, with a wealth of experience to offer.

The business areas in which startups operate are also gradually shifting from the previous B2C focus on solving individual problems to B2B services such as fintech, logistics, and business efficiency, although still for SMEs. Of course, the majority of companies are still engaged in B2C businesses, but the number of companies engaging in B2B businesses is increasing.

In summary, the growth of the startup ecosystem in Southeast Asia is transitioning to the next stage. Within this transformation, Singapore, functioning as an innovation hub in Southeast Asia, has ascended from 18th place in the latest Global Startup Ecosystem Ranking by Startup Genome (2022) to 8th place (2023), further solidifying its presence.

Three Opportunities for Japanese Companies

For Japanese companies, Southeast Asia is becoming not only attractive as a "manufacturing base" but also as a "consumer market" and even as an "innovation base". We believe there are three opportunities for Japanese companies in Southeast Asia as a base for innovation.

First, Japanese companies can leverage their technology and the local ecosystem to create business opportunities that will help solve issues in Southeast Asia.

For example, Santen Pharmaceutical provided new products and services through joint development with local research institutions and collaboration with local startups to solve the Southeast Asian issue of high myopia rates. Despite the high prevalence of myopia in Southeast Asia, there is an overwhelming shortage of ophthalmologists relative to the population, and people suffering from eye problems do not have enough access to the diagnosis and treatment they need. Santen Pharmaceutical therefore established a local

² Source: CB Insights - The complete list of unicorn companies

R&D base and conducted joint research with the Singapore Eye Research Institute (SERI). By combining SERI's myopia-related research results with Santen Pharmaceutical's medicine development know-how, a new medicine was developed to suppress the progression of myopia. In addition, the company has formed a strategic alliance with Plano, a Singapore-based startup that has developed a smartphone application to prevent myopia in children, to provide a comprehensive management application to solve the issue of myopia.

Secondly, Japanese companies can utilize Southeast Asia as a testing ground for their technologies, accelerating innovation.

The strictness of Japan's regulations and the slowness of the approval process for new business ventures is frequently highlighted. One notable benchmark to consider is the Doing Business 2020 ranking³. According to this ranking, Japan is placed 29th. In contrast, Singapore holds the 2nd position, Malaysia the 12th, and Thailand the 21st. This suggests that in certain aspects, Southeast Asia may offer a more favorable environment for conducting proof-of-concept projects for new businesses.

In fact, foreign startups with innovative technologies face barriers in the form of regulations when attempting to enter Japan. For instance, CarbonCure, a Canadian startup with technology to produce concrete that absorbs CO₂, highlighted the challenges in business expansion in Japan during an interview with Japanese media. Compared to countries like Singapore, they mentioned that regulations in Japan, especially in terms of approvals, are notably stringent and time-consuming.

In this regard, it makes sense to conduct verification and experimentation of one's own technology in Southeast Asia, where regulations are relatively more relaxed compared to Japan. There are also some programs that Japanese companies can make use of in conducting PoC projects in the region. Through the "Asia Digital Transformation (ADX) Project in Japan-ASEAN" supported by JETRO, which IGPI helped establish, Japanese companies collaborate with ASEAN companies and institutions, aiming to address economic and social challenges in Japan and ASEAN by leveraging digital technologies and other innovations. In the recent third call for proposals in 2022, 28 projects were selected for support (Table 2).

³ Doing Business captures several important dimensions of the regulatory environment affecting domestic firms. It provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency

Table 2. The result of the call of Asia Digital Transformation (ADX) Projects in 2022⁴

Industry	Country									Total
	CAM	IND	MAL	PHI	SIN	THA	VIE	MAL/SIN	IND/ASEAN	
Medical/Nursing			2			4		1		7
Environment/Energy			1			3				4
Tourism						1			1	2
Education/Human resources			1			1	1			3
Construction	1				1					2
Mobility							2			2
Logistics	1	1					2			4
Others		2		1		1				4
Total	2	3	4	1	1	10	5	1	1	28

Third, Japanese companies can address societal challenges within Japan by extending the approach used to tackle social issues with digital technology in Southeast Asia.

For example, Singaporean startup SWAT Mobility, founded in 2016, has been providing innovative transportation solutions primarily in Southeast Asia. Since its expansion into Japan in 2020, the company has been promoting innovation in public transportation in rural areas to address the issue of insufficient mobility options for elderly residents. Starting with a verification project in Kitakyushu City, they have continued verification experiments across various locations in Japan, including Nagano Prefecture and Osaka Prefecture. Their new mobility solution, enabling on-demand vehicle services using algorithms and technology, contributes to Japan's efforts in promoting DX in regional cities.

The Key to Success in Partnering with Local Startups Is to Clarify Your Company's Issues

In order to seize such opportunities, forming partnerships with promising local startups is an effective strategy. Initiatives such as organizing pitch events locally or investing in local funds as limited partners are seen as entry points for this. It's important to note that we're not discrediting the effectiveness of these initiatives themselves, but we should be mindful of not losing sight of the ultimate goal and turning these means into ends. To drive successful innovation through partnerships with promising startups, it's essential to begin by clearly defining your company's challenges. This entails formulating hypotheses for viable business models and identifying the necessary technologies that are lacking within your organization to realize these hypotheses.

An illustrative example of successful collaboration between a Japanese corporation and a local startup, facilitated by IGPI, involves the enhancement of the corporation's display solution through the integration of pedestrian traffic data analysis technology of the startup. This enhancement led to a solution that generated revenue expansion ideas based on the analysis results. The Japanese corporation had initial hypotheses to improve their in-house solution. Consequently, upon discovering a startup with the requisite technology to realize

⁴ Source: ADX Projects Briefing Materials, August 2022, JETRO

their hypotheses, they promptly made decisions and advanced toward detailed partnership discussions.

Certainly, during exploration activities, there are cases where discussions about partnering with local startups begin without clearly defining your company's challenges. Even in such cases, it's important to formulate hypotheses as soon as possible about what your company wants to achieve using the technology of the startup. One Japanese construction giant, for instance, initiated an approach with a local startup without hypotheses about the business model. However, with support from IGPI, they managed to formulate a hypothesis of a joint venture scheme to bid on construction projects in Southeast Asia together, leveraging the strengths of both companies (the Japanese company's brand and the local company's license). As a result, they made progress in partnership discussions with the startup.

How can IGPI Singapore help?

Since its establishment in 2013, IGPI Singapore has been supporting many Japanese companies for market research, strategy planning, execution support including partner search and approach, ideation, and related training for new business creation in Southeast Asia.

IGPI Singapore has a wealth of experience in selecting and partnering with local partners, and can lead your company to a successful alliance with a local partner through an approach that has the following characteristics.

- ◆ Comprehensive partnership considerations that envision the desired outcome through collaboration, based on a thorough understanding of the market and your company's objectives/issues
- ◆ Selection of potential partners with a focus on achieving partnership objectives and eliminating subjectivity
- ◆ Involvement of local staff to conduct in-depth research on real trends in each country's market and potential partners

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About the author

Mr. Jongwoo Lee worked for a Japanese general IT consulting firm, where he was involved in numerous projects such as business planning and implementation support, new business planning, operational efficiency improvement, and business management enhancement support in a wide range of industries including trading companies, energy, manufacturers, automobiles, and systems, etc. After joining IGPI, he has extensive experience in new business creation in Southeast Asia, including the development of new business models and strategies for expanding sales of new solutions in the Southeast Asian market, and the study of new business entries for local companies in Southeast Asia.

Graduated from the University of Tokyo, Faculty of Economics. Japanese Certified Public Accountant

About IGPI

[Industrial Growth Platform Inc. \(IGPI\)](#) is a premium Japanese management consulting and M&A advisory firm headquartered in Tokyo with offices in Singapore, Hanoi, Shanghai, and Melbourne. IGPI has 14 institutional investors, including prominent Japanese mega-corporations such as Nomura Holdings, SMBC, KDDI, Recruit, and Sumitomo Corporation to name a few.

IGPI has vast experience in supporting Fortune 500s, Govt. agencies, universities, SMEs, and startups across Asia and beyond for their strategic business needs such as market entry and growth strategies, various aspects of M&A, innovation advisory, new business creation, etc. IGPI is consciously an industry agnostic firm (work in 10+ industries) and this coupled with its making its venture investments (30+ till date) adds to its uniqueness. IGPI has [a JV with the Japan Bank of International Cooperation \(JBIC\)](#) – one of JV's initiatives is a VC fund in Europe (EUR 100mn fund) with participation from Honda, Panasonic, and Omron.

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