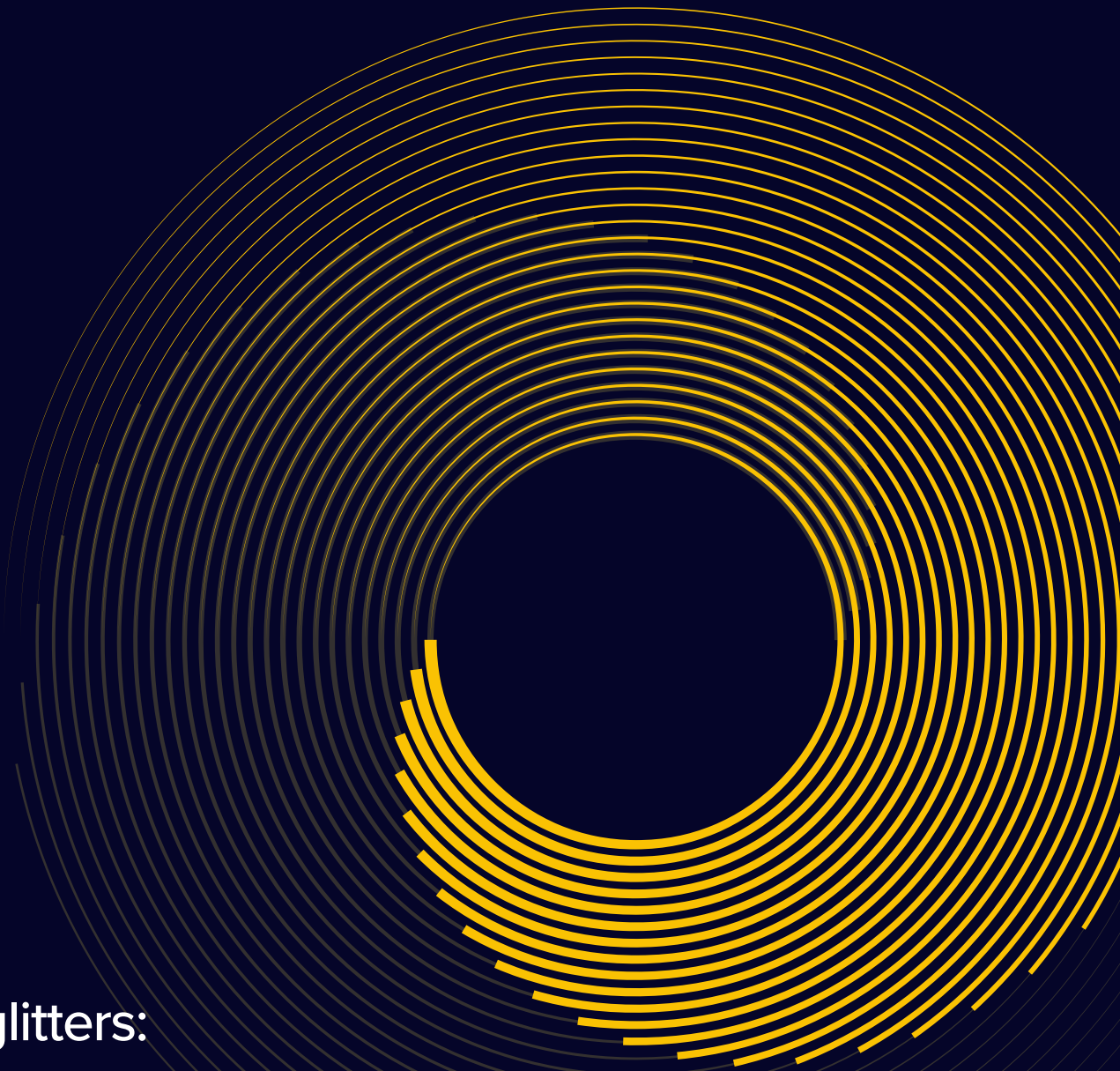
TECHINASIA CONFERENCE
2020 REPORT



All that glitters:

A glimpse into Southeast Asia's golden age





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Introduction

Southeast Asia is about to enter its golden age.

While the decade is off to a bumpy start because of the Covid-19 pandemic, the region is on the brink of a new era[1], one that holds promise of economic growth and technological innovation.

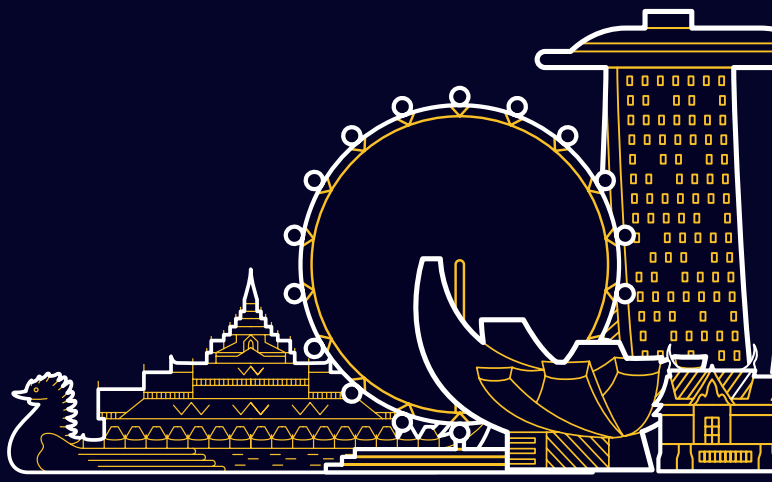
It has seen the rise of 11 unicorns[2] in the last decade, and more are expected to emerge[3] in the coming years. At least US$7.7 billion[4] was invested into Southeast Asian startups in 2019 alone, highlighting the fact that investors are taking note of how promising the region is.

It has a population of over 655 million people[5] with a median age of 30.2 years[6] - a youthful, productive workforce that's eager for new technology, experiences, and opportunities. Additionally, as Southeast Asians earn more and gain exponentially higher discretionary income, this creates an opportunity for businesses looking to scale.

Southeast Asia is also ripe for disruption. Countries like Indonesia and Vietnam are emerging markets, which means new businesses can develop solutions to existing problems.

Consumers in the region are mobile-first[7], if not mobile-only. This opens new avenues for the growth of a digital economy[8].

With numerous tech unicorns in its stables, Southeast Asia has the opportunity to outpace the rest of the world in areas like digital payments and smartphone-based businesses.



However, the path ahead will be a rocky one. Covid-19 has had a significant impact[9] on the region's economic growth: Many businesses have been forced to close their doors, and many more are struggling to stay afloat.

Pandemic aside, Southeast Asian startups still need to grapple with other concerns, such as funding, talent acquisition, and changes in user behavior as well as address various infrastructural, social, and cultural barriers to unlocking the region's potential.

This report is *Tech in Asia*'s attempt to gaze into the crystal ball and see what the next decade holds for us. We'll be exploring the top verticals that we foresee will power economic growth in Southeast Asia, the difficulties that startups in the region will have to tackle, and how they can be overcome.



Methodology

Before embarking on this report, we asked ourselves a few questions.

What are the most exciting verticals in Southeast Asia?

What impediments will it face?

Who will play an important role in the region's economic development?

To identify the verticals and companies that have attracted the most investor interest, we looked at our own dataset[10], where we've kept track of all the startups, tech companies, and funding deals in Asia.

Next, we examined the stories our newsroom has produced, picking out trends or topics that stood out from our coverage.

We then conducted interviews with founders, venture capitalists, and other key players in the Southeast Asian startup scene to get a sense of the collective sentiment and predictions people have for what lies ahead. Using insights from seven VCs and four business leaders, plus our own research, we reached the conclusions we've detailed here.

Of course, this report is by no means comprehensive. Instead, it's an exploratory look at what we think will propel Southeast Asia toward its golden age, presenting a broad picture of what lies ahead.

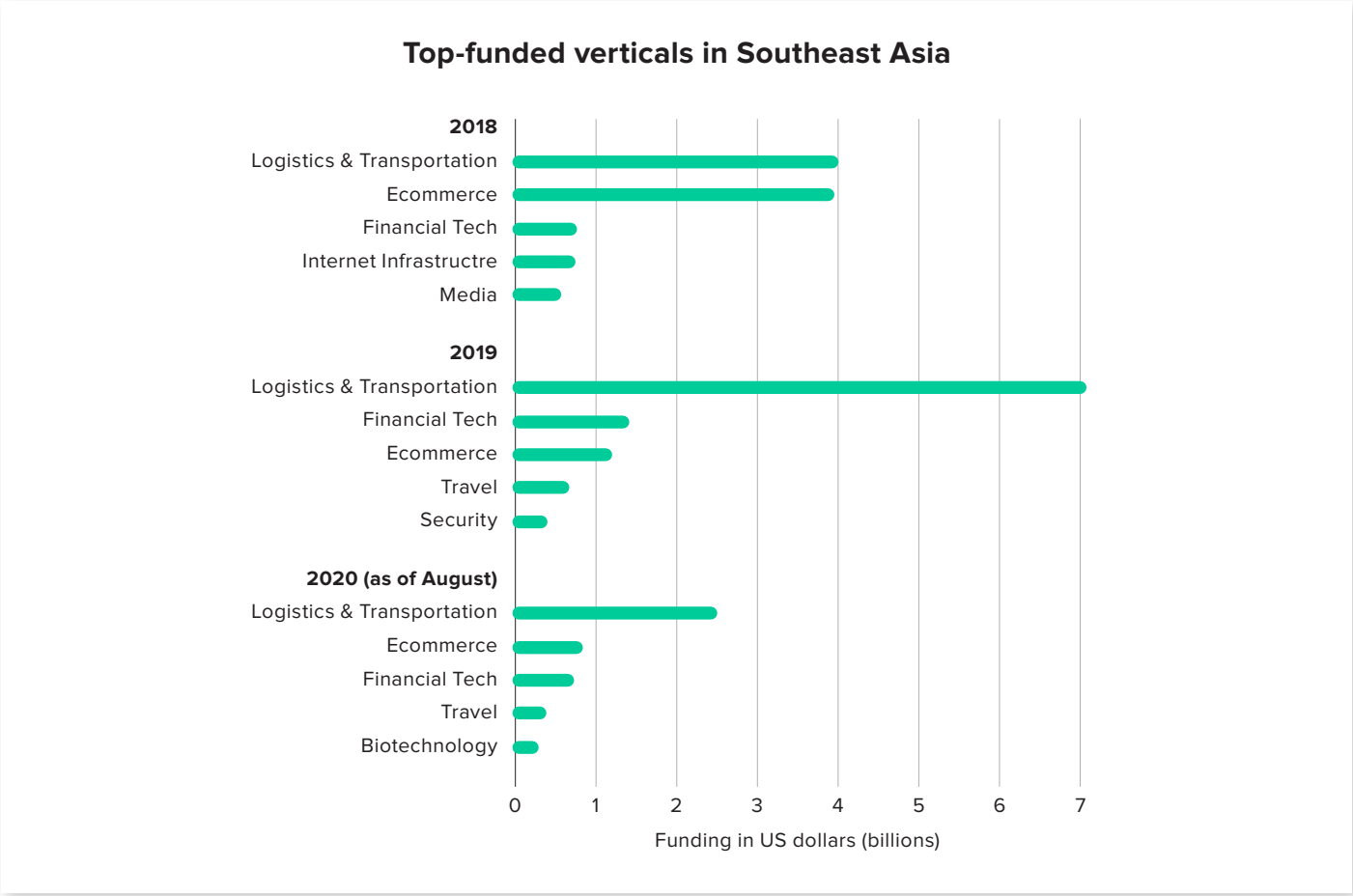


Powering the next decade

How can you tell which verticals will fuel Southeast Asia's economic growth?

One way - albeit imperfect - is to look at how much funding these verticals receive.

From our own database, we identified the five best-funded verticals in the region over the last three years.

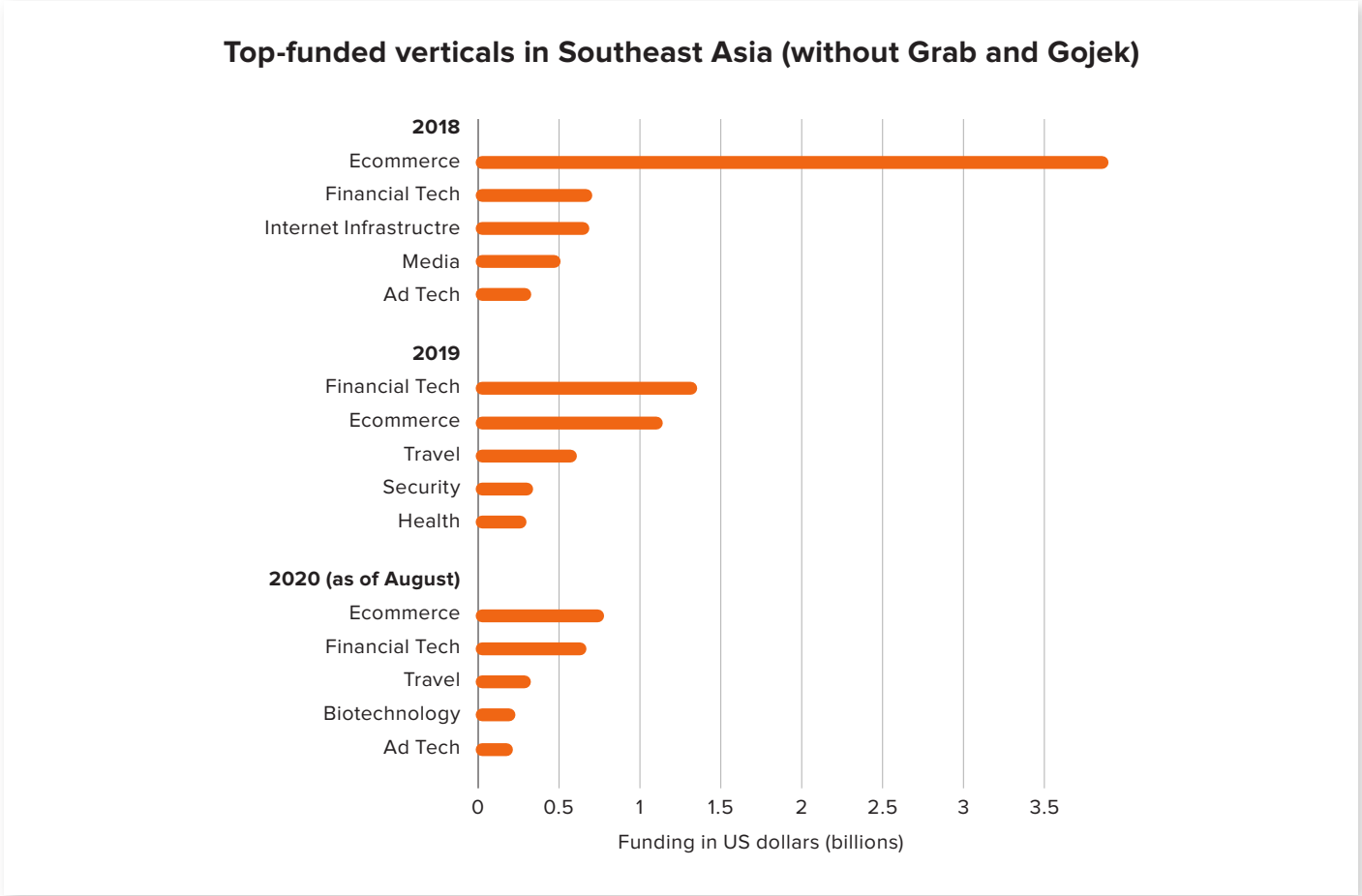


Source: *Tech in Asia*[11]

The top three are pretty clear:

Logistics and transportation, ecommerce, and financial tech have gone to the forefront every year.

But things get interesting when you remove Southeast Asia's decacorns, Grab and Gojek, from the equation.



Source: *Tech in Asia*[12]

Without the two companies, logistics and transportation unsurprisingly drops out of the list. Grab and Gojek have raised over US$10 billion in funding over the last two years, accounting for a sizable chunk of the investment into this vertical.

Despite the relative lack of funding that logistics and transportation has received compared to other verticals, we think this sector will continue to thrive and play an important role in Southeast Asia's development, especially given the growth of ecommerce in the region.

After all, logistics and transportation, ecommerce, and fintech make up the backbone of a digital economy. People need to buy and sell, as well as pay for and move around goods. These sectors are critical infrastructure services that serve as an entry point toward digitalization for many people in Southeast Asia. They also present unique opportunities for homegrown players because of the various localization and regulatory barriers around them.

Next, we will look at each of these verticals more closely and explore some other up-and-coming areas in the region.



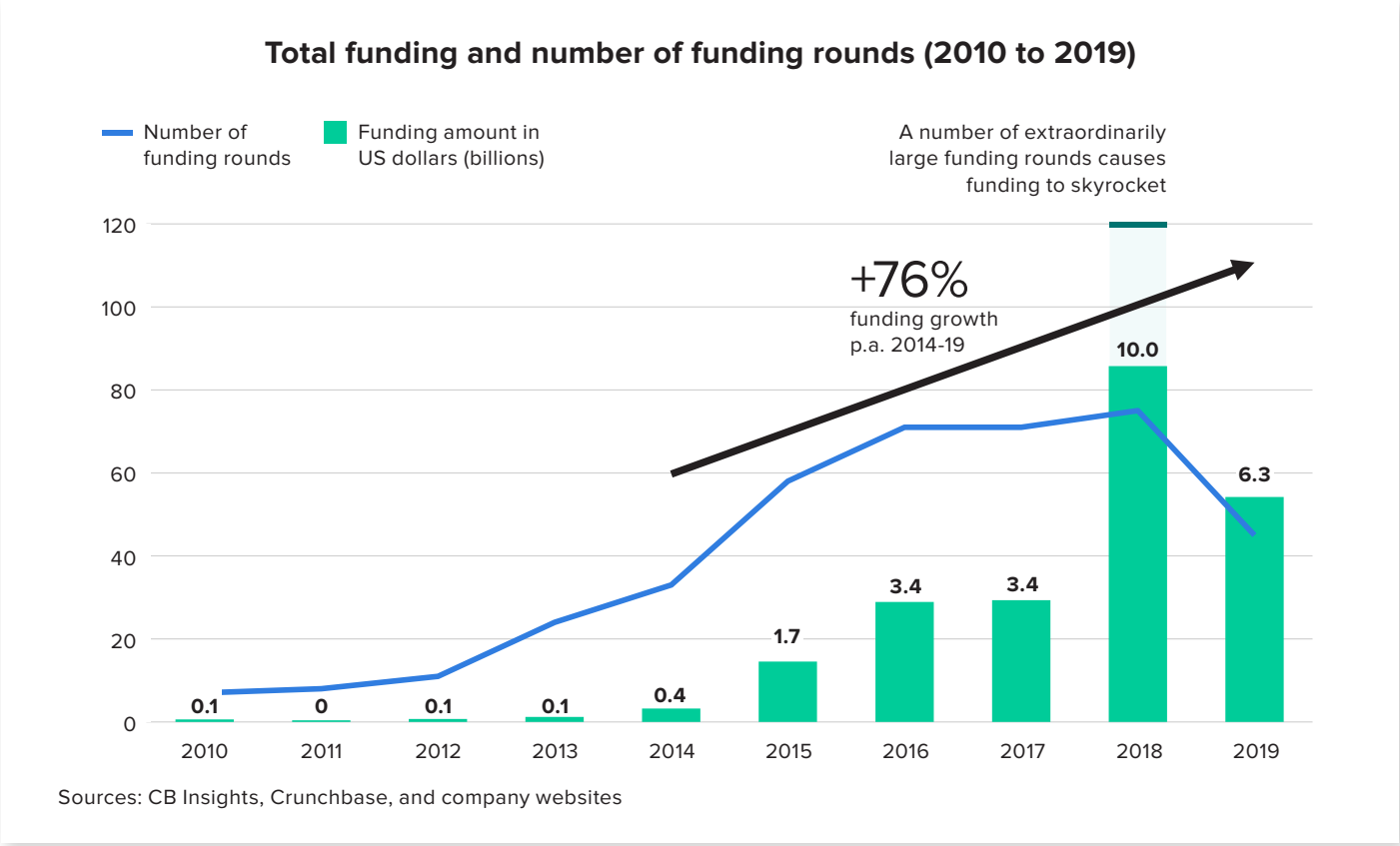


Logistics and transportation

While technology has permeated everything from retail to financial services, inefficiencies continue to plague the logistics sector in general. Opaque pricing, door-to-door inquiries, spreadsheet-reliant operations, and high fragmentation are still hallmarks of the industry, presenting further possibilities for disruption.

In 2019, US$6.3 billion was invested in logistics startups compared to just US$375 million in 2014.

Within the sector, startups are tackling everything from last-mile delivery, storage and warehousing solutions, inventory management, and freight marketplaces that increase price transparency.



Source: Adapted from "Startup Funding in Logistics: New Money for an Old Industry?" by McKinsey & Company[13]

The rise of ecommerce has created a demand for reliable, efficient last-mile delivery solutions as well as cross-border logistics support. In Southeast Asia's rural areas, which often lack formal addresses or well-paved roads, innovative solutions such as the use of oxcarts in hard-to-reach places have emerged. Startups offering creative last-mile delivery solutions - whether through crowdsourced delivery, parcel lockers, or drones - have taken the largest slice of the pie of investments globally.

Some noteworthy investment deals in the last-mile delivery space include the 2018 funding rounds of two Hong Kong-based startups: GoGoX bagged US$250 million while Lalamove secured US$300 million. This year, Singapore-headquartered Ninja Van raised US$279 million in series D financing.

Platforms that connect trucking companies or shippers directly to enterprises, provide fleet management solutions (e.g., Indonesia's Kargo), and offer warehousing service (e.g., Jakarta-based Waresix) have also drawn significant investment.

Some areas to keep an eye on are:

Upstream logistics solutions

A new wave of small-scale social commerce sellers is gaining ground and many of them source products from countries like China and Vietnam, Asia's manufacturing hubs.

These sellers will increasingly need help in areas such as escrow services and warehousing to freight and customs clearance. Existing logistics players are already extending their suite of solutions to capitalize on this.

Same-day deliveries

The Covid-19 pandemic, which has indelibly reshaped online shopping habits, is expected to continue to spark demand for same-day or instant deliveries.

Business-to-consumer (B2C) logistics services such as those provided by GrabExpress and Lalamove are rising to fill this gap.

Business-to-business (B2B) logistics services

Unlike consumers, businesses handle more volume and are more time-sensitive when it comes to pick-ups and drop-offs.

As such, solutions will have to be customized to business workflows. For instance, document management in financial services and pharmaceuticals remains a greenfield, with little digital penetration to date.

Incumbents, however, aren't resting on their laurels.

Major online retailers like US-based Amazon and China's Alibaba are expected to continue investing in new startups and technologies to boost their logistics capabilities.

In the long run, low margins may drive partnerships or acquisitions between newcomers and existing players, allowing both to combine scale, operational expertise, and the requisite tech know-how.





Ecommerce

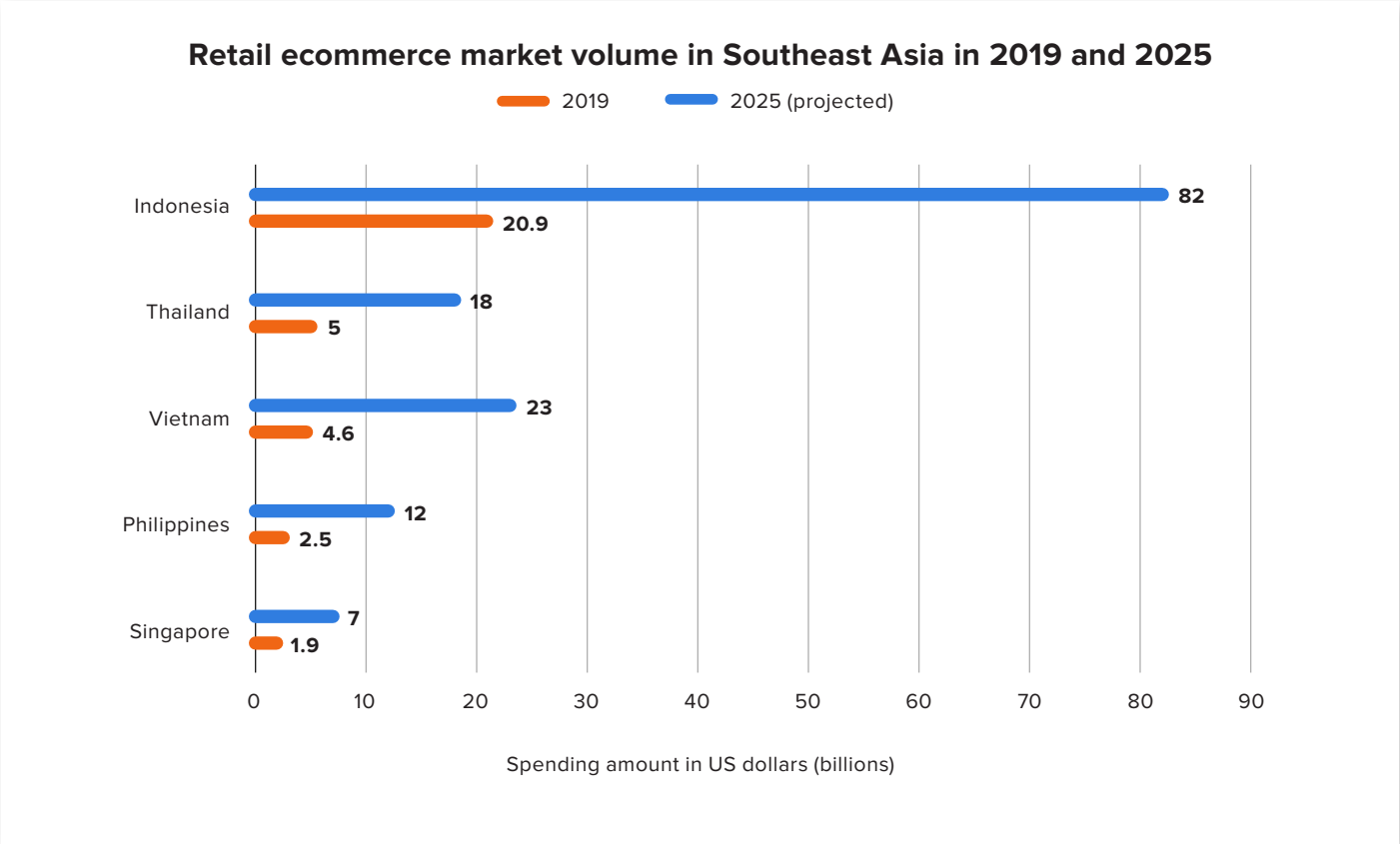
Like ride-hailing and fintech, ecommerce is instrumental to Southeast Asia's growth and development due to its sheer scale. It is also essential to the widespread adoption of technology. Shopee claims to have 200 million monthly active users (MAUs) across the region, while Tokopedia, which operates only in Indonesia, says it has 90 million MAUs[14].

Ecommerce companies have banked comparably large funds over the years.

Tokopedia, for example, raised a mammoth US$1.1 billion round[15] in 2018 from Alibaba and Japanese conglomerate SoftBank. In Vietnam, Sendo and Tiki have both raised total funding in the three-digit millions.

And there's still more where that came from. According to Statista[16], ecommerce revenue in Southeast Asia is projected to reach US$54.6 billion in 2020. It has a compound annual growth rate (CAGR) of 14.7% between 2020 to 2024, which means a revenue of US$94.5 billion by 2024.

The bulk of that growth will come from Indonesia, Southeast Asia's largest market.



Source: Statista[17]

By spurring entrepreneurship and boosting small and medium-sized enterprises (SMEs) in the region, ecommerce serves as an engine propelling Southeast Asia's economies. Consulting firm McKinsey & Company estimates that in Indonesia, ecommerce could directly or indirectly support 26 million full-time jobs[18] by 2022, which would represent 20% of the country's total workforce.

But in a region consisting mainly of developing markets, physical infrastructure remains an issue[19]. Much of the infrastructure around Southeast Asia is still centered around Tier 1 cities - even internet access can be spotty in less urbanized areas. In 2018, ecommerce's share of Indonesia's total retail market was just 8%[20].

There's also the regional vs. local divide. A pivotal hurdle for homegrown players in Indonesia and Vietnam[21] has been to fend off the onslaught of Shopee, which has a sizable war chest at its disposal.

Here are some ecommerce trends and companies to look out for:

Offline commerce

Programs like Mitra Bukalapak[22] and Mitra Tokopedia in Indonesia seek to bring more informal merchants online.

But this requires effort from the government as well as the country's large legacy conglomerates - an undertaking that presents its own set of complications.

The rise of B2B ecommerce

GudangAda made waves by raising what it claims to be Indonesia's largest seed round[23], which was followed by a series A round in just a couple of months.

The startup enables companies in the fast-moving consumer goods (FMCG) segment to buy and sell from one another through an online platform.

Ecommerce enablers

Companies like Thailand's N-Squared eCommerce[24] helps brands sell on ecommerce marketplaces.

Founded by alumni of ecommerce powerhouse Lazada, the Thai startup has since expanded into multiple markets across Southeast Asia and claims to be profitable.

Social commerce

This[25] may be the key to unlocking the potential of less urbanized populations.

Startups like Indonesia's Super rely on a network of resellers and agents to provide rural consumers with a social component that's missing from internet marketplaces.

Niche ecommerce platforms

Fashion ecommerce companies, which include heavyweights like Zalora or Zilingo (which has since pivoted to B2B), have traditionally dominated this space.

Thailand's Pomelo, which recently raised US$52 million in series C funding, is also a notable player.





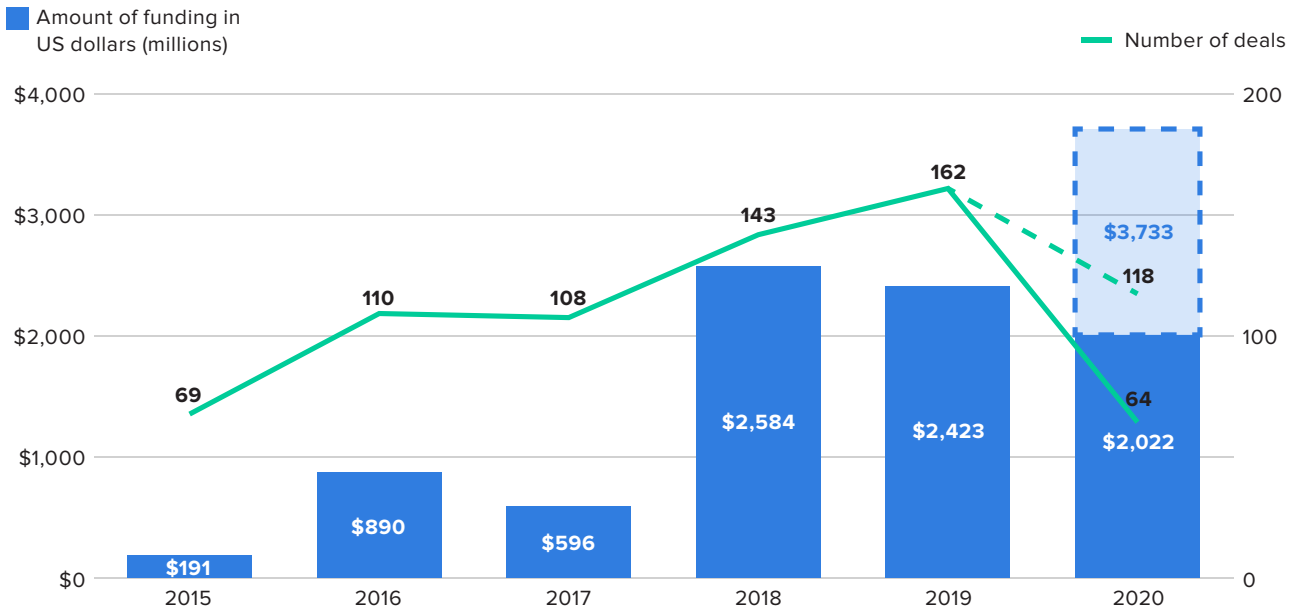
Fintech

The financial services sector continues to draw a disproportionate share of funding among tech startups in Asia. As of April 2020, fintech startups landed US$1.1 billion in funding[26] across 53 deals, beating out ecommerce funding in both size and number, *Tech in Asia* data reveals.

There's still leeway for growth, if global patterns are any indication.

Regulatory efforts in Asia are just starting to catch up with those in Europe, where open banking policies have liberated access of customer data to third-party financial providers. Last year, total fintech investment in Asia stood at US$12.9 billion compared to US$58.1 billion in Europe and US$64.2 billion in the Americas[27].

Fintech funding and deals in Southeast Asia (2015 to 2020)



Note: Full-year totals for 2020 are based on the run rate as of Aug. 17, 2020.

Source: CB Insights[28]

In Southeast Asia, the fintech revolution is being led by the rise of digital payments, which is expected to cross US$1 trillion in volume by 2025[29]. But other fintech verticals like digital lending, remittances, and insurance as well as wealth management and investments are also gaining momentum. Digital lending is on track to hit a US$110 billion loan book by 2025, growing about 5x from US$23 billion in 2019[30].

What's powering the momentum? Every tech business, whether it's an ecommerce platform, a ride-hailing company, or a hardware provider, seems to be adding financial services to its offerings. Doing so allows companies to boost the value of their current products, but it also helps them retain customers and drive larger margins.

Many fintech enablers are offering their technological capabilities and assets "as a service" - from payment acceptance and card-issuance to credit-scoring algorithms - to other firms. Singapore-based Nium, CredoLab, and MatchMove are just a few examples of companies that are helping other firms build banking services within their apps. Payment gateway services from providers such as Stripe, 2C2P, Omise, Xendit, and Red Dot Payment, have become vital to any online business.

Through payments, lending, or insurance, financial services drive more frequent and recurring purchases and can create stickiness. In Southeast Asia, 198 million[31] people are underbanked or unbanked, lacking access to formal financial services. These consumers are more likely to use apps or purchase items on platforms that also serve as their "banks."

Some areas to keep an eye on include:

"Buy-now-pay-later" products

Lending startups like Kredivo and Akulaku in Indonesia enable users to pay for purchases through installments without needing credit cards. They raised a combined amount of almost US$200 million last year.

Microinsurance products

Offering bite-sized coverage for a small fee, microinsurance is a more affordable option for many people living in Southeast Asia. Super apps Grab and Gojek already offer such services.

Recoupling of financial services

Fintech firms are beginning to offer a more comprehensive suite of services as consumers seek a primary interface to manage their financial affairs, which includes payments, wealth management, credit, and insurance.

Whether it's Grab's acquisition of robo-advisor Bento or GoBear's purchase of AsiaKredit to introduce "lending as a service," we can expect more companies joining forces.

Regulation around digital banking and payments is starting to keep pace with fintech developments. This will either level or shake up the playing field for startups as they go up against incumbents who can draw from their customer relationships, financial services expertise, and strong balance sheets.

Can startups win on their superior user design and competitive service fees alone, or will that mean more tie-ups between banks and non-banks?

We'll have to wait and see.





Others

Aside from the three verticals we've discussed above, numerous other areas are primed for change, where new players with new models can come in and disrupt the industry.

As a developing economy, Southeast Asia has many pain points where startups can make a difference. Here are five other areas that we think will play an important role in the region's impending golden age.

Agrifood tech

Food is necessary for life, so agrifood tech - agriculture and food technology - makes Southeast Asia a tasty morsel for investors.

In 2019, US$423 million[32] was injected into such startups in the region, and that figure is expected to climb in the coming years. Startups are recognizing the opportunity to gobble up a bigger portion of the global agrifood tech market, which is valued at US$8 trillion at least.

Amid the impact of Covid-19, the specter of food shortages looms over Southeast Asia, which is home to a large poverty-stricken population struggling with poor infrastructure. It also has a history of social and political instability caused by shocks to its food supply. Around 9.8% of its total inhabitants[33] - 27.8 million people - are undernourished. Half of the children in the region have dietary-related problems, which include obesity and undernourishment.

Despite these issues, Southeast Asia is also home to a huge amount of food waste. Asia throws out a quarter of the world's edible food[34], estimated at 1.3 billion tonnes in 2018. These worrying statistics call for a massive overhaul of the agrifood ecosystem.

Some areas to keep tabs on include:

Food wastage solutions

Venture capital and private equity firms are beginning to notice the potential of these enterprises, pouring in nearly US$20 billion[35] into the nascent industry in 2019. High-profile deals for startups in the space include Malaysia-based Nutrition Technologies' US$8.5 million series A funding round in 2019. The company uses black soldier fly larvae to break down agricultural waste. The insects are also turned into fish and livestock feed as well as pet food.

Food delivery and e-grocery solutions

An interesting development in Indonesia is the emergence of online-offline, "digital first" startups that allow customers to order via a mobile app, either for delivery or in-store consumption. The centerpiece of this is Kopi Kenangan, which closed a US$109 million[36] series B round this year.

In-store retail and restaurant tech

This category, which includes startups that help food merchants serve customers and run their businesses more efficiently, dominated ASEAN agrifood tech in 2019 in terms of investments and deal volume. The majority of funding went to Trax's US$100 million series D. The startup develops image recognition software and uses an internet-of-things camera system to provide consumer packaged goods companies with shelf and store-level insights.

Education tech

Industry experts have earmarked education tech, or edtech for short, as another exciting area of growth.

In recent years, the sector has seen a surge in interest, heightened even further by the Covid-19 pandemic. The global edtech space generated revenues of US$76.4 billion in 2019, with an expected CAGR of 18.1% from 2020 to 2027[37].

Southeast Asia, for one, provides many opportunities for startups in the space, as the region faces many education-related drawbacks[38], such as a lack of trained teachers, inadequate funding for schools, and the inconsistent quality of teaching across institutions.

Existing players include Ruangguru and Zenius in Indonesia, which both utilize online platforms so students can access videos and assessments on different topics. Elsewhere, Thailand's Taamkru uses gamification to teach English, math, and science to preschoolers.

With the population's rising affluence, many parents in the region are willing to invest in their children's schooling, and edtech has plenty of potential to enhance the learning process. Such platforms can also help address some of the inequalities in education by enabling children from lower-income backgrounds to access educational resources more affordably.

But edtech isn't just for school-age children; there are also numerous opportunities in adult education. Companies like Indonesia's HarukaEdu and Vietnam's Topica Edtech Group, for instance, provide online courses and certifications for adult learners looking to upskill themselves.

Some areas of interest lie in:

Bridging the gap between online and offline

Internet access is still an issue in Southeast Asia. In Indonesia, for example, internet penetration was at 56%[39] in 2019, with only an estimated 150 million people having access to the internet.

Both Ruangguru and Zenius are exploring offline offerings, such as flash drives and hard disks that come pre-loaded with their learning videos. While this is one approach, addressing the gap is something edtech startups need to do in order to capture a greater share of the market.

Learning management and communication

Besides developing actual educational content, companies can also create platforms for teachers and parents to monitor and manage students' learning effectively.

Schools are still reliant on paper-based systems, with physical examinations, consent forms, report cards, and the like still very much the norm in Southeast Asia. Payments of school fees are often still made in cash as well.

Being able to digitize this process and help schools to carry out such tasks more efficiently could allow educators to focus more on teaching and less on administrative tasks, which improves the overall experience for students.

Healthtech

Healthtech is another vertical in Southeast Asia that has tremendous potential for growth.

Even prior to the Covid-19 pandemic, the sector was seeing a flurry of investor interest, with the region recording a total of US$226 million[40] in healthtech investments in 2019.

There are many setbacks plaguing Southeast Asia's healthcare industry. Doctors are in short supply[41], especially in developing markets like Indonesia and Vietnam, leading to lengthy waiting times for patients. Southeast Asians also pay more out of pocket[42] for medical treatment compared to the rest of the world.

While there are world-class hospitals in major cities like Singapore and Bangkok, the reality is that many people in the region don't have access to affordable, quality healthcare.

Telehealth startups, in particular, have been interesting for investors and consumers alike. Enterprises such as WhiteCoat, Doctor Anywhere, and Halodoc allow patients to receive medical consultations remotely, saving people from having to travel to clinics and spend hours in waiting rooms before even seeing a doctor. In Southeast Asia, where residents in rural areas may have to travel great distances in order to seek medical advice, telehealth could be a game changer.

The pandemic, which has driven many aspects of life into the digital space, has also increased the adoption of telehealth services.

But there are many other exciting prospects in healthtech. Medical monitoring systems, AI-driven healthcare recommendation engines, healthcare data management solutions, and medical diagnostic tech are just some of the developments that could improve healthcare services in Southeast Asia.



Business solutions

Another potential area for growth lies in enterprise solutions, specifically those aimed at SMEs.

Southeast Asia is home to many of these businesses, which make up a hefty chunk of the ASEAN economy, accounting for between 89% and 99% of total establishments[43].

SMEs are a vital source of income and employment in the region and have a widespread presence outside major cities, creating opportunities for work and development in small towns, suburbs, and rural areas.

But SMEs in these places often face obstacles. For instance, many of them struggle to digitize, as they may not have the resources or know-how to do so. For Southeast Asia to truly become a digital economy, it is necessary that these companies undergo a transformation. However, the region runs the risk of seeing a widening digital divide[44], especially among non-urban communities that don't have the same access to digital resources as those based in cities. This is a huge opportunity for startups to craft products and services that will help SMEs digitize and bridge the gap.

Startups that offer business solutions to this segment are also not restricted to any particular vertical since there's room to improve the way SMEs work at every aspect of their operations.

Take BukuKas and BukuWarung, for instance. Both fintech startups have developed digital ledger apps for SMEs, making bookkeeping easier for small-business owners in Indonesia. For its part, Grab also rolled out its GrabMerchant platform[45] early this year to help local food and beverage players go online.

There are also business management solutions like Deskera, which enables entrepreneurs to manage inventory, payroll, and other business functions from a single platform, as well as industry-specific players like Novade Solutions, which focuses on construction.

As Southeast Asia continues to develop its internet infrastructure and as more people gain access to smartphones and the internet, opportunities for startups to connect with and serve SMEs will abound.



Content

Original content remains an interesting growth vertical, partially due to some key developments in 2020.

The industry's total addressable market in Southeast Asia is massive, with 655 million people in the region[46] and a consumer base that is increasingly digital, mobile-first, and has a preference for video and local content[47].

By 2024, the online video industry in the Asia Pacific is estimated to reach US$50 billion in revenue[48]. And that's with consumers spending only about 25% of what they shell out for traditional pay-TV services, indicating that there's significantly more room for expansion.

However, the road to getting a piece of the action has been turbulent, if this year is any indication. Singapore-based Hooq filed for liquidation[49] in March, even though it was backed by bigwigs such as Singtel, Sony, and Warner Bros. Meanwhile, Malaysian streamer Iflix was acquired by Chinese tech titan Tencent in June as part of its push into original content[50] for its WeTV unit. The battlefield for over-the-top (OTT) players is also getting more crowded, thanks to the entry of Western contenders such as Netflix, Disney+, HBO, and Amazon as well as Chinese players such as WeTV and iQiyi.

Yet some opportunities are showing promise. Hong Kong-based Viu has seen success by focusing on bringing Korean content to a pan-Asian audience[51]. The platform's weekly viewing minutes jumped by 274% between January and April this year. In Indonesia, GoPlay is betting on its ability to produce original Indonesian content and is taking a different business approach[52] to catch the eye and open the wallets of Southeast Asia's most populous market.

From *Tech in Asia*'s perspective, these are the things to keep an eye out for:

More digital providers and platforms specializing in homegrown content	Watch out for bigger content libraries and more hit shows that feature local heroes. While videos seem to be the most in-demand format, it is likely that podcasts will become more popular in the region as well.
Industry consolidation and acquisitions	As the Southeast Asia content market heats up, we can expect more M&As of local content producers and platforms as international competitors seek to gain a foothold in the regional market.
Emerging video tech	Innovative tech that can reduce the cost and streamline the process of adapting international content will be introduced. Natural language processing may also be used to help translate foreign titles.
New business models for the digital content industry	Similar to GoPlay's revenue-sharing model, new business models will certainly crop up as local players strive to compete with global brands.

Challenges

At the outset of the decade, we would be remiss not to highlight some very real stumbling blocks that stand in the way of Southeast Asia's tech and startup ecosystem.

Since it began, 2020 has thrown well-established business models and industries into a tailspin. While the ecosystem should be in a good position to capitalize on the disruption and changing consumer behaviors stemming from the pandemic, the sector has some macro challenges to overcome to realize its full potential.





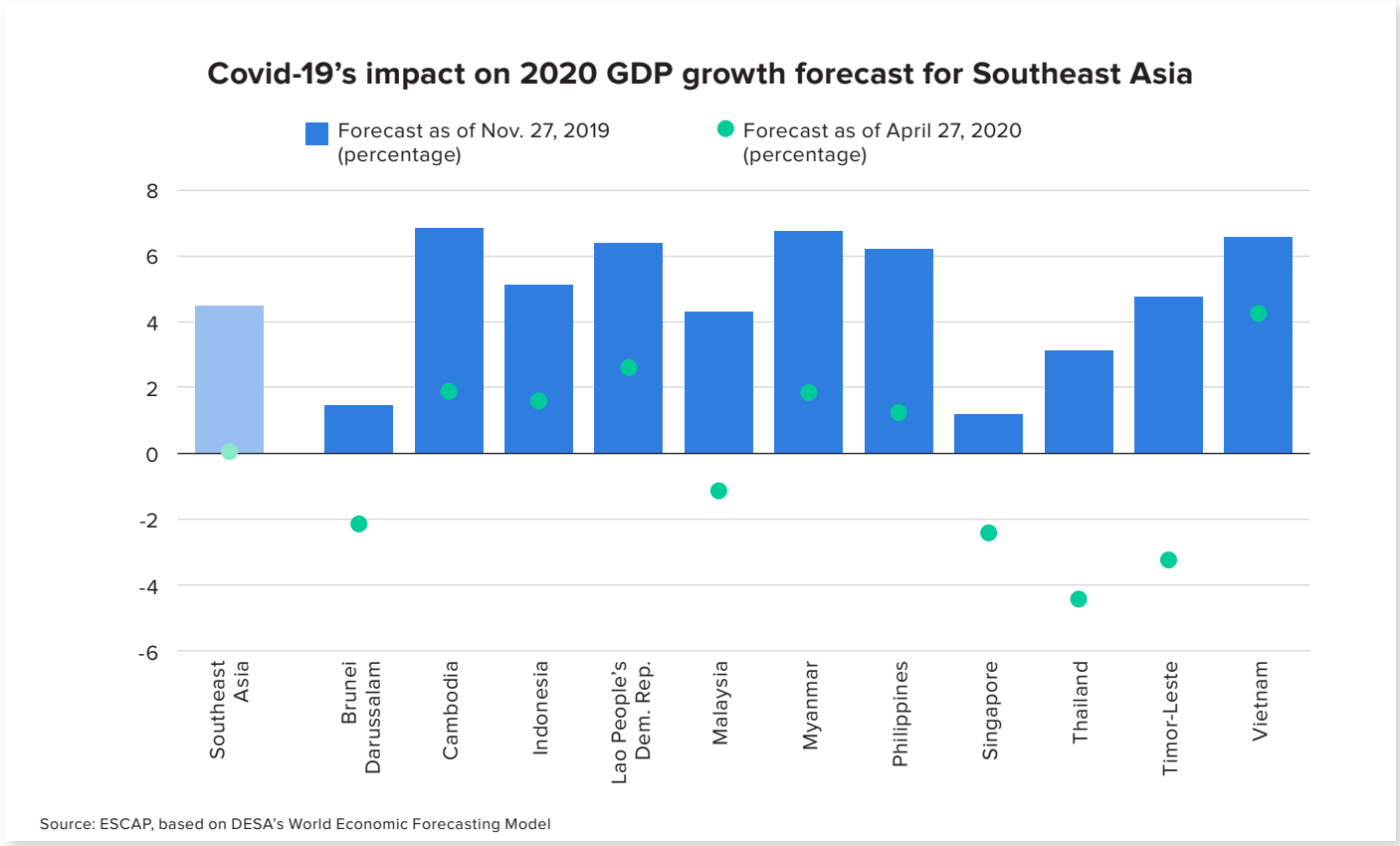
Covid-19 and changes in user behavior

Like the rest of the world, Southeast Asia has been severely affected by the pandemic. The region's gross domestic product is estimated to contract by 0.1% on average in 2020 to 2021, but pre-Covid-19 forecasts originally projected a 4.5% growth[53]. Similarly, the unemployment rate around the region keeps rising as businesses continue to face financial difficulties amid this public health crisis.



The impact on consumer behavior has been just as dramatic.

The way people eat, shop, and live will be markedly different from before, and businesses will need to keep up and adapt.



Source: "Policy Brief: The Impact of COVID-19 on South-East Asia" by the United Nations Economic and Social Commission for Asia and the Pacific[54] (ESCAP)

As they rush to fill the gaps in 2021 and beyond, startups have to address two important changes:

New demands and addressable markets.

Now is a good time to start. Consumers are more willing to embrace novel technologies and are likely to be more forgiving as well. Zoom, for example, isn't all that easy to use[55], but it's gained worldwide adoption since the pandemic began.

Case in point: Middle-age consumers are figuring out how to make video calls, with 78% of 45- to 54-year-olds trying digital apps for the first time during Covid-19[56]. This opens up a new addressable market for tech entrepreneurs in the region.

That said, founders need to understand in depth what opportunities could capture the hearts and wallets of this new wave of digital users. For instance, baby boomers have very different spending habits from millennials. This older generation is more affluent compared to other age groups and can make more expensive purchases, affecting the kind of products, services, and marketing they'd be open to.





The "home sweet home" economy:

The pandemic's stay-at-home effect will likely be long-lasting[57]. There are obvious benefits to remote working in terms of time and cost savings, so both companies and employees are encouraged to make work more flexible as long as productivity isn't compromised.

In the same vein, startups may go office-less to slash costs. These changes will have a trickle-down effect on how businesses and workers deploy resources.

Products that are built for the office-based economy will probably be affected in the long term, too. For example, co-working spaces may make way for co-living ventures, and companies may shift from having a permanent office space to renting meeting rooms for one-off sessions. Events themselves will change as well. Virtual conferences allow for more attendees to be present at a lower cost, but companies will have to find ways to facilitate human-to-human interactions.



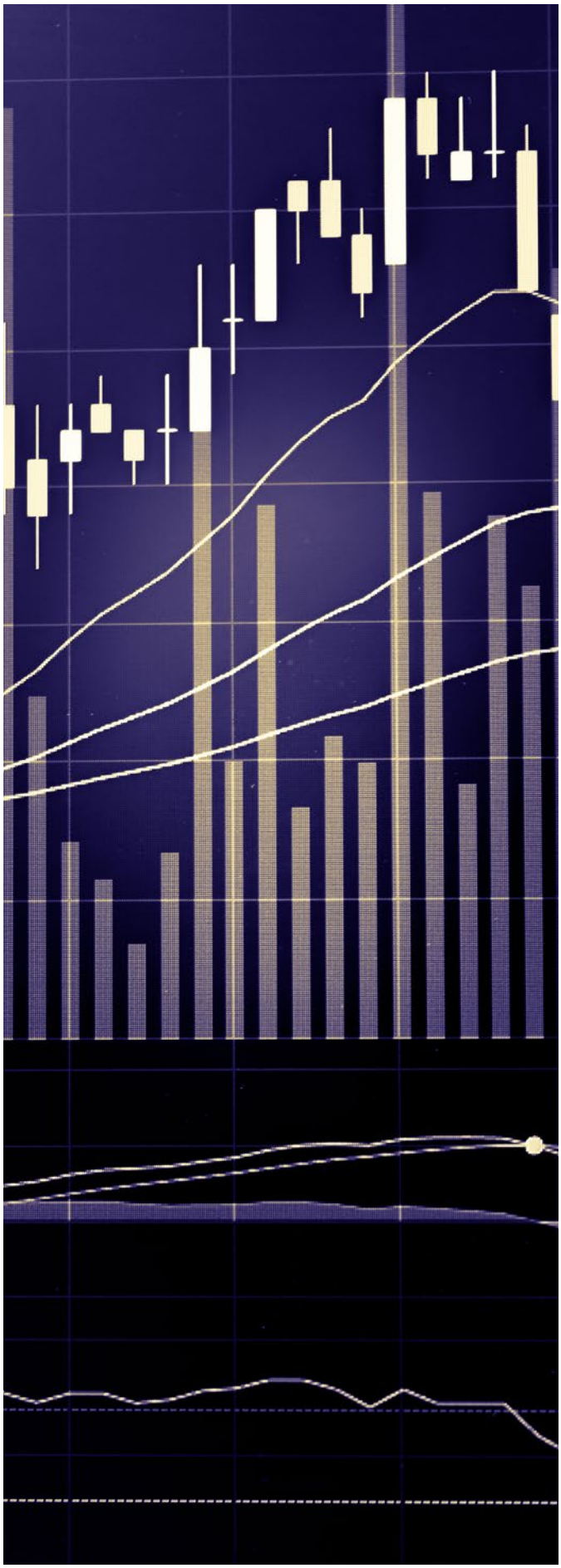


Funding

Southeast Asia's funding scene is at a crossroads.

On one hand, the last few years have seen an influx of investment. International players such as Tencent, Alibaba, Facebook, and PayPal have started making moves in recent rounds, which is a positive indicator of Southeast Asia's growing influence.

On the other hand, the relatively few exits from the region - coupled with investors' sentiment to hold on to dry powder - may generally dampen investor enthusiasm and slow down funding.



Exits are also a crucial part of any healthy startup ecosystem, as they are the validation of a growing, investable market.

The value generated from these deals is usually invested back into startups through VC funds or from individuals themselves and serves to attract more outside capital.

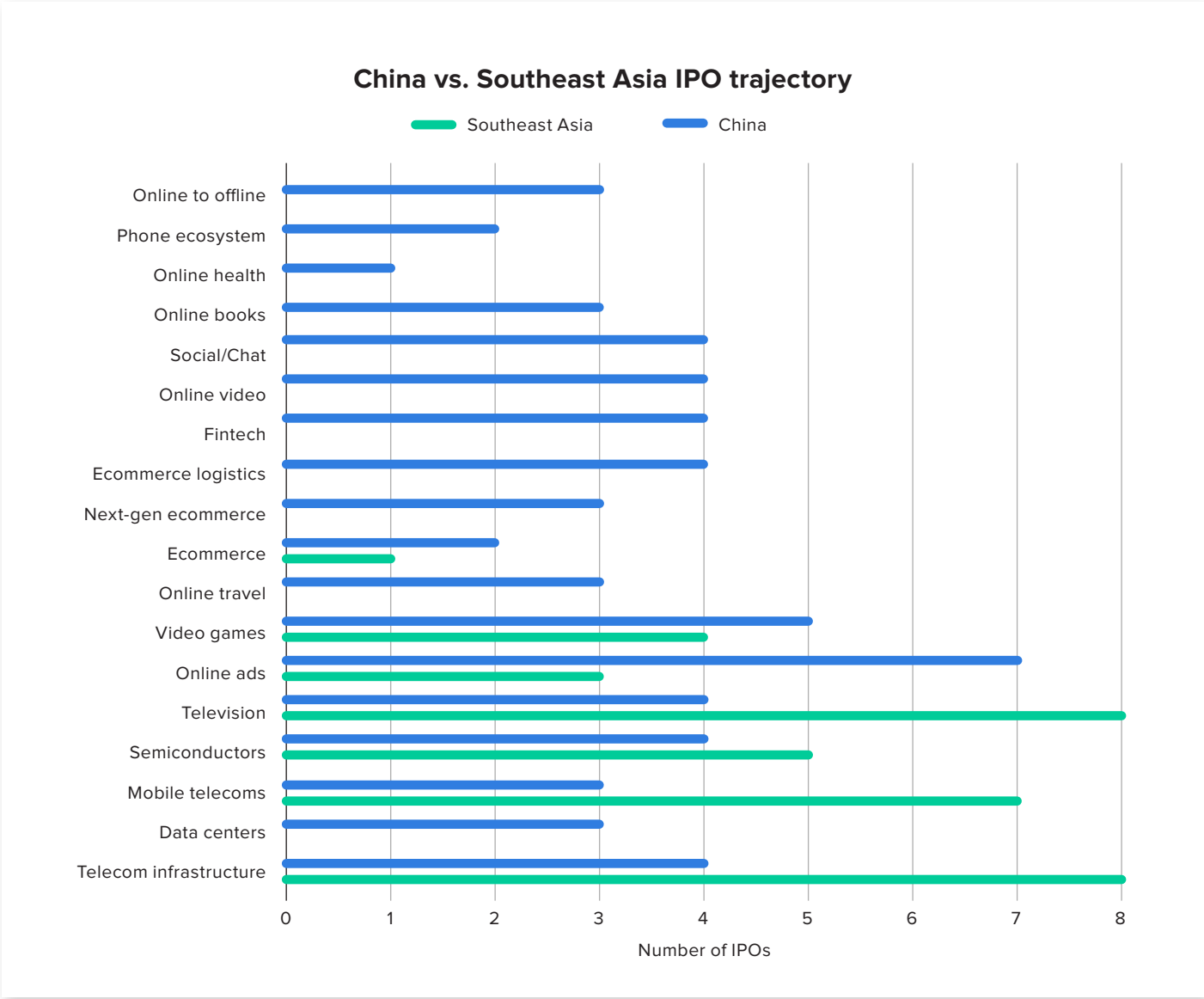
Traditionally, initial public offerings have been an important exit strategy. It's an essential mechanism to reap big returns for investors, deliver shareholder value, and create liquidity. While strategic acquisitions and secondaries are a viable and healthy strategy for smaller companies, IPOs can provide healthy returns on bigger investments like Grab, Gojek, and Tokopedia. Without IPOs, it will be difficult for the ecosystem to attract serious investors looking for healthy returns.

Even prior to 2020, Southeast Asia's history of exits was meager: Sea Group and Razer in 2017, plus a handful of other recent IPOs. Sea Group is also one of a few companies from the region to ever go public on the New York Stock Exchange.

VCs like Lim Kuo-Yi of Monk's Hill Ventures are concerned about this record. According to the investor, Southeast Asia needs to "develop a compelling [investment thesis] vis-a-vis other options… like the US and China" to grow and attract funds.

A China to Southeast Asia IPO chart from Asia Partners may hold clues to a potential exit roadmap.

The next batch of IPOs, the chart indicates, might be from the online travel industry, ecommerce, ecommerce logistics, and fintech spaces. While Covid-19 may have delayed the IPO timeline for online travel companies, the ecommerce and fintech verticals are maturing nicely. Meanwhile, the next batch of potential exits will be clustered in the social and content spaces, with online video, social/chat, and online books being of particular interest.



Source: "2019 Internet Report: Southeast Asia's Golden Age" by Asia Partners[58]

The next few years of exit data will be important for the region's startup ecosystem to prove itself.

Major players such as Warburg Pincus have begun to test the waters[59], but Vertex Ventures managing partner Chua Joo Hock warns that without "great exits," it will be difficult to sustain the long-term interest of such players. Nevertheless, he is hopeful that some of Southeast Asia's unicorns will go public over the next few years.





Human capital

Tech talent remains one of the most pressing challenges for the region. As Amit Anand, founding partner of Jungle Ventures, puts it, “Southeast Asia has a lot of talent but lacks experience.” Other industry experts echo the sentiment that while there’s no shortage of eager workers in more junior positions, applicants for the higher management roles often have inadequate qualified experience.

This talent gap is particularly acute on the technical and engineering front, which makes finding excellent local employees for these roles competitive.

Well-funded and later-stage startups can afford to recruit staff from India, Europe, and the US to lead engineering teams, but this is frequently a critical bottleneck for early-stage companies.

India's engineering hubs are a great place to look to for a better talent model. According to a spokesperson from Sequoia Capital, there are two important factors that worked for the country. First, institutions such as the Indian Institute of Technology produce talent with "raw intellectual horsepower and engineering skills." Second, Indian engineers often develop their skills and experiences by working first in Silicon Valley for the likes of Google, Facebook, and Amazon, which allows them to see the inner workings of leading software organizations. Upon returning to their home country, these engineers would then establish their own startups and apply the best practices they learned overseas.

This trend creates a pool of highly skilled talent that "directly impacts the quality of the tech infrastructure that gets built," the Sequoia spokesperson says.

One bright spot in the region, though, is the relative engineering advantages of Vietnam, which also reflect some aspects of the Indian talent model. Vietnam is a long-standing center for outsourced engineering work and has plenty of people returning from work abroad. As such, the country has a strong portfolio of B2B software startups.

On the founder and management side, Southeast Asia has few serial entrepreneurs in the ecosystem, and many startups are run by first-time founders.

Few of them have seen the full journey from startup to scale to exit, and gained the experience and knowledge that comes with the process. While some founders have exited a company before, they often go relatively early.

This lack of experience trickles down to the management level, where few leaders have had the chance to take their teams, products, and services through the intricacies of mass scaling before.

That said, it may be possible to look to the management teams of current unicorns to find the next generation of startup founders. There are some traces of a healthy talent pipeline in the works: ex-team members of Zalora[60], Lazada[61], and Gojek[62] have graduated to become startup founders themselves. These "mafia networks" are rich in talent and ideas and also serve to diversify the startup scene and founder profiles.





Because Southeast Asia's startup ecosystem is young, some of the limitations in developing tech talent can be chalked up to growing pains. However, recruiters and founders alike have lamented the distorted and often inflated salaries[63] that startups dangle out to attract experienced individuals. The practice has resulted in job-hopping among employees, who leave after a year or two at a company.

While such trends have driven up costs, especially for mid-level and senior talent, it has not necessarily encouraged employees to stick to a product or team for multiple cycles and develop deeper experiences and knowledge. As a result, many companies are taking matters into their own hands, working on establishing research and development centers in Tier 2 cities[64] to recruit and train local talent. This is especially true in Indonesia, where R&D facilities have popped up in locations like Bandung and Yogyakarta.

All things considered, much remains to be resolved, from improving technical talent to deepening management experience.

As Southeast Asia enters this crucial period, tech talent will surely continue to top the list as one of the most important factors that can support or hinder the region's journey to its golden age.

Conclusion

The next 10 years will be a thrilling time for Southeast Asia.

Tech in Asia's research has found that logistics and transportation, fintech, and ecommerce - sectors that rose to prominence in the region in the last decade - will keep playing a central role in powering development and economic growth.

These verticals will form the foundation of the digital economy and provide a bedrock for other sectors to flourish. While there are numerous opportunities in the region, five areas in particular stand out: edtech, healthtech, agrifood tech, content, and enterprise solutions that can help SMEs with digitization.

However, startups in Southeast Asia will need to meet and overcome the trials that lie ahead. Covid-19 remains the great unknown: No one knows for certain how the pandemic will play out, but businesses will need to be agile and adapt to whatever comes their way.

Additionally, startups will have to grapple with a lack of talent and funding. Businesses will need to anticipate these potential roadblocks and take steps to address them, whether by adjusting overhead and operational costs to account for less funding or developing training programs to close the talent gap.

Despite the obstacles hampering Southeast Asia's economic development and the curveballs that 2020 has thrown at the region, many are optimistic about the future. The Asian Development Bank, for one, expects growth to rebound more than 6%[65] in 2021, and we're feeling pretty positive about it as well.

Southeast Asia is a place of opportunity, with many aspects of life ready for disruption and change. As breakthroughs emerge in technology and new solutions come to the market, the coming decade will mark a concerted shift in the region toward being a truly digital economy. Startups that seize this chance and build products that can ride this wave could very well end up in the history books.

We at *Tech in Asia* are excited about what the future holds.

The golden age of Southeast Asia is just getting started, and we can't wait to see how it turns out.



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