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BUILD IT, AND THEY WILL COME

How Singapore forged a startup ecosystem from scratch, giving rise to more than a few unicorns

BY CLAUDIA CHONG

IN 2014, a venture capitalist told Grab co-founder Anthony Tan that his scrappy startup could one day surpass the market value of his father's automobile company Tan Chong Motor, a household name in Malaysia.

But only if he executed his vision well. Part of that strategy was to move Grab's headquarters from Malaysia to Singapore.

"It wasn't very difficult to convince him," says Chua Joo Hock, a managing partner at Temasek-backed Vertex Ventures. Singapore was a financial hub, a market with affluent consumers – and its government was doing all it could to build a startup ecosystem worthy of envy.

Seven years on, Grab is going public in a record-breaking deal that values the company at US$39.6 billion, putting Singapore and South-east Asian tech in the global spotlight. >>>

BT ILLUSTRATION : LEE YU HUI

Block 71 at Ayer Rajah housed startups such as 99.co, Carousell, ShopBack and Travelmob, seen here in a photo taken in October 2014. PHOTO: NUS ENTERPRISE

The local ecosystem has also scored other wins – consumer Internet company Sea became the world's best performing stock, intellectual property platform PatSnap became a unicorn, and enterprise software startup TradeGecko was sold to US major Intuit for reportedly over US$80 million.

Two decades ago, Singapore's startup scene was a ghost town compared to Silicon Valley. What changed?

Where art thou, entrepreneur

Flushed with the prospect of replicating America's dot-com boom, the Singapore government in 1999 announced a US$1 billion fund to attract venture capital (VC) fund managers with established track records.

At the time, Singapore was growing its research hub, wanted to diversify away from foreign direct investment and had industries that could benefit from new ideas.

But any hope of an instant "Silicon Valley" was quickly dashed. Although more than US$40 billion of private equity funds were catalysed through the programme, under 2 per cent were invested in Singapore, a *Straits Times* commentary in 2013 noted.

"You could say that it was an idea ahead of its time," says Edwin Chow, assistant chief executive of Enterprise Singapore, the government agency in charge of helping local businesses grow. "They thought what was missing were the VCs who could smell the deals."

The real issue was that no one wanted to be an entrepreneur. In 2000, a Global Entrepreneurship Monitor study suggested that only 2.1 per cent of Singapore's adult population were recently involved in starting up or running their own new businesses.

In 2003, at least five Members of Parliament cited the "No U-Turn Syndrome", or NUTS, as the biggest hurdle in fostering entrepreneurship.

Coined by Creative Technology co-founder Sim Wong Hoo in his 1999 book, NUTS described Singaporeans' fear of doing anything unless they had express permission – like how Singapore drivers, in contrast to other markets, can't make a U-turn if a sign isn't present.

A gradual but determined effort to produce founders helped move the needle. Initiatives such as the Action Community for Entrepreneurship were launched to help spread the gospel.

To build a groundswell, the National University of Singapore started a programme to send students to the entrepreneurial hubs of the world. It has birthed some of the most recognisable consumer apps in Singapore today, such as Carousell and ShopBack.

There were hardly any mentors or role models in Singapore to follow at the time, so the school had to do it. "We knew that entrepreneurship is not cognitive knowledge. It's experiential," says Wong Poh Kam, one of the professors who helped launch the NUS Overseas Colleges (NOC) programme in 2001. "Frankly, it started out as an experiment. We were not sure what we were doing," he admits.

That experiment has now produced over 800 startups founded by NOC students and alumni. A trip to Silicon Valley in the programme's eighth year gave Royston Tay and his co-founders the confidence to gatecrash a pitch event in Singapore with legendary investor Tim Draper. Mr Tay eventually sold his live-chat startup Zopim in 2014 to Zendesk ahead of the latter's US listing.

"We went to a place no bigger than Singapore, with a population no larger than Singapore, and within this tiny little area was the birth of everything from Intel to HP to Yahoo to Google," says Darius Cheung, founder of property marketplace 99.co.

"We got to meet many of these founders and see that they were mere mortals with nothing more than a vision and determination. That gave many of us the confidence that we can do it too."

And he did do it. Shortly after graduating in 2004, he started mobile security startup ten Cube with schoolmates Rishi Irani (who went on to co-found the company behind flatbread-maker Macroclimatic) and Varuni Chatterjee. ten Cube was sold to global cybersecurity firm McAfee five years later.

Come together

Ask any founder or VC, and they'll tell you that a big part of the startup world is about who you know and what access you have.

Accelerators and incubators that set up shop in Singapore over the last decade brought the much-needed connections to mentors, investors and business contacts overseas.

Singapore's openness to foreign talent helped attract people like TradeGecko's Cameron Priest, who always knew he was going to be an entrepreneur but couldn't find anything for him in New Zealand. He moved with his brother and another co-founder to join JFDI, a pioneer accelerator in Singapore.

These initiatives were new ground even for investors. On day one of a 90-day programme, JFDI turned the tables, and made all investors go to the front of the room to pitch to the startups.

"I remember being nervous," says Vinnie Lauria, a managing partner at Golden Gate Ventures. "Like, oh, I'm a VC now. We hadn't even had the first close on our fund." But that meeting led to Golden Gate's investment in TradeGecko.

Slowly but surely, the public and private sectors built networks spanning across investments, regional market-access, intellectual property protection, and research and development. Innovation challenges and hackathons became a way for corporates and startups to connect.

Singapore's government believes strongly in market-led innovation, says Enterprise Singapore's Mr Chow. At one end of the spectrum are tech startups and innovative SMEs. On the other are large companies and governments which make purchasing decisions due to market opportunity or a problem to solve.

"How do you then bring these two groups of companies together to accelerate the discovery phase of what technology works to solve which problems? That's achieving product-market fit more quickly," says Mr Chow.

At the same time, universities launched a slew of initiatives to grow startups and commercialise their research. Nanyang Technological University has supported startups such as Singapore-listed Nanofilm and media company Our Grandfather Story.

Singapore Management University wants to build Singapore's own version of Sand Hill, the road leading into Stanford University known for housing Silicon Valley's VC elite.

In 2011, NUS Enterprise, Singtel Innov8 and the then Media Development Authority of Singapore turned an industrial building slated for demolition into a hub for startups, while offering cheap office rent.

There, at Block 71 in Ayer Rajah, companies like ShopBack, 99.co and Travelmob spurred each other on to realise their vision.

"When you see others work hard, you'd work hard too no matter how tired you are," said Paul Yang, whose startup Lomotif is getting sold to a group of US investors.

He recalls how he and others walked into the office early one morning to find Lucas Ngoo, one of Carousell's co-founders, fast asleep on the sofa with his laptop open. He had spent the night there.

Money, money, money

When NOC alumni Royston Tay started Zopim in 2007, venture funding seemed almost non-existent. "And fundraising overseas was fruitless because no one had heard of Singaporean startups, much less seen successful ones," he says.

Singapore's second shot at attracting VC firms came in 2008, when the National Research Foundation (NRF) launched the Early Stage Venture Fund (ESVF). It contributed S$10 million on a matching basis to seed funds that invest in Singapore startups.

NRF also launched the Technology Incubation Scheme to co-invest up to 85 per cent of the investment with tech incubators, adapting a page from Israel's playbook. The incubator pockets all the upside if the startup gets acquired. NRF just takes back its principal with interest.

Still, in a Clubhouse session last month, Insignia Ventures founder Tan Yinglan recalled how tricky his NRF job was. "I was trying to persuade

When Royston Tay, an NUS Overseas Colleges alumni, co-founded Zopim in 2007, venture funding seemed almost non-existent. He eventually sold the live-chat startup in 2014 to Zendesk ahead of the latter's US listing.

NUS National University of Singapore
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VCs to come to South-east Asia and you had to have come up with hundred-page slide decks introducing where South-east Asia is, where Singapore is, how the local venture landscape is doing," he says.

But these initiatives catalysed the rise of local VCs such as Wavemaker Partners and Monk's Hill Ventures. It gave a boost to companies including HungryGoWhere and Ninja Van, now a multimillion-dollar regional company.

International funds began to take interest too. And when Sequoia came to Singapore, it nabbed Mr Tan as its first hire in South-east Asia.

Temasek later began investing in these local VC funds, giving them a brand name and firepower to go raise more money with.

Since then, investments into Singapore-based startups have grown from US$0.1 billion across 38 deals in 2010 to US$3.8 billion over 257 deals in 2020, according to data provider Preqin.

The deals landscape is quickly evolving. Boon Siew Kam, a partner at law firm Dechert, in recent years observed an increase in strategic partnerships and investors from further abroad such as India, the United Arab Emirates and South Korea.

In Asia-Pacific, growth-oriented funds made up the largest proportion of private equity funds raised and technology-oriented funds displayed dramatic growth in the last few years. "I believe that traditional private equity funds will increasingly be looking into this space," says Ms Boon, who has been working on VC-related deals since 2008.

Early-stage companies are also increasingly using Singapore to establish their holding company, even when actual business activity is located elsewhere in the region.

"Singapore's stability and reliable commercial and legal framework mitigate some of the challenges and concerns investors may have had making direct investments into other jurisdictions," says Stephen Woods, partner at Norton Rose Fulbright Singapore.

Singapore's startup ecosystem at a glance

~3,800	9	190	>220
Tech startups*	Unicorns	Accelerators/ Incubators	Venture capital firms

R&D

Private sector expenditure S$5.6b in 2018 (~10% ▲ from 2008)

Private sector patents filed 2,241 in 2018 (~3% ▲ from 2017)

Networks

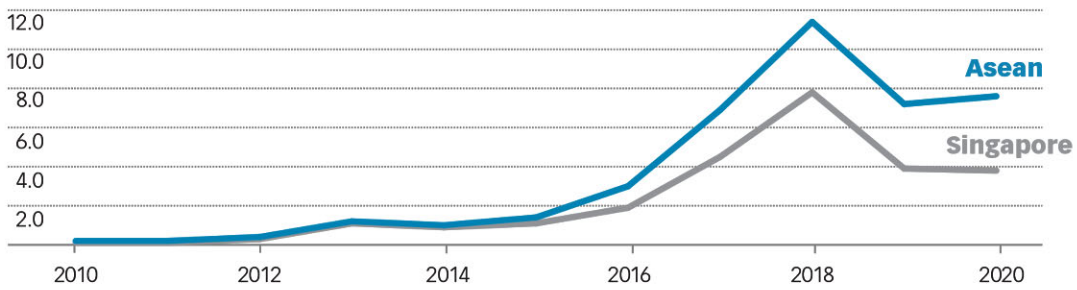
Global Innovation Alliance network in 15 cities, 11 countries

International co-innovation programmes with 25 countries

Commercialisation

IPI Singapore matches enterprises with global tech partners; >600 global solutions on its platform

Venture capital investments (US$ B)



*At least one employee, registered in the past five years, and more than 50% ownership by individuals

Source: Enterprise Singapore, PitchBook, Department of Statistics, Preqin

South-east Asia's golden age

The steady climb of Singapore's startup scene came as South-east Asian tech entered a phase of rapid growth led by mobile-first Internet usage. When Google and Temasek launched their first research report on South-east Asia in 2016, the region's Internet economy was expected to grow to about US$200 billion by 2025, driven by e-commerce, online media and online travel.

By the fifth edition of the report in 2020, that projection had been revised to over US$300 billion with financial services and transport/food delivery added as growth engines.

At some point, venture capitalists like Mr Tan (the former NRF officer) found they could spend less time explaining why investors should even consider South-east Asia.

Singapore, which for years had worked to position itself as a launchpad into the region, attracted more entrepreneurs and startup programmes to set up shop and tap regional networks.

The country is now home to about 3,800 startups and 190 incubators and accelerators, according to the Department of Statistics and Enterprise Singapore.

Companies are also attracting an influx of capital from more sophisticated investors internationally, such as family offices, sovereign wealth funds and tech giants from the US and China. As the ecosystem matures, funding rounds are getting larger and done at later stages.

But the large amount of liquidity is sparking concerns that VCs are sticking a band-aid on the cracks of lousy businesses. Some observers have noted that the "SoftBank effect" of massively funding startups could have trivialised cash-burning.

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"The pioneer generation of entrepreneurs was more disciplined with their cash because it wasn't 'Ah Kong's money'," says Dennis Goh, who built food portal HungryGoWhere when Nokia was still at its peak and a third of restaurants he approached didn't even have emails. He and his co-founders sold the startup to Singtel for S$12 million – equivalent to a Series A funding round today.

Mr Goh worries that some startups burn cash without a clear return on investment. "Product-market fit is a delicate balance" but some companies rush in because money is now more easily available, he says.

The way forward

Founders could benefit from the experience of mentors who have operated companies. While this culture in Singapore is nowhere as strong as that of Silicon Valley's, it's showing healthy signs of growth.

JobsCentral founders Lim Der Shing and Huang Shao-Ning now run AngelCentral, which coaches angel investors and links startups with experienced mentors. Entrepreneurs Goh Yiping, also an NOC alumni, and Hian Goh, who ran the Asian Food Channel for nine years, are among ex-founders who became VCs.

"The next gap is the coaching gap," says Jeffrey Paine, managing partner of Golden Gate Ventures. "First-time founders are becoming CEOs that manage a few hundred people, some older than them, and managing three or four offices. That's when things start to break."

The VC firm is launching a CEO coaching programme in Q3, covering aspects from mental wellness to investor communication. It will bring together investors, board members and coaches from around the world.

Singapore's startup scene might have come a long way but it still struggles with the gaps faced by maturing ecosystems. Tech talent is lacking and only a handful of investors back deep tech.

Though the emergence of SPACs and the tech rally accelerated public listings, the jury is out on whether the ecosystem can see more meaningful exits especially as pioneer VC funds reach the end of their lives.

And when Sea, Razer and Grab all chose to list on foreign exchanges, it ignited debate over whether the Singapore Exchange will ever become attractive enough for tech companies.

Singapore is doing better on the deep tech front, often regarded as a future growth engine. The government, through Enterprise Singapore and deep-tech investor SGInnovate, has been co-investing with VCs to share the risk of backing startups with a long gestation period. Both the private and public sectors are working to accelerate product commercialisation.

To be sure, Singapore's ecosystem has faced some setbacks in its short journey. Online grocery and food delivery service honestbee epically failed, and some startups collapsed under pressure from the pandemic.

"So, what's next? I think it's a rocket ship that will continue to rise relentlessly," says 99.co's Mr Cheung.

"To be clear, it will be bumpy – it always is. Some shining success cases are going to emerge, some previously-shiny companies will implode, and the media and armchair critics will make a fuss about it. But it's all part of a 5-step-ahead, 1-step-back process of building an ecosystem."

chongkmc@sph.com.sg
@ClaudiaChongBT