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How ASEAN startups are breathing fire on the Western growth model

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CONTRIBUTOR

Varun Mittal

Founder, Fintech Nation

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INTRODUCTION

The concept of growth hacking originated in Silicon Valley. When we look at startups in ASEAN, they need to create their unique model and playbook for growth hacking since many things that worked in the West would only sometimes work in the East. Over the last 10 years, ASEAN startups have developed their models based on their unique macroeconomic, customer segment, and development models through experiments and trysts with economic cycles.

Unlike Silicon Valley, ASEAN startups prefer evolutionary change, and even disruptors focus on creating additional value instead of just being a replacement for incumbents. The focus on avoiding extreme free-market approaches and varying degrees of centralised planning makes the ASEAN growth model unique. ASEAN cherishes order among chaos, alignment among debate, and construction of the future before disruption.

Most ASEAN economies have been independent for less than 80 years. The first 40 years after World War 2 focused on establishing the basics, such as public infrastructure, social stability, and monetary policy autonomy. Venture capital and startups have become mainstream in ASEAN in the last 20 years, only as a mixture of government initiatives, corporate venture arms by local and regional corporations, and Asian arms of global venture arms. In this paradigm, **founders and investors in ASEAN** apply various approaches to growth driven by its unique cultural and economic factors.

Humble Passion

Founders and leaders in countries that emerged from centuries of colonial suppression drive their attitude by demonstrating support for local communities over affluent groups. Successful entrepreneurs combine a deep passion for building the future with a connection to the humble origins of their families and teams. The ASEAN-specific oxymoron of the deep thread of humility, which aims to avoid upfront confrontation while aspiring to conquer the world, fuels the undying resilience of the ecosystem. Face, giving that to partners and saving your own is sacrosanct.

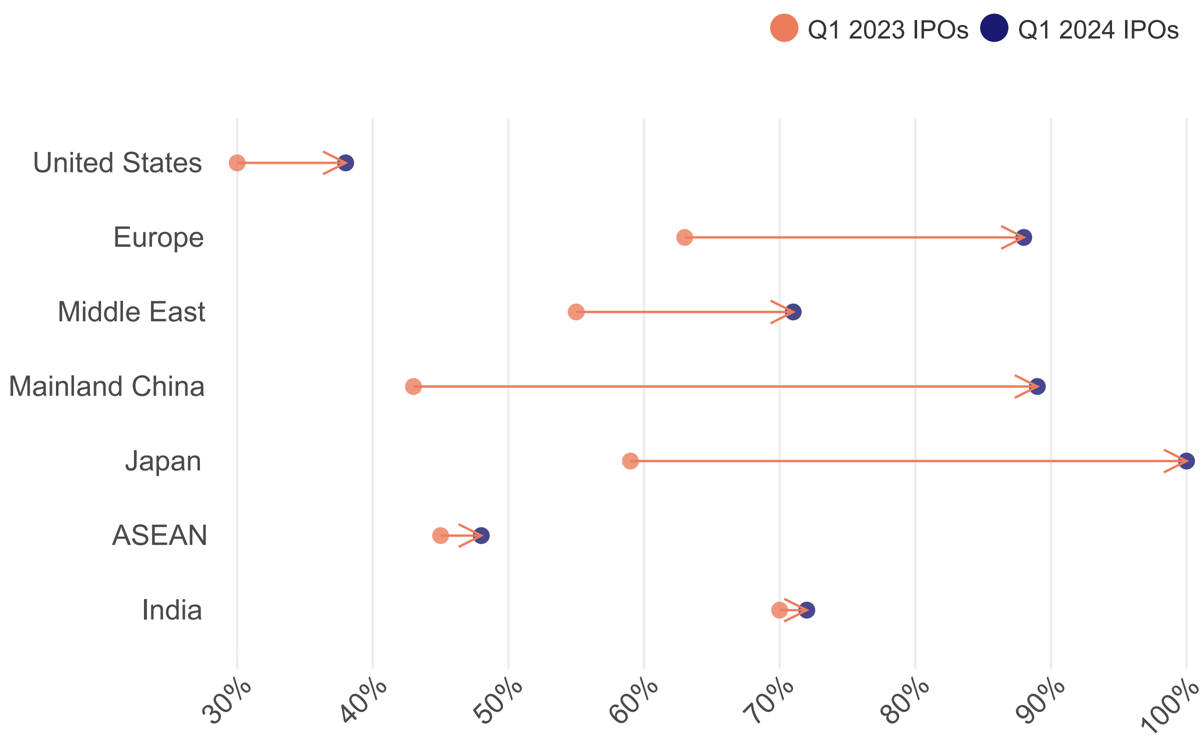
ASEAN entrepreneurs see their peers in China and India having access to deep active public markets and a consumption pool double the size of the whole ASEAN. On top of that, those businesses in China and India are also constantly aiming to enter ASEAN to compete with the local companies.

Founders in ASEAN are accustomed to constantly pushing themselves above their weight to showcase their unique advantages and growth opportunities to global investors, private equity, and pension funds. Compared to their peers in the USA, Europe, India, or China, founders in ASEAN know they need to work extra for the source of capital. That passion enables them to focus on building more capital-efficient and sustainable businesses.

ASEAN venture IPOs have performed worse than other global markets in recent years, with the exception of the US, nudging founders to focus on trade sales instead of IPOs.

After-market performance by region[1]

Percentage of current share price above offer price



Source - www.ey.com

Transient Networks

Companies and investors are growing and evolving at an unprecedented pace. In contrast, the overall size of networks is still tiny; the ground reality of ASEAN is that every one in the startup ecosystem is only at 2 degrees of separation. ASEAN's unique phenomenon is networks that evolve faster than seasons. People share resources, investors, and vendors with each other, leaving one word obsolete in the lexicon: Exclusive. There is nothing exclusive about anything in ASEAN.

In ASEAN, your reputation holds significant weight, reflecting both your positive and negative actions, making it crucial to treat others respectfully. While disagreements in business are common, it's uncommon to see ASEAN leaders and entrepreneurs airing their grievances on social media or engaging in public disputes. The multi-generational structure of families in Asia fosters strong family ties and involvement in business affairs, contrasting with the more individualistic Western nuclear family model. This cultural context underscores the importance of interpersonal relationships and harmony in ASEAN business interactions.

> **“Family businesses are the main contributor to economic growth, especially in Asian countries.”**

Family businesses are the main contributor to economic growth, especially in Asian countries (Fang et al., 2021). According to Ho and Chalam (2017), more than 75% of businesses (Sukamdani N, 2023) in Southeast Asia are family businesses. It is only in Singapore that less than half of businesses are family businesses. Only in China and Singapore, less than half of businesses are family businesses. In Malaysia, family businesses control almost 75% of the country's economic assets, while in Indonesia, family businesses are growing more than the global average. Family companies in Indonesia reach 40% of market capitalisation and contribute more than 80% of the gross domestic product.[2]

Fluid Identities

ASEAN FinTechs keep reinventing themselves, evolving their brands and positioning, adding complementary services, exploring hybrid models, deepening their relations with existing users, catering to new segments, and ultimately pivoting into new territories and categories.

Due to the fragmented nature of service providers and less evolved anti-competition governance, several cross-industry expansions allowed in ASEAN are unique growth opportunities. Southeast Asia's largest e-commerce and ride-hailing companies have full banking licenses in multiple markets. At the same time, Amazon and Walmart are unlikely to get a banking license in the US. Across Indonesia, over fifteen FinTech companies were allowed to acquire banks fully or partially, while less than five FinTech have been allowed in all of the US. The FinTech, EdTech and Gaming sectors have faced unprecedented regulatory oversight and controls in China and India. Meanwhile, similar players in ASEAN have been able to grow with little regulatory challenge. While the technology companies must constantly plan for which acquisitions and product bundling could face regulatory action, ASEAN companies have an unprecedented blue ocean to expand vertically and horizontally.

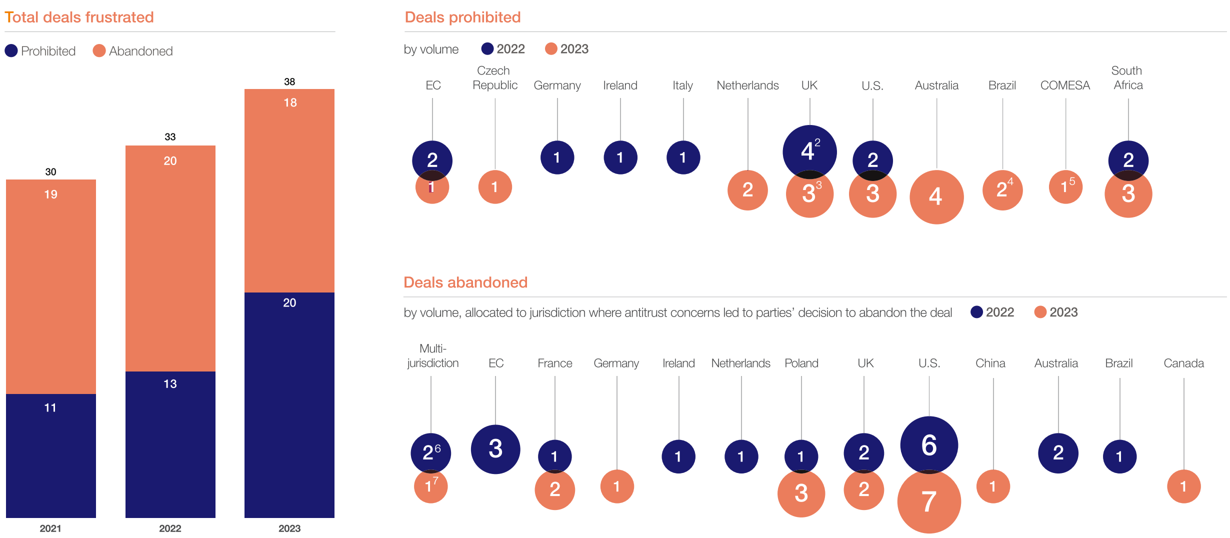
Financial Market Segments[3]

Customer type	Loan or Borrower Market			Deposit or Funder Market		
	Conventional bank	Digital bank	FinTech lender	Conventional bank	Digital bank	FinTech lender
Bank	✓			✓	✓	✓
Large corporation	✓			✓	✓	✓
Mid-size corporation (commercial)	✓	✓		✓	✓	
SME	✓	✓	✓	✓	✓	
Micro business		✓	✓			
Upper-middle income individual	✓	✓		✓	✓	✓
Lower income individual		✓	✓			

Source: fulcrum.sg

Globally, the number of tech sector deals frustrated by antitrust authorities tripled in 2023. Digital/tech M&A also faced antitrust stumbling blocks, with 20% of deals blocked in 2023 as authorities ramped up merger control enforcement in the sector. Interestingly, not even one of the digital/tech M&A blocked globally was from ASEAN, where the regulatory environment is supportive of M&A.

Tougher merger control enforcement frustrates more M&A[4]



Path Forward

ASEAN has a digital economy expected to reach $1 trillion by 2030. This is one of the fastest-growing economies in the world, and it is expected to exceed $300 billion by 2025. Startups will be key drivers and enablers of this journey, and founders, their employees, and investors must commit to building sustainable, long-term companies.

For startup founders in ASEAN, there are several key pathways to success:

- **Regulatory Advantage:** Leverage the simplicity and flexibility of regulatory frameworks in ASEAN countries. Benefit from less complex regulations, business-friendly competition laws, and fewer restrictions on entering new lines of business or pursuing mergers and acquisitions. This environment fosters innovation and agility, allowing startups to navigate the market more easily.

- **Demographic Dividend:** Capitalise on the demographic dividend present in ASEAN countries. Unlike China, where the population is nearing its peak, and India, which will lose its demographic dividend in the coming decades, ASEAN nations still have a significant window of opportunity to build for the next generation of consumption platforms. Tap into the growing and youthful population to drive market expansion and growth.

- **Tailored Market Approach:** Adopt a buffet approach to market entry, recognising the diversity and uniqueness of each ASEAN market. Unlike India and China's large, homogeneous markets, where success often means capturing the entire market,

PATH FORWARD

ASEAN offers founders the opportunity to succeed by focusing on specific segments within each of the six major markets. By tailoring products and services to meet the distinct needs of each market, startups can increase their chances of success and establish a strong foothold in the region.

By strategically leveraging regulatory advantages, demographic trends, and market diversity, startup founders in ASEAN can position themselves for sustainable growth and success in the dynamic Southeast Asian market.

References

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Varun Mittal
Founder,
Fintech Nation

I write about building & scaling ventures across cross section of financial services and digital economy.

The views expressed here are his own and do not necessarily reflect the views of company or its staff.