A bubbling cauldron of Start-Up 2.0 firms

BY GRACE CHNG

Eleven years have passed since the dotcom bust killed most tech start-ups. Today, a cauldron of new tech start-ups is bubbling, about to break through the lid.

Foreign technopreneur-investors have contributed to this. They have relocated to Singapore to invest in local start-ups. Facebook co-founder Eduardo Saverin, 29, started Anideo, a mobile app development firm. He also wants to invest or has invested in local start-ups. Mr William Klippgen, founder of Tigris Capital, came to get his Masters in Business Administration from Insead here in 2003 and stayed on to fund local tech firms.

So did American Eric Tachibana, an IT professional cum serial entrepreneur who also teaches entrepreneurship part-time at a local university. He has invested in local start-ups. Serial entrepreneurs like Singaporean Wong Meng Weng, 35, who launched two start-ups in the United States, have also returned home to start a seed fund called JFDI.

They were attracted by Singapore Inc: the pro-business policies, the safe environment, the legal framework and the abundance of government funds as well as the entertainment buzz created by the F1 grand prix and the integrated resorts and critically, a market.

Mr Saumil Nanavati, 34, a Canadian serial entrepreneur who started mobile location service Chalkboard, said: 'South-east Asia is the next frontier, especially Indonesia, Malaysia, Thailand and the Philippines. Together with Singapore, they account for 372 million people, a number which is slightly larger than that in the United States.'

Based in Singapore, he can reach the regional markets easily.

Mr Michael Yap of the Media Development Authority (MDA) agreed: 'Singapore has a new advantage called market. Not the local market, but the South-east Asian and Asian market.'

Growing affluence and the penetration of smartphones have made the regional market more attractive now than in previous years, said Mr Yap, the MDA's deputy chief executive.

Thousands of local start-ups in the last decade have mushroomed, with dreams of becoming Asia's Google, Facebook or LinkedIn. They are different from the dotcom upstarts formed between 1995 and 2000 and which received millions of dollars in funding - mainly from private investors and venture capital firms mostly in the US - without having any revenue, customer and/or technology to show for it.

In comparison, the new wave of start-ups have a better record and potential. Take Garena, for example, which seeks to improve the playing experience of online gamers by building a software that reduces latency for massive multiplayer online (MMO) games. It has about 60 million users in 200 countries.

The new wave of Start-Up 2.0 firms have built their own technology, global customers and offices and/or local/global goods market. Increasingly, they are becoming acquisition targets. In fact, six of these companies including TenCube, Brandtology and JobsCentral have already been snapped up in the last 12 months, making their founders millionaires.

This spate of acquisitions has never been seen before. Clearly, there is money to be made in tech start-ups.

Although acquisition costs were not disclosed, industry observers said Brandtology went for the highest price ranging from eight figures upwards.

The country benefits too. A 2010 Deloitte Consulting report noted that the interactive digital media (IDM) segment - where most start-ups are focused on - created 8,117 new jobs between 2007 and 2009.

Money from the Government has attracted more tech start-ups to form. The Government has mostly funded newly formed start-ups which are in urgent need of cash to prove their ideas are viable. Between $400 million and $500 million has been made available by the National Research Foundation between 2006 and 2010 for individuals or investor funds for this purpose.

Start-ups have access to $50,000 grants that are disbursed through agencies such as MDA and Spring Singapore, which get the money from the Foundation. Most are in the IDM segment such as online shopping portals, games, cellphone apps and social networks. Foreign investors can get money to set up tech incubators which fund and

Must-play games

mentor local start-ups.

One special scheme allows the Government to co-invest 85 per cent of the funding for new projects with the private investor taking up the rest. The risk is highest at the early stage funding, as the business idea has not been proven and private investors may not be keen to part with their money. Hence the Government steps in at this point to shoulder the risk.

Retired but experienced senior IT managers have also emerged to play investor-mentors. Stream Global, a local tech incubator, for example, has seven partners including Mr Bill Liu, 63, who was chief executive officer of Abacus International, an airline reservation business, and president of GreenDot Capital, a tech investment fund. Mr Liu and his partners boast two centuries of managerial and innovation experience which they can use to guide their five start-ups.

Every year, these investors get to listen to potential tech start-ups at various business plan challenges and competitions including Startup Weekend, Echelon, TechVenture, SingTel App Challenge and, coming up in November, Demo Asia.

Start-ups jostle each other for slots in these events in the hope of landing an investor.

No community is complete without a meeting place. Hackerspace, a clubhouse for geeks in Bussorah Street, aims to do just this. Described as the Zouk of geekdom, it was started by JFDI's Mr Wong. Visiting and local software engineers, founders and investors drop in to hang out with geeks, chat about new ideas or even scout for new hires.

What next?

The most pressing issue is talent. Said Mr Nanavati: 'With Singapore's immigration policies, we cannot bring in the best matched talent, who will pay taxes, rent an apartment, buy from the local stores. This is going to hurt every start-up and it is hurting my company every day."

The lack of talent is also stopping top-tier American start-ups such as Evernote from opening its Asian headquarters here. Mr Darius Cheung, vice-president of software firm McAfee, said there will be at least 10 to 20 engineering jobs created if such companies locate here. Mr Cheung was co-founder of TenCube which was acquired by McAfee last year.

There are also not many tech buyers who are familiar with start-ups in this region, noted Mr James Chan, who manages Neoteny Labs, an incubator nurturing eight start-ups.

'The rate of acquisition may be affected,' he added.

Old mindsets also need to be changed. In the US, most start-up employees take a lower salary, but get stock options. Even secretaries accept this. The payoff is when the start-up becomes successful. Then their stock options are worth a pile.

Singapore also does not have enough professionals who support start-ups, for example, agents to market intellectual property to potential customers elsewhere. Also needed are accountants and lawyers who are familiar with helping tech start-ups navigate funding arrangements and hiring policies.

Still, more exits or buyouts can be expected among Start-Up 2.0 companies, especially those that focus on a technology or a game.

Ms Yong Soo Ping, a

director of venture capital firm Walden International, said that companies like Skype (Internet telephony) and Zynga (publisher of the popular game Angry Birds) would be more appealing to people in this region.

Technopreneurs also need to generate more innovative ideas and be aggressive in their goals, said Mr Cheung, adding that it does not matter if they fail because they are likely to start again. This churn is needed if the tech ecosystem is to be sustained.

Today, the tech cauldron is only bubbling. For the lid to blow off, the weaknesses and gaps must be addressed; only then perhaps Singapore might just become Asia's Silicon Valley.

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What's stopping the pot from boiling over

- lack of local talent
- old mindsets about salary
- lack of professionals supporting start-ups
- tech buyers' unfamiliarity with start-ups in the region

'FAMOUS' FIVE

The services of these five better-known companies are representative of those generally provided by the start-ups

Clozette (clozette.com)

What it does : A year-old fashion social network. Functions like a virtual closet. Don't know what to wear to a garden wedding party? Clozette users can suggest different mix-and-match styles. Users can also shop for their favourite clothes online.

Clozette is available on mobile phones and has 80,000 unique visitors from 100 countries who chalk up about half a million page views.

It gets its revenue by running online advertising campaigns for fashion brands.

Funding : Investors include Walden International

Co-founder Roger Yuen : 'Success depends on timing. You may be the the first with an idea, you get the first mover advantage. But if you're too early, no one understands what the technology can do, you're likely to fail. In our case, social media is understood. Combine this community element with an e-commerce model and we think this is the right time to do this because both concepts are not alien to consumers and brand owners.'

Buzzcity

What it does : A mobile advertising network. Started in 1999 as a free e-mail service for subscribers who wanted to track changes in specific websites, it switched its business model to the current one in 2004.

Has a network of thousands of publishers and advertising agencies. Digitally distributes 10 billion ads a month across the world. Takes a commission from every ad that consumers click to read.

Funding : Investors include Walden International

Co-founder Dr Lai Kok Fung : 'In the future, mobile will become crucial for small businesses. A shop can 'place shift', sell goods to a world audience by aggregating similar goods in one portal. An example is Ganti Baju, a Jakarta online shop which aggregates all the T-shirts from makers in different parts of Indonesia. It also delivers globally. We're in the middle of a very populous region, there're many opportunities for small businesses to sell globally.'

Catapult Ventures

What it does : A free, selfservice home loans site (smartloans.sg). Started in 2009, the portal is a comparison site for property loans. Users can see all the home loans or they can key in their requirements and in 10 seconds, a home loan package will be recommended.

Catapult takes a commission only when a loan is signed. Undertakes between 50 and 100 deals a month. It will soon launch comparison sites for credit cards and car insurance.

Funding : Boostrapping, founder invested about $10,000 of their savings.

Co-founder Vinoid Nair: 'We failed to get angel funding for smartloans.sg because it was not considered innovative enough. But we're convinced we've the right product and business model because we're solving a problem that all home owners face, that is, too many loans to digest. Besides, we're profitable.'

BuUuk

What it does : Three-year-old mobile app developer. Develops for the Apple and Android platforms. Have developed about 50 apps such as Weatherlah. Today, it builds more apps for corporate-wide use.

To learn new app features, it tests them out by building its own app. For example, it built Weatherlah, a weather forecast app using crowdsourcing, to learn how to use the notification feature in the new software version from Apple. It gets paid for the corporate apps that it builds such as The Straits Times iPad app.

Funding : $50,000 under iJam (IDM Jumpstart and Mentor) scheme.

Co-founder S. Mohan : 'After three years, we've accumulated quite a good library of programming codes. We know what works. For example, if someone wants a security feature, we know the different ways of implementing it and what is the most efficient way to do it. Instead of spending two days to research and three days to code, we can just pick out one of the codes we have done before and finish the programming in half a day. In this sense, we've become more efficient.'

Jamiq

What it does: Provides real-time social media monitoring; enables an organisation to monitor almost every new post on social media in real time.

Funding : iJam

Co-founder Benjamin Koe : 'The hardest thing to get is clients. Singapore as a market is not the best for leading-edge technology companies. Most of the big brands such as Nestle take their cue from their parent office. So if the HQ says social media is not important, then they don't do anything here. Only now, when people understand what social media monitoring is, is the situation much better.'