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5-2016

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Citation

POONPOL, Krating. Bringing Silicon Valley to Thailand. (2016). *Asian Management Insights (Singapore Management University)*. 3, (1), 84-88.

Available at: <https://ink.library.smu.edu.sg/ami/43>

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Bringing Silicon Valley to Thailand

Searching for unicorns.

By Krating Poonpol

The year 2015 was definitely the year of Thai start-ups; the number of companies set up surged eightfold to more than 2,500 in 2015 from just 300 in 2014.¹ This is particularly noteworthy given that the very first incubator in Thailand was established as recently as 2012. Even in 2013, there were only three incubators in the country. E-commerce, logistics, content and online gaming were the segments attracting the most attention, and start-ups have burgeoned in this space.

Even now, the trend shows no sign of abating. In 2016 more new players will be hopping on the bandwagon, widening the reach of start-ups to Fintech, travel and real estate; and despite their novelty in the market, most will be funded within the year. It doesn't come as a surprise therefore that Dave Peck, Global Head of Influencer and Social Media Marketing at PayPal, describes Thailand's start-up scene as 'hot and promising'.

Attractiveness of the Thai market

According to Global Entrepreneurship Monitor's 2014 report, Thailand is the second most entrepreneurial nation in the world, with 16.7 percent of its population being self-employed compared to the United States, which ranked 41st.² Although a significant proportion of the self-employed population of Thailand works in small, single-person businesses such as retail (food kiosks) and transport (*tuk tuks*, rickshaws, etc.) and don't always 'think big'—it does indicate a culture that is inclined to entrepreneurship.

Thailand has a sizable market of 66 million people, rendering itself to scale, and if ASEAN is considered as a whole, companies can look forward to serving a market with a population of 625 million, and one with a growing and increasingly affluent middle class. The region also has a strong Internet culture.

Being a nascent market, competition is not that high, especially for a company that has raised funding. The do-or-die slogan of Silicon Valley start-ups is also less relevant in Thailand, where entrepreneurs are significantly more risk averse.

Thai entrepreneurs have benefitted from the Japanese money that has poured into the country. Japanese fund managers continue to invest in Southeast Asia, where asset prices are still not that high, and Thailand is an attractive proposition given that markets in China and India have become overheated. Chinese investors too are starting to look at Southeast Asia, and a case in point is Alibaba's recent investment of US\$1 billion in Lazada, which is the Chinese e-commerce giant's largest overseas investment to date and a play on the region. Thailand is also in a good position to attract such investment.

However, Thailand's attractiveness is not limited to Asian investors alone. While some believe that Silicon Valley is showing signs of cooling down, venture capital funds such as Golden Gate Venture, KK Fund, 500 TukTuks, 500 Durians, Monk's Hill Venture, InVent, Cyber Agent Venture and Recruit Group are actively investing in Thailand, with new funds being launched every week! The spate of venture capital funds is a key indication of the potential of the start-up ecosystem in the country.

Entrepreneurial outlook

The start-up industry in Thailand is in its early stages of development. In many ways, it is like the Wild West: everyone is doing what they want and there are few systems, guidelines or benchmarks in place to support and steer the greenhorn, albeit enthusiastic, entrepreneurs.

How does the start-up environment in Thailand today compare with that of Silicon Valley 10 to 15 years ago? To begin with, entrepreneurs in Thailand are mostly in their early 30s, a little older than those in Silicon Valley. However, while older, they are less mature and less experienced than their Silicon Valley peers. In addition, as the Thai education system largely discourages risk-taking behaviour, discussion and debate rarely play a part in their learning process. This



MY JOURNEY

I started off as an engineer from Chulalongkorn University in Bangkok and worked for Procter & Gamble for several years before joining the Master's Programme in Marketing (MIM) at Thammasat University. As an engineer, I tinkered with products, but my true passion was revealed when I started tinkering with businesses. As part of the MIM, I participated in a business plan competition. It was then that I first realised that there was no ecosystem in place in Thailand to support young start-ups like us.

My postgraduate studies brought me to Stanford University in the U.S., after which I worked for Google. I then started my own company in Silicon Valley. The scene there was very different: I found a vibrant entrepreneurial community and a well-established ecosystem that supported start-ups in terms of funding, mentoring, education and industry expertise.

I decided to return to Thailand and use my skills and knowledge to help young Thai start-ups, and contribute towards developing the Thai ecosystem.

generally like to be fed knowledge, and consequently, there is little challenge to the status quo, and no daring to change things.

This risk-averse mindset manifests in the lack of breakthrough innovations coming out of Thailand thus far. Most companies are focused on localising business models that have seen success in the West, leading to a 'copy-adapt-paste' model. Having said that, Thailand is also beginning to see some uniquely designed interfaces. In the Fintech space, for example, start-ups like Piggipo and T2P Deep Wallet have developed truly disruptive models. Vachara Aemavat, Vice Chairman of Thailand Tech Start-up Association, concurs, "Today's start-ups are quite different compared to those of last year. They are more creative. They are doing something that hasn't been done before."³

What Thailand now needs is awareness, education and opportunity. The potential already exists. But we need to work toward creating a conducive ecosystem in which these budding entrepreneurs can blossom. For this we need the support of key stakeholders—the government, the investor community,

a society that supports entrepreneurship and, not least of all, a cohort of passionate, well-trained and well-equipped, risk-taking entrepreneurs (refer to Figure 1). While the private sector is certainly stepping up to show their support, the Thai government is also beginning to see the value and potential contribution that start-ups can bring to the economy.

Garnering government support

The Thai government has been playing catch up, and is just beginning to focus on the potential of start-ups in the country. Consequently, the regulatory and policy structures needed to support and incentivise start-ups are lagging behind. At the Thailand Startup Expo in April this year, the government is expected to formally announce a 'national start-up agenda' that will focus on addressing imminent issues on how policy and regulatory frameworks can buoy start-ups.

A key point of contention for Thai entrepreneurs is the difficulty in getting long-term visas or immigrant visas for non-Thais who want to work and set up businesses in the country. The short-

term visit visa needs to be renewed every three months and involves cumbersome paperwork, thereby becoming a deterrent for anyone looking at a longer-term horizon in the country, be it entrepreneurs, investors, mentors or industry experts.

The present tax system also does not support or incentivise start-ups. Thai start-ups could benefit from tax exemptions for capital gains, as offered in other countries, or receive direct financial support from the government, like their peers in Singapore. This year, the Thai government is expected to announce some tax relief measures for start-ups in the form of a five-year tax exemption plan and exemption from capital gains tax.

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In addition, there is currently no framework that allows for Employee Stock Ownership Plans (ESOPs) in private companies. ESOPs serve as a strong retention mechanism for employees, and are particularly valuable for young start-ups that would otherwise struggle to retain talent and suffer most when knowledgeable employees take their skills and intellectual capital to competitors. Thailand also does not have convertible debt, the most common type of security for start-ups the world over. The lack of these structures means that entrepreneurs have to take on additional costs and risks, and are thus discouraged from diving into disruptive initiatives.

Another stumbling block is the lack of lucrative exit options for investors. Most mature start-ups will not list the company on the Thai exchange as the stock gets beaten down and premiums are insignificant. The market has rarely seen a successful IPO of a tech company, which leaves acquisition as the only exit option for Thai start-ups. At present Japanese companies account for 90 percent of acquisitions in Thailand. However, western companies are also now showing interest in investing in Thai start-ups, and this is certainly an encouraging trend.

Finally, awareness building is another powerful tool that the government can leverage to encourage investors to set up incubators and accelerators.

Attracting investors

The average Thai investor today is not sophisticated enough to want to invest in start-ups, and prefers to buy stock in big names such as the CP Group, SCG and AIS. This lack of inclination to add fledgling start-ups to their portfolio leads to a classic chicken-and-egg situation: no one wants to be the first to list their company on the stock exchange; and because there is no precedence of successful listing, investors continue to be wary and risk averse.



FIGURE 1

Nonetheless, the number of venture capital funds has grown rapidly in the past couple of years. Our fund, 500 TukTuks, was launched in July 2015, and was one of the first early stage seed funds to invest in Thai start-ups. Within the first seven months, the company had raised US\$12 million and invested in 20 start-ups.

Thai corporates have also been showing interest in start-ups. Siam Commercial Bank recently set up a US\$50 million Fintech venture capital fund, while the telecom company AIS invested 300 million Baht (US\$8.54 million) in a fund called InVent. Thai entrepreneurs are also getting support from incubation programmes set up by major telecom operators. For instance, DTAC, the country's second largest telecom company, in conjunction with Telenor, initiated DTAC Accelerate in 2014, a start-up incubator that offers opportunities for seed funding, one-on-one mentoring, and a four-month training boot camp for new entrepreneurs.⁴ DTAC Accelerate has been home to some of the most successful Thai start-ups—70 percent of them have raised funds and one that was particularly successful, Claim Di, recently raised US\$2 million.

In Japan, corporations play a major role in the venture capital market, while in the U.S., it is the venture capital funds that have fuelled the start-up industry. It remains to be seen which trend Thailand will follow. Right now, it seems to be treading on both.

Changing mindsets

Start-ups in Thailand are still fragile, and many of them give up too soon. Societal norms, where failure is seen as a social taboo, further reinforce this mindset. But innovation by nature is disruptive—our innovators must

disrupt and destroy the old mindset to create new things. It's like a revolution.

My mantra to young entrepreneurs is: You have permission to fail. You have permission to change the world. You should dream high, fight hard, and never give up. Start-ups are not just about making money; they are about bringing change. Self-motivation is crucial, and society must support and encourage these entrepreneurs.

Thai entrepreneurs need to think big, and beyond Thailand. I always advise them to think regionally, if not globally. The impending ASEAN Economic Community may be scary for us, but it provides bountiful opportunities. Myanmar has just opened up and everyone there is hungry for new things and success. The Vietnamese are diligent and hardworking. If they work three hours more than us a day, they will be 15 percent better off than us annually.

Educating the entrepreneurs

I believe that talent will be a major limiting factor for the Thai start-up ecosystem going forward. The current education system is not producing the right talent, and there is not enough tech talent in the pipeline. The number of tech graduates is small and the cohort lacks the requisite knowledge and skills for innovation and entrepreneurship.

When I returned to Thailand in 2012, after working and running my own start-up in Silicon Valley, I wanted to create a start-up community here. It took me seven years to learn from all my experiences in Silicon Valley, and I wanted Thai innovators to learn faster than me. I firmly believe that education transforms lives. Good education inspires people to be better and do better. Many

institutions and educators have changed my life and made me what I am today, and I too want to give back to the young entrepreneur community of Thailand what I have learned and earned.

We founded Disrupt University in April 2012, which is where we teach people who have the passion for entrepreneurship all they need to know in short courses, without having to go all the way to America or spend many years trying to figure out the basics. Students with college degrees and some work experience join these short courses, and are taught cutting-edge tactics adapted directly from Silicon Valley. The university offers a variety of courses ranging from eight hours to 21 days, along with six-day long intensive courses, to suit the needs of individual students.

By 2015, 500 students have graduated from Disrupt University. The start-ups these graduates founded span a variety of industries and technology segments, including last mile logistics, education tech, demand apps, e-commerce, Fintech and property tech. One of these, Taamkru, an educational app for pre-schoolers, won an award for Asia's most Promising Start-up at Echelon 2014. And another went on to win the first prize in a competition hosted by DTAC, and will get an opportunity to visit and experience the Silicon Valley ecosystem. In 2015, six out of the top ten start-ups in Thailand were started by ex-students of Disrupt University.

Spotting the unicorn

In the end, it is not so much about bringing Silicon Valley to Thailand, but bringing its mentorship and methodology to Thailand. I am bullish on Thailand. It is moving along a positive trajectory, and with support from the government on regulatory infrastructure,

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the Thai start-up industry has the potential to become a strong regional player.

Malaysia and Indonesia have seen three or four start-ups reaching a valuation of over one billion dollars. In Vietnam there has been only one such company. We also need that one big exit story of a Thai start-up—once we get that, the ecosystem will start to gain momentum. Although Thailand is yet to produce its first 'unicorn', I am confident that that day is now not too far away.

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