

Asia-Pacific Weeks Berlin 2016



Startup Cities

In the context of the APW's Euro-Asian innovation dialogue, we are taking a closer look at Berlin and specific metropolises in Asia and their startup ecosystems.

Startups grow especially in cities where good communication infrastructures are provided and global mindsets come together, exchange ideas and find a base to start their businesses.

In the past decade a diverse range of startup communities grew in the cities of the Asian-Pacific region. Some of them are still in a nascent stage, while others are already established startup hubs with a mature ecosystem. In each country entrepreneurs, accelerators, incubators, VCs and governmental institutions work together in multifaceted ways to create global and thriving business opportunities.

Some examples of Asian-Pacific startup cities are: Bangalore, Hong Kong, Seoul, Shenzhen, Singapore, Sydney and Tōyōkō. A summarized research on Startup-Ecosystems in ASEAN member states is also provided.

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Berlin



Berlin is a bustling international and creative metropolis with one of the fastest growing ecosystems for startups, according to “The Global Startup Ecosystem Ranking 2015”. In this study, by the research agency Compass, Berlin is now on rank 9 with a growth index of 10, followed by Bangalore with a growth index of 4.9. For this survey diverse data has been collected, from startup hubs worldwide and from surveys and public accessible sources, such as AgelList or Crunchbase and all together 11.000 participants from 40 countries were researched.

According to an article on Startup Blink over 2.000 startups are settled in Berlin and more than 2 billion USD got invested in this city during the last two

years, which is more than in all the years prior combined. Software and App-Startups present the biggest sectors, with about 60.000 people working in the digital industry in Berlin. Many startups also focus on sustainability and new technology therefore topics such as cleantech, biotech, mobility, logistics etc. are well represented as well.

McKinsey published in 2013 a study that states which states that by 2020 there could be 100 000 new jobs – around 40 000 within those startups and 60 000 due to the so called multiplier effect. Another study in 2014 by the University Münster focused on VC activity in Berlin, showing, that in the time of 2012 - 2013 Berlin became No. 2 in the market for venture capital investments with an investment volume of 873 million Euro, 51% of that from foreign investors. Two third of this capital was invested into information and communication sector with internet services, ecommerce, mobile services and software

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Some of the best known success stories of Berlin's startup scene are the ecommerce website and fashion distributor Zalando, the incubator Rocket Internet - also very active in the (Southeast) Asian market - and the online music exchange platform Soundcloud.

A diverse range of incubators, accelerators and (government) initiatives are backing up the ecosystem. For example a "High-Tech Strategy" by the German government was published in 2014 "for the aim of moving Germany forward on its way to becoming a worldwide innovation leader."

Innovation labs, accelerators and coworking spaces in Berlin are for example: Climate-KIC, Euref-Campus, CHIC - Charlottenburger Innovationszentrum, Adlershof Accelerator A2, Centre for Entrepreneurship TU, Betahaus, Ahoy! Berlin, Rainmaking Loft, Startup Bootcamp Berlin, Berlin Startup Academy and GTEC.

There are also several initiatives to connect Asia with Berlin, such as: Exa-Summit (Berlin-Taiwan), Sendinaden (Berlin-Shanghai) or Accelerate Korea (Berlin-Korea).

Bangalore

According to the 2015 released report "Startup India – Momentous Rise of the Indian Startup Ecosystem" by The National Association of Software and Services Companies (NASSCOM) India is the youngest startup nation worldwide with 72% of all Indian entrepreneurs being under 35 years of age. India is globally the 5th largest startup ecosystem with a total number of 4200 startups and an increase of 40% compared to 2014. The number of accelerators increased about 40% as well, to the number of 114. The report also expected, that by the end of 2015 startups in India would have received about \$5 billion worth of VC funds, including government initiatives. In January 2016 India's





government released its “Startup Action Plan 2016”, with several initiatives for Indian startups in order to easing up various regulatory, legal and financial hurdles, which are challenging the entrepreneurship in India.

Further backing for startups is provided by enablers like NASSCOM or iSpirt where incubators, accelerators, angel investors, technology corporations and many more key structures and figures of the ecosystem are brought together and being connected. As an example for those enablers in motion is the Nasscom Product Conclave, one of the largest tech events in Bangalore. Bangalore with 28% of all startups (2014) is the biggest startup hub in India, followed by Delhi and Mumbai. The Compass Report 2015 “Global Startup Ecosystem Ranking“ ranked Bangalore on place 15, one before Sydney and with rank 6 in funding: USD \$2.25 billion in 2014.

According to a study by the Indian entrepreneur platform yourstory, the ecommerce sector received the largest funding in 2014 in India with \$3.23 billion, followed by consumer internet, mobile app and services. One of the most famous and successful startups from Bangalore is for example

Flipkart, founded in 2007, now India’s leading e-commerce marketplace and expanding to other Southeast Asian countries as well. Another one is ZipDial, a analytics and marketing platform founded in 2010 and acquired by Twitter in 2015. Other big players, such as Facebook or Yahoo acquired startups from Bangalore as well, such as Little Eye Labs, a tool provider for mobile app development or Bookpad, a solution provider for digital content.



Hong Kong

Hong Kong's geographical location, a low tax system for companies and a simplified bureaucracy for entrepreneurs provide an ideal base for upcoming startups. Many companies in mainland China are expanding from this economic and financial center further into the global market and startups in Hong Kong tap into the mainland Chinese market as well - hence Hong Kong also serves as an ideal gateway to this big economic market. According to a survey by InvestHK, Hong Kong's startup scene has changed rapidly from 2010 to 2015. For example, from only three co-working spaces the number has

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risen to now 34 in 2015. Also the total number of startups increased 46%, from 1065 startups in 2014 to 1558 in 2015. The ICT sector is the biggest with 273 startups (18% of all start-ups in HK) and is among others funded by the government-owned Incubator Cyberport. The second largest sector is occupied by the hardware segment (IoT, prototypes, wearables) with 200 startups, compared to 2014 with merely 48. This sector is followed by e-commerce with 142 startups. The survey also features in 2015 for the first time the design sector with 124 startups, indicating a growing market competition here as well.

In 2010 the government launched the initiative InvestHK in order to support a further strengthening and growth of the startup ecosystem. This initiative is directed at foreign (startup) entrepreneurs and investors, with offering free advice and support for founding a company or opening an office in Hong Kong, from the first planning phase, to the launch up to the expansion with the aim of transforming Hong Kong into a global center for innovation.

2013 InvestHK launched the "StartmeupHK venture programs" where startups are being promoted and can connect with potential investors. The annual conference "StartmeupHK Festival" is providing a good starting point, where the international scene is gathering.

Seoul

The startup scene in Seoul is showing a steady growth for the past five years. According to 500 startups, the scene was really starting in 2010, when the accelerator Primer (initiated by the founder of Daum, the second largest web portal of South Korea) launched the first batch. Afterwards further accelerators such as Spark Labs, KSTARTUP or FT Accelerator followed. On Bloomberg's Global Innovation Ranking of 2014, the metropolis was even ranked in first place, with indicators such as research & development, productivity, technology and patent activity density. South Korea is also described as a "mobile commerce powerhouse" with the fourth highest mobile penetration rate of 83%, the



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smartphone usage is 50% higher compared to the US and the sector of mobile commerce takes 28% of total online sales in South Korea (Innovation is Everywhere, 2015). Therefore, the strengths and opportunities for startups and investors are mainly in the ICT sector, mobile game development and social media innovations.

However, many potential founders are still tentative concerning the jump into the life of an entrepreneur and university graduates apply still mostly at big companies. But there seems to be an increasing change in these traditional mind sets and many young entrepreneurs, who studied abroad, bring back on their return the business, technical and linguistic know-how to found a company.

The government recognized the potential of startups and decided in 2014 to invest \$3.7 billion in the next three years in the development of startups, with the help of funds and initiatives, such as KISED (Korea Institute of Startup and Entrepreneurship Development). Likewise, large Korean companies were motivated to participate in the funding and promotion of startups and planned tax reductions for company founders. Big companies and investors from China and Japan are investing into Korean Startups as well. Google also participates in the construction and expansion of the startup ecosystem in Seoul with the Campus Seoul, a cluster of co-working spaces, innovation labs and event space. Some events by Startup Grind Seoul or the Startup conference "BeGlobal SEOUL" take place in Seoul and a transnational acceleration

program, "Accelerator Korea", between Berlin and South Korea was launched in 2015, in association with SMBA (Small and Medium Business Administration) and KISED. Within this program Startups receive, after an application process the opportunity to take part in a fully funded three-month stay at the Betahaus in Berlin.



Shenzhen



Shenzhen, a city in Mainland China and close to Hong Kong evolved within 30 years from a smaller fisher town to one of the biggest factory cities worldwide with headquarters of companies such as Lenovo and Huawei. In 1980 it became China's first Special Economic Zone (SEZ).

Even though Shenzhen represents a smaller startup scene compared to other giant metropolises and first-tier cities like Beijing or Shanghai, it had in 2014 according to the blog Seedstarsworld 400 VC companies, which managed a third of China's total social funding (about 8 billion Euro) and those companies invested in 2,600 projects, among which 100 are listed in domestic and overseas stock

exchange. The Guardian is calling Shenzhen in an article in 2014 "China's Silicon Valley" especially for hardware makers and according to the US magazine Inc. it is one of the top five startup hubs in 2015.

Due to the vicinity to the factories and stores with large technical supply, Shenzhen became a center especially for hardware based startups, but ecommerce and gaming companies represent large sectors as well. Hax, formerly Haxlr8r, for example is a well-known Chinese accelerator, or as stated on their website: the "world's first and largest hardware accelerator" and according to Techcrunch "[...] currently [March 2015] the most active investor in crowdfunded hardware projects, with 26 investments recorded to date." As an example for an incubator Innovalley could be named, with its main focus on software startups.

In 2014 a big Shenzhen-Hong Kong startup accelerating cooperation-project was launched, initiated by several Chinese government related organizations (SZQH, SZYF, HKFYG): the Qianhai Shenzhen-Hong Kong Youth Innovation and Entrepreneur Hub. This large innovation hub (58,000 m2) provides a diverse range of facilities, such as offices, an exhibition center, an academy, an innovation center and a residential building. Young



entrepreneurs from mainland China, Hong Kong and abroad are invited to use these facilities to start their businesses and create a vibrant startup community, tax reductions and low rent included.

But there are also hurdles for foreign entrepreneurs such as the language barrier – The Shenzhen startup scene communicates mainly in Chinese. Some events are organized by Startup Grind Shenzhen and there are also several Startup Cafés, which in comparison to co-working places just function as a café with working spaces, without any additional fees, e.g. 3W Coffee or Beta Cafe.

Singapore



Singapore, with its good strategic position in Southeast Asia, is ranked highly in various business focused surveys and studies: For example the Compass Report 2015 “Global Startup Ecosystem Ranking” is placing this metropolis on rank 10, one after Berlin on rank 9. For this survey diverse data has been collected, from startup hubs worldwide, from surveys and public accessible sources, such as AgelList or Crunchbase. Concerning the ranking process several factors were important: performance, funding, market reach, talent and startup experience. In 2015 the World Bank ranked Singapore as worldwide best place in terms of “ease of doing business”, and the city is number 7 on the Bloomberg Global Innovation Index (2014).

According to a business article from CNBC, the startup scene is only growing on a bigger scale since the last five years. Investors recognize the potential of this financial center and the Southeast Asian market. The Singaporean startup ecosystem is well organized, mature and with a big tech



startup sector. There are already a few Unicorns: Garena, an online and mobile entertainment provider (estimated value \$2.5 billion, Tech in Asia, 2015) and Lazada, an online shopping and selling platform with an estimated valuation of \$1.2 billion (Tech in Asia, 2015). Tech in Asia itself is also a rising startup, founded 2010 in Singapore and functioning as a media and information platform on business and startups in Asia with annual conferences in Singapore, Jakarta and Tokyo. Big international companies like Microsoft, Apple or HP established in this metropolis their central launchpad for Asia and strong startups, such as Grabtaxi (Malaysia) or Flipkart (India) expand from here further into the Southeast Asian market.

Business friendly tax plans for founders and tax incentives are attractive for both startups and investors and there are simple regulations for starting a business and a strong framework to protect rights of entrepreneurs. JFDI, for example is one of the largest accelerators in Singapore, and according to cleverism.com with a 60% success rate for investments in startups. The government is backing the startup scene with various initiatives as well, such as Spring SEEDS (Startup Enterprise Development Scheme). Universities and private bodies run entrepreneurship programs also, reaching out to students and aspiring entrepreneurs.

Sydney



The company Startup-Muster conducted a survey in the beginning of 2015 with 1.333 responses and 602 startups confirmed (compared to 2014: 385 validated startups) in order to gain a better insight into the Australian startup scene. 48% percent of those startups were founded in 2014 and the main age of entrepreneurs working in startups lies between 30-35 years. Most startups have their office in Sydney (44%) and 17% percent are in Melbourne.

Another report, “Crossroads 2015”, was compiled by the NPO StartupAUS, stating for example, that several new VC funds were created in 2014 including Reinventure (\$50 million) and Air Tree Ventures (\$60 million), based in Sydney. Also, several new startup co-working spaces were



startups. Those spaces are for example: Common Room in Sydney, Queens Collective in Melbourne or the Engine Room. Further co-working spaces in Sydney are Tank Stream Labs or Fishburners.

The Startup-Muster survey is also showing, that marketing takes with 12.9% the top position in the Australian startup industries, followed by Media/Content (12.7%), Retail (12.3%) and Big Data, as well as IoT with 12.1% and Fintech is placed on rank 8 with 10.7%. 69% of startups were using outsourcing, 50% to somewhere else in Australia and 17% to India. 64.2% of the software development for example is outsourced and 63% of graphic design. According to this study the challenges are mainly the availability of technical talent, of government grants and

of non-government funding. There are already a few grants available, but strong state regulations concerning taxes for starting a business present hurdles, too.

The Compass Report 2015 “Global Startup Ecosystem Ranking“ placed Sydney on rank 16 with the category “talent” on rank 6. It is a very multicultural city with a strong startup scene and positive approach to business, but the living expenses are quite high. Accelerators in Sydney are for example: muru-D, which is supporting digital startups or BlueChilli, which provides startups with early stage funding, technology IP and expert skills. There is also a network of source providers the startup scene in Sydney can rely on. SydStart or Startup Smart are offering support, news and a community for local entrepreneurs. SydStart is also hosting an annual startup conference in Sydney. Other events in this area are for example Unconvention, with successful Australian entrepreneurs as guest speakers or Silicon Beach Australia, a forum for Australia’s tech community with weekly meet-ups in Sydney and expanding to other Australian cities, such as Melbourne, Gold Coast, Adelaide and Perth.



Tōkyō



Even though Tōkyō is a big East Asian metropolis, the startup scene is still small. A risk averse culture and high living expenses are just some of the big challenges for the growth of the Japanese startup ecosystem. According to a 2015 report in the business magazine JapanContact, the financing of startups in Japan are on an average about 500 000 US dollar, compared to the US with an average of 8.75 million dollar funding. Most of the funding comes from Japanese companies instead of institutional investors. This provides positive sides for both parties: Japanese startups can gain more trust from Japanese customers with big company names backing them and those companies on the other hand use the funding also as an investment

into research and development. Japan was ranked fourth in Bloomberg's Global Innovation 2014 Index with a 5th rank in R&D intensity. Some of those venture programs initiated by big communication companies are for example the KDDI Labo and the Docomo Innovation Village.

But the investment landscape is slowly changing with big funding announcements: 500 startups for example was planning to launch in 2015 a \$30 million microfund and in 2016 Rakuten Ventures, the VC part of the Japanese Rakuten Group, is launching the 10 billion Yen Rakuten Ventures Japan Fund aiming at Japanese Startups in an early development stage, including ecommerce, marketing tech and adtech models. Startups with the focus on "Big Data" and mobile gaming, such as DeNA tend to take the bigger part in the Japanese startup sector.

2015 announced the Ministry of Economy, Trade and Industry (METI) a new program "Start Next Innovator 2015", "[...] for fostering global entrepreneurs", where 20 Japanese entrepreneurs and business people will receive a training program in Silicon Valley. This is the first part of the

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“Project for a Bridge of Innovation between Silicon Valley and Japan” and a step into the direction of supporting the growth and globalization of the Japanese startup ecosystem.

Japanese companies, Incubators and VCs not only focus on the domestic market but also expand their activities into other parts of Asia, Israel and Germany. The Japanese company Recruit for example bought in May 2015 the Berlin based startup “Quandoo”, an online reservation platform for about 200 million Euro, one of the biggest exits for a Berlin startup to that moment (JapanContact). The tech giant SoftBank is currently one of the biggest investors both from Asia and in Asia, reaching out into sectors of fintech, medtech or nascent ecommerce platforms. They invested about 2 billion US dollars into the South Korean Startup Coupang and another undisclosed amount into GrabTaxi (Singaporean office, founded in Malaysia) (Tech in Asia, 2015).

The Tōkyō Startup scene has an Impact Hub and several events to offer. Smaller ones are for example: HackerNews and Doorkeeper for networking with Japanese and foreign startup founders, Startup Weekend for first time entrepreneurs or Tokyo Startups United (ツ), a casual meet up of the startup community. For news on startups in Tokyo, websites like Tech in Asia or The Bridge, which focuses mainly on the Japanese market, provide a good base of articles on current developments. Those sites also organize bigger annual startup events, like Tech in Asia Tokyo and The Bridge Festival or present other events, such as Tokyo Pioneers.