

SINGAPORE EMERGES AS A NEW-BUSINESS- BUILDING HUB

New infrastructure and established practices are helping traditional companies successfully launch new businesses, but they still need to avoid pitfalls that doom many business builders.



As Asia becomes increasingly prominent on the global stage, new businesses will be one of the critical engines of growth for established companies in the region – with business leaders here expecting 60 percent of their revenue in the next five years to come from products, services and businesses that do not exist today.

Many companies are increasingly recognising the importance of new-business building, seeing it as a way to guard against disruption, drive organisational change and achieve growth. More than half (56 percent) of business leaders in Asia-Pacific see new-business building as a top-three priority, while 20 percent name it as their top priority, [according to a recent Leap by McKinsey survey](#)¹.

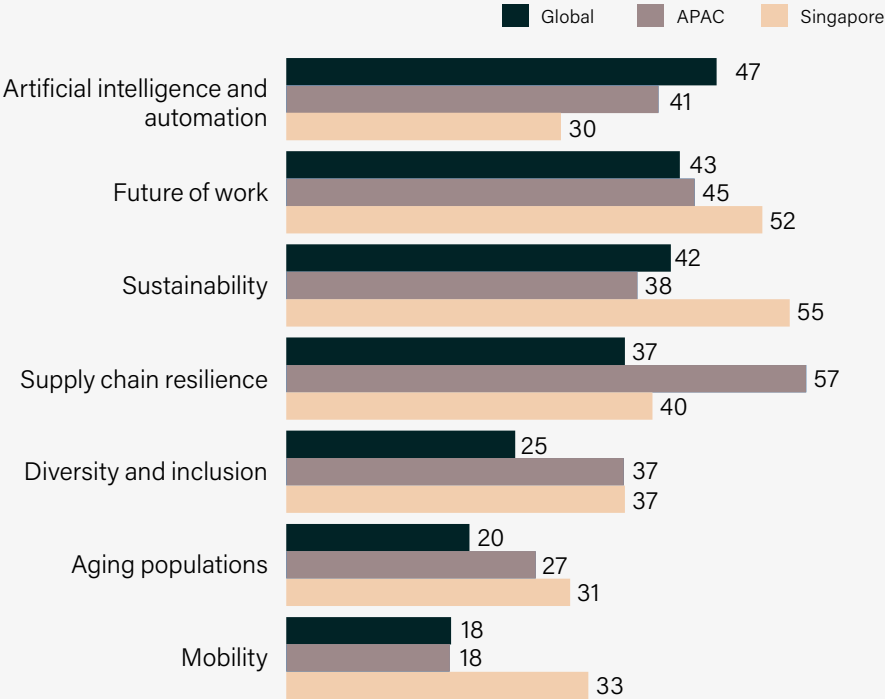
Singapore, home to an array of large regional companies and multinationals, is especially well positioned to capitalise on this opportunity. Some 43 percent of Southeast Asia’s unicorns (15 of them) are based there. Established companies, with their ample resources, expertise and strong governance have begun to seize the opportunity to launch new businesses – or corporate ventures – that can scale fast and become globally significant.

To date, more than 40 corporate ventures have successfully launched in Singapore, many since 2018². While opportunities for new businesses can be found in multiple areas, sustainability is especially promising and is a priority area for the Singapore government, which offers financing and support for green businesses through its Singapore Green Plan 2030. Fifty-five percent of Singapore-based corporate leaders who responded to the survey named sustainability as a top opportunity for building new businesses, followed by future of work and supply chain resilience (Exhibit 1).

56% of business leaders in Asia-Pacific see new-business building as a top-three priority

Exhibit 1

Where the best opportunities for launching new businesses exist, according to global corporate leaders



Source: McKinsey & Company

¹ "2021 global report: The state of new-business building," McKinsey, December 6, 2021.
² "Over 40 corporate ventures launched in Singapore since 2018," EDB, The Business Times, January 26, 2022.

Made and launched in Singapore

Case example 1

Transforming shrimp farming from art to science

When German engineering firm Bosch launched its start-up incubator, *grow* Singapore, in partnership with the Singapore Economic Development Board (EDB) New Ventures, it wanted to find innovative solutions to regional and global challenges. The goal was to launch a series of new ventures with the potential to scale as substantial businesses for Bosch.

Grow's first venture, **AquaEasy** uses AI to increase the efficiency and productivity of Asia's burgeoning aquaculture industry. AquaEasy combines sensors, software and services based on data analysis to help shrimp farmers increase yield and predictability, and implement sustainable aquaculture practices while reducing risks and costs.

AquaEasy is now deployed at shrimp farms in Indonesia, Vietnam and Singapore. Qian Hu, a Singapore-based aquaculture company, has used the technology to achieve an efficient and sustainable farming system, in line with Singapore's goal of attaining food security and sufficiency by 2030.

Case example 2

Making better and faster supply chain decisions

ING Labs Singapore, one of two incubators owned by ING Group, the Dutch fintech multinational, recently launched its first venture, **Stemly**. The new business seeks to address supply issues that have emerged since the pandemic by using technology to close the decision gap between supply chain operators and finance.

For example, demand planning for manufacturing and retail can take three weeks or more to respond to market changes in consumer behavior, leading to overstocking and loss of sales.

By using machine learning technology, Stemly offers a software-as-a-service (SaaS) model that helps companies automate supply chain decisions and optimise supply chain processes, ultimately allowing supply chain managers to significantly speed up the pace of decision making, whether they are seeking to reduce costs, optimise cash flow or improve operating efficiency.

“We are helping businesses save 10 to 40 percent of their cost of inventory and working capital – the equivalent of tens of millions of dollars in some cases – by embedding automatic machine learning in their forecasting and optimisation applications³.”

- Giuseppe Manai,
co-founder & co-CEO, Stemly



3 "Stemly spins out from ING Labs Singapore to enable accelerated growth and to pave the way for an independent future," EDB Singapore, June 8, 2021

Support for corporate ventures in Singapore

As these companies set about launching innovative new ventures, often in different sectors from their core business, Singapore has moved to establish robust funding, a network of established companies and specialists with which to partner, and the connectivity and infrastructure needed to create and launch strong corporate ventures.

A key initiative to seed more corporate ventures is the Corporate Venture Launchpad (CV Launchpad). Launched by the Singapore Economic Development Board (EDB) in May 2021, CV Launchpad is a **S\$10 million (US\$7.4 million)** pilot programme that supports qualifying large and established Singapore-based companies new to corporate venturing in building ventures quickly and effectively⁴. In March 2022, Singapore's Ministry of Trade and Industry (MTI) announced that the CV Launchpad will be expanded to support a wider range of companies⁵.

Participating companies work alongside one of five venture studios, including Leap by McKinsey. Over six months, these companies and their respective venture studios work through a series of concept-validation sprints that start with mapping opportunities and prioritising ideas and progress through an assessment of corporate advantages, customer interviews and strategy development for the new venture. For Singapore, CV Launchpad is part of a long-term strategy, offering a path for the country to increase its share of globally competitive businesses.

⁴ "Corporate Venture Launchpad," EDB Singapore.

⁵ "Speech by Second Minister for Trade and Industry Tan See Leng at Ministry of Trade and Industry (MTI)'s Committee of Supply Debate 2022," MTI Singapore.

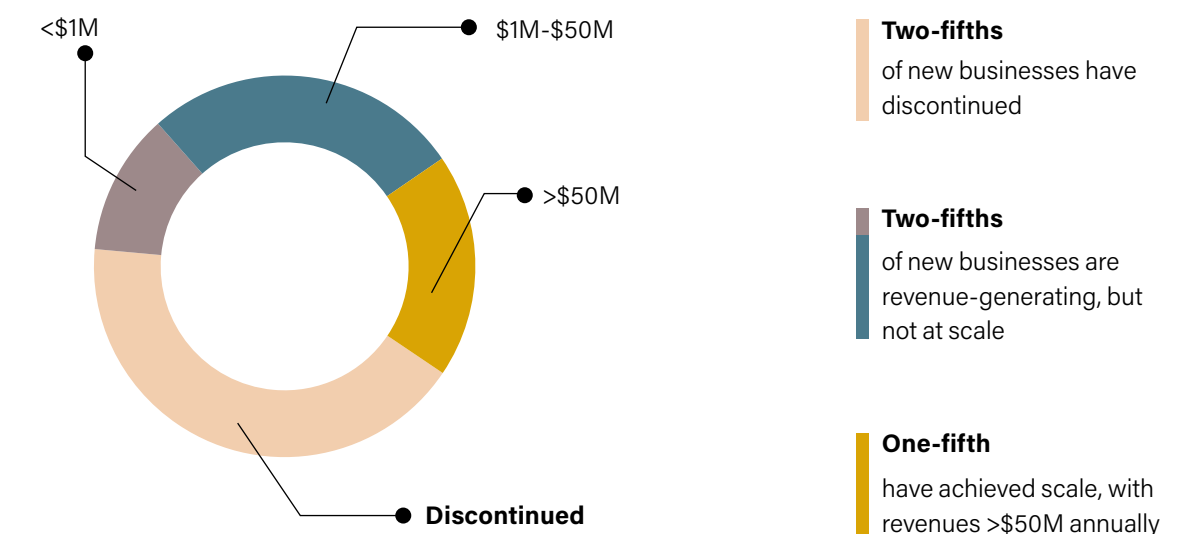
Legacy governance, unclear mandates and other common pitfalls

When new businesses succeed, they can do so in spectacular fashion. Most, however, do not. Forty percent of ventures fold within the first four years of existence. Fewer than 20 percent achieve annual revenues of more than US\$50 million within that timeframe (Exhibit 2).

Exhibit 2

Underachievers: 80 percent of new businesses fail to scale or shut down entirely within the first four years

Share of new businesses launched between 2011-2017, by revenue (US\$) At least 4 years after launching...



Source: McKinsey & Company

Business builders in Singapore are in no way immune to these challenges. As companies there navigate new-business-building opportunities, they will need to embrace established best practices while avoiding the pitfalls that continue to undo even the most promising ideas.

In our experience, the failure rate among corporate ventures – including those based in Singapore – can be traced to a few factors. The first is a simple lack of commitment and preparation. Too often, ventures are launched without a thorough understanding of the challenges.

Running a young new venture, for example, requires different processes in procurement, hiring and performance management, which may not be obvious to leaders used to managing an established enterprise.

Governance provides a good example of the differing needs. “You have to come to terms with the fact that you will have two different tribes,” noted a senior executive from a major agribusiness company at a recent Leap by McKinsey event in Singapore. “The governance you have established for the core cannot be copied and pasted into the new venture.”

Leaders need to adapt governance to the needs of a start-up without lowering the guardrails. “You have to be masterful at playing the balancing act,” another participant, a veteran in the financial-services industry, said. “Innovation and speed cannot come at the expense of governance.” Getting the balance right is important to attracting start-up talent, a group that will be keenly interested in the level of autonomy they will have and the framework for scaling. At the same time, potential investors will want to know that rules are in place.

Perhaps the biggest pitfall for corporate ventures is simply not having a clear mandate from the top. The venture may pose a potential disruption to the core business, giving stakeholders little motivation to assist without a clear directive from the C-suite.

“The governance you have established for the core cannot be copied and pasted into the new venture.”

- Senior executive at
a major agribusiness company



Key practices to improve the odds of success

New-business building is an inherently risky proposition, but leaders can improve their odds by implementing a number of proven best practices.

Strong CEO leadership in four areas

Leap by McKinsey found that when CEOs take at least three of the following four actions, their new business are nearly twice as likely to be successful:

- 1** Ring-fence the investment. Doing so prevents any temptation to divert or “borrow” the funds for a different need that seems more urgent in the short term.
- 2** Sacrifice short-term profits for the longer-term growth opportunities. This sends an important message about priorities to the entire organisation, setting the stage for a more supportive environment.
- 3** Give time to experiment to get it right and scale. It’s important that the CEO provides the time and space to get past the initial start-up phase.
- 4** Signal his or her support for the venture to the public. Explaining why the venture is important to long-term growth will help forestall pressure to pivot to short-term opportunities before the venture has a chance to establish itself.

A leader who knows what skills are needed and can find the talent

Talent – recruiting, hiring, retaining and developing team members with scarce technical skills – is a challenge for all start-ups but is particularly acute in Singapore, where the talent pool is constrained. Appointing a leader who understands the unique skills required by the venture and how to find them is critical for success (Exhibit 3).

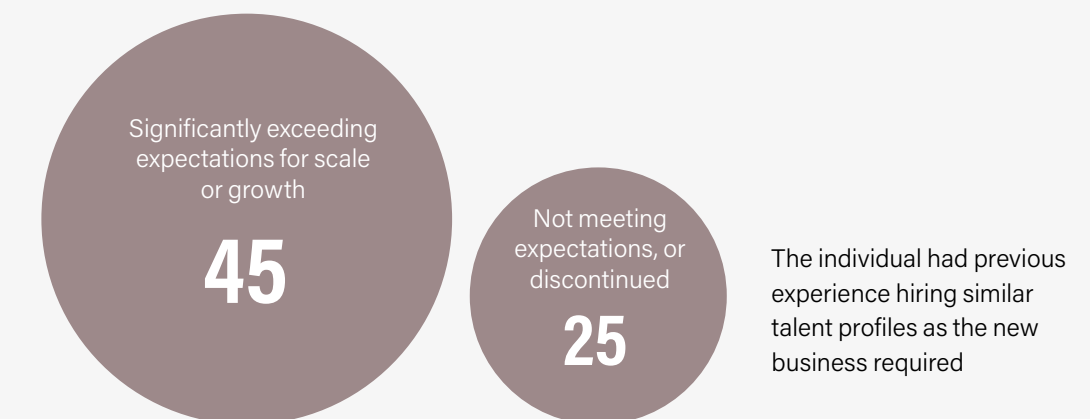
To help address this issue, EDB launched Tech Pass, a visa that allows entrepreneurs and technical experts from around the world to work in the country for up to two years, with the possibility of renewal. The programme is meant to attract tech talent to bolster the local tech ecosystem.

More recently, Singapore announced a suite of programmes to help strengthen the local talent pool, including training programmes and collaborations between large companies and smaller enterprises, and facilitate skills transfer.

Exhibit 3

Leaders of new businesses should themselves know how to hire the right talent and have previous, relevant experience

Share of organisations based on characteristics of the individual heading the new business¹, %



¹ Results exclude respondents who did not select a status for how the business is currently performing against expectations

Source: McKinsey & Company

Diverse talent

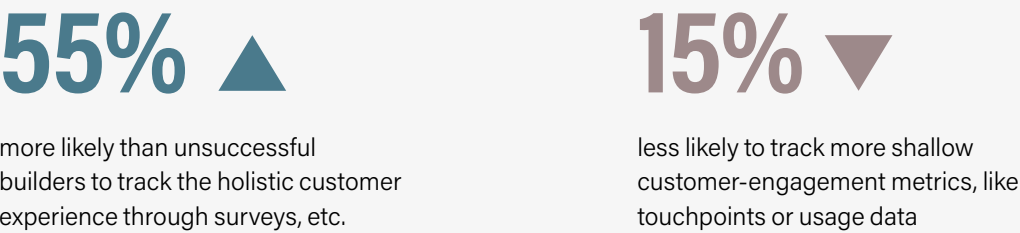
Diversity is also important, even at the earliest stages. Appointing a diverse leader will set the tone for the new organisation and can bring important advantages in attracting additional talent. Women-led new businesses outperform their peers by 10 percent, yet only 15 percent of respondents in Singapore say their new business is led by a woman. And it is not just the corner office that matters. The board of the new business should also be diverse. Without representation at the board level, new businesses almost never see the benefits of diverse leadership.

Focus on holistic customer experience

With all the activities and decisions that leaders need to make in building a new business, it is easy to forget their most important constituency: the customer. Our survey showed that successful business builders are 55 percent more likely than unsuccessful ones to track the holistic customer experience (Exhibit 4).

Exhibit 4
New-venture leaders need to have a deep understanding of their customer before they make their first sale

Successful builders were...



What do you wish you knew before your organisation built the new business?



Source: McKinsey & Company

As an example of the importance of this customer focus, Telkomsel, the largest mobile operator in Southeast Asia, developed new analytics capabilities that enabled it to hyper-personalise its services. It began by building a platform that contains more than 9,000 data points for each customer and deploying AI-driven tools to better understand needs and priorities across thousands of customer microsegments. Every month, Telkomsel runs more than 50 analytical models, based on supervised and unsupervised machine learning techniques, to identify the most relevant propositions.

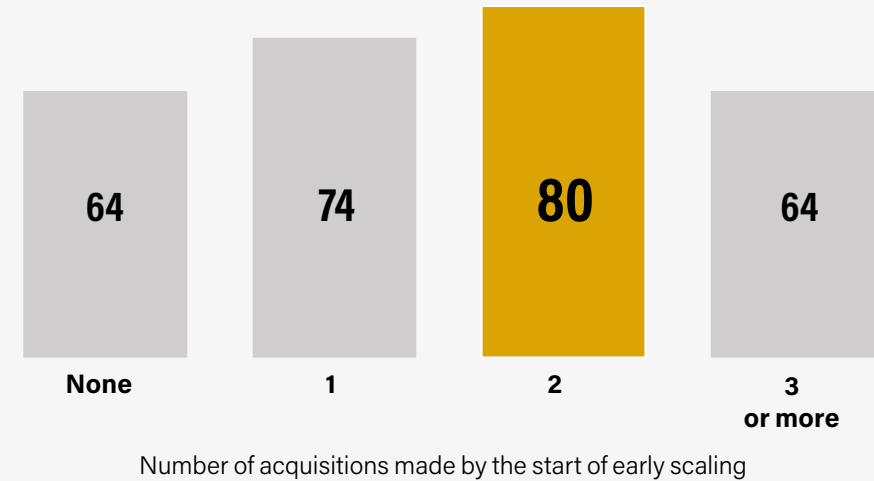
In one example, Telkomsel found that although the market was rapidly digitising, only 15 percent of households were using broadband to get online. In response, it launched Orbit, a new business that enables customers to connect through 4G mobile cellular service. Today, Orbit is growing 20 percent month over month.

Scale through targeted partnerships and acquisitions

To scale quickly, many successful new businesses turn to acquisitions to achieve immediate sales growth or to add value over time. Notably, however, these businesses are targeted in their acquisitions and use the strategy sparingly (Exhibit 5). Partnering is another way to find fast incremental growth.

Exhibit 5
Acquisitions drive success when new-business builders have a clear strategy to capture value from the acquisition

Share of new businesses that met or exceeded expectations for growth, %



Those who made 2 acquisitions were 25% more likely to meet or exceed growth expectations, than those who made none, or 3 or more.

Source: McKinsey & Company

In many cases, the fastest way to address new opportunities is through building a new business. This is why new-business building is becoming a core competency. With investments and support, such as those offered through CV Launchpad, Singapore hopes to help companies hone skills and mitigate risks so they can launch new businesses that can scale and flourish.

About the authors

This article is a collaborative effort by Vivek Lath, Hidayat Liu, Dilip Mistry, Azam Mohammad and Badrinath Ramanathan from McKinsey & Company, alongside EDB New Ventures, the corporate venture-building arm of the Singapore Economic Development Board (EDB).

This is written as part of the Corporate Venture Launchpad programme. The S\$10 million pilot programme by EDB New Ventures aims to enable large, established companies new to corporate venturing to launch a new venture in Singapore within six months, supported by venture studios experienced in corporate venture building. For more information on the programme, please visit <https://go.gov.sg/edbcorpventureprog-leapbymckinsey>

The Singapore Economic Development Board

The Singapore Economic Development Board (EDB), a government agency under the Ministry of Trade and Industry, is responsible for strategies that improve Singapore's position as a global centre for business, innovation, and talent. We undertake investment promotion and industry development, and work with international businesses, both foreign and local, by providing information, connection to partners and access to governmental incentives for their investments. Our mission is to create sustainable economic growth, with vibrant business and good job opportunities for Singapore and Singaporeans. For more information on EDB, please visit edb.gov.sg

EDB New Ventures

EDB New Ventures is the corporate venture- building arm of EDB. It was established in October 2018 to actively support large and established companies in their journey of building new businesses, with the aim to scale these ventures into globally leading businesses from Singapore. EDB New Ventures is committed to growing the broader corporate venturing ecosystem in Singapore, supporting our partner companies and portfolio ventures by providing access to industry networks, expertise and risk-sharing capital.

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