From left to right: Jenny Au, Jasmine Lau, Kelvin Tan, Sunil Senapati, Eleanor Wragg, Hart Lestari, Rebecca Xing, Brett Taylor

Roundtable: The next chapter of tradetech innovation

In a roundtable discussion held on the sidelines of GTR Asia 2023 in Singapore, GTR Ventures brought together tradetech stakeholders to explore prospects for growth, lessons learned and strategies for survival.

After several years of exuberant growth, the tradetech sector now faces its most difficult era to date. Entrepreneurs are grappling with tough macroeconomic conditions, marked by high inflation and rising interest rates. Compounding these difficulties are struggles to achieve scale, and widespread scepticism about blockchain projects amid a broader crypto crash. The resultant challenging investment environment has led to a decline in company valuations, waves of layoffs and – in some cases – business failures.

Despite this backdrop, the trade ecosystem is brimming with untapped potential for digital transformation and innovation. At the inaugural Asia Tradetech Dialogue, startups at different stages of their journey joined representatives from the wider trade industry to discuss the opportunities.

GTR: What opportunities are there for digital transformation in the trade ecosystem? Are there any relatively untapped areas, or has it all been done?

Senapati: Let's start with the most visible challenge: SMEs are crying out for funding. There's a US$2.5tn trade finance gap, which will likely increase even further due to rising commodity prices. The challenge is in financing genuine trades, and that's where visibility and verification comes in.

Achieving this is much more possible compared to even just one year ago, thanks to data standards developed by players such as the ICC DSI, and the adoption of MLETR, which solves for a major legal hurdle in using electronic documents. Legal identity verifiers mean you can ensure someone is who they say they are, and IoT technology means you can track individual shipments, and there's also third-party ESG, sanctions, and ship movement data.

Roundtable participants:

- **Jenny Au,** founder, FundFluent
- **Jasmine Lau,** director, CapBay
- **Hart Lestari,** chief of staff, 6Estates
- **Sunil Senapati,** CEO, XDC Trade Network
- **Kelvin Tan,** co-founder, **GTR** Ventures and CEO, Origin Capital Management
- **Brett Taylor,** deputy head of risk underwriting at Coface Asia
- **Eleanor Wragg,** senior reporter, **GTR** (moderator)
- **Rebecca Xing,** CEO, Trustana

The opportunity lies in bringing better visibility for financing. Banks face challenges onboarding smaller companies due to costly KYC compliance, but what if they could finance a specific trade instead? With trusted data, this can be achieved, and that's the space we see as an opportunity.

Taylor: We've been through many crises recently, and companies were protected during Covid due to moratoriums and government grants. Now, as those schemes have ended, we're seeing a rise in insolvencies. Payment terms are extending, putting more pressure on SMEs to fund longer gaps, and solving for this issue is an enormous opportunity.

Lau: SMEs are mostly startups with low capital. Survival is key for them, and they want to avoid running out of cash or being unable to get funding from investors. Their operations are usually manual, so digitisation is probably the last thing they think about. There are many in the market able to offer funding to SMEs, so how they choose the right one is crucial. If a tradetech company can come in to help them digitise and get to a stage where they can get funding from alternative lenders and later on with banks, that would be a good way to bridge the gap.

Au: Funding for small business owners, particularly when they're in survival mode, isn't just lending; it includes assessing all options like government grants. However, they don't always have all the data and documentation they need to be fundable. Funders, whether government or private, want to assess the investment validity of early-stage projects and understand the return on investment, and it has to be data-driven. The rise of generative AI allows us to be lean, generate revenue, and not rely on external funding. We're leveraging every tool possible for low-stakes, low-risk tasks that can be automated, which leads to efficiency gains across the space.

Xing: It hasn't all been done yet. SMEs in Asia, and likely globally, have a straightforward attitude due to financing shortages: if you're not giving them revenue or reducing costs, they're not interested. Digitalisation or productivity gains aren't prioritised, partly because labour costs are low. What interests SMEs are two areas: international expansion and the challenges of localising and marketing products in new countries, and navigating compliance and regulations. There were specialised agencies for this, but now, with AI, there's more opportunity for SMEs to self-serve in these areas, giving them international access, which was previously difficult.

"It's been a hard year. Investors have changed what they need to see to build conviction."
Hart Lestari, 6Estates

Lestari: I think there's a lot of opportunity left. As an AI company, we're excited to see how large language models can transform processes. Our focus is on supporting SMEs, by addressing challenges faced by banks and SMEs in the assessment and the disbursement of loans. On the SME side, there's a lot of human resource-intensive work in pulling together data. On the lender side, banks are willing to lend and want to generate extra margin, but the cost-benefit is more challenging with SMEs with less established documentation - a significant amount of effort to generate deep insights from unstructured data sources. We step in to automate the entire KYC, financial statement analysis, cross document matching and disbursement processes. We've been selling solutions to financial services in Indonesia and are starting to grow into other Southeast Asian markets. We also work with SMEs seeking ways to optimise their growth and efficiency flexibly, with low upfront cost and without the need for much internal IT spend.

GTR: Given the current challenging macroeconomic and financial climate, how should tradetech companies adapt their funding strategies, and to what extent have recent high-profile fintech failures changed investor perceptions?

Lestari: It's been a hard year. Investors have changed what they need to see to build conviction. There's a return to fundamentals, with more digging into specific pipelines and sales processes. For me, the key points are: Begin fundraising before you need to. VC funding isn't for every company. Set up easy internal processes to pull information for investors and be realistic about your valuation. Find investors who understand your product, understand the problems in your target market, and can add to your decision-making.

Failures in the space haven't negatively affected investor sentiment but have highlighted issues, like over-customising solutions for one partner without considering wider industry applicability. Since we do co-development, it's important to balance working with an end user while ensuring our product isn't over-siloed. Lastly, I'd say know when to stop or pivot, even if your initial hypothesis seemed right or despite sunk costs. Sometimes, it's necessary to step back and reassess.

Tan: We take a five-to-10-year view of trade. The opportunity is still out there, but we see startups that have issues even articulating to non-trade investors what trade is, and that's a huge challenge. It's no longer the case that you can simply say you're doing AI or you're doing

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Jasmine Lau, CapBay

blockchain and raise several millions off the back of that. Today, investors want to see what your correlation is from an early-stage company to when you're listed, and they want to see clearly what the value is.

Xing: The reset in the venture-backed world is a necessary and good thing. It has weeded out bad behaviours like artificially pumping growth. In this cycle, businesses with strong fundamentals will survive and thrive, and the talent market will also become less fragmented. It's important to hire slow, ensure your economics make sense, and have a view on your path to break even, even if you're unprofitable for a while.

Not everything needs to be VC-backed. VC backing is for a specific type of company and growth, leading to a certain outcome. There are successful businesses that are bootstrapped and profitable from the start. Startup founders should have clarity on their purpose and vision, and dream big but start small. Solve a real, niche problem to gain true user conviction and product-market fit before expanding rapidly.

Jasmine Lau: We are still expanding. We have 100 people in Malaysia operating on site and are continuing to grow. We are a P2P platform, raising funding from retail investors and financial institutions. We realised equity funding would be expensive and unsustainable. P2P funding suits us, allowing us to raise funds from retail and institutions for our operations. In some projects with good counterparties, we can form investor groups for specific projects.

Regarding our platform, we're mindful of commercialising it. We don't want explosive growth that's hard to manage. Currently, we are cashflow positive and profitable, and going for our Series B funding.

Au: The key to survival is not to leave money on the table. There's government funding for technology projects, but it's not always easily accessible. Second, leverage your growth to access more finance options. Once revenue generating, look at those streams to leverage more finance. Shortening the time to value is important, as is hiring conservatively and ensuring enough runway. Finally, leveraging partnerships is key.

Senapati: It's about playing long enough to win. I'm focusing on a minimum viable product to take us from point A to point B. We need to run with this and make enough progress to move to the next development stage. The key is to get market endorsement, onboard relevant parties, and conduct initial transactions to prove viability. Partnership is also crucial. Find like-minded partners, those who are also fated to run with you and who are equally hungry. That way, you are not going it alone; you're running in a pack and winning the race.

GTR: What approach should tradetech companies take towards partnerships with others in the ecosystem, and how important is collaboration in this space?

Taylor: For me, it's quite simple: a lot of fintechs have come and gone. How do you differentiate yourself from the others? Fintechs are all working on their own piece of the puzzle, and they need to come together to make it work.

Lestari: Partner dedication is crucial, including their willingness to allocate resources, people, and talent. It's also important to define success metrics and be clear on the commercial outcome post-development. Balancing the benefits of going it alone includes the ability to iterate quickly without waiting on a partner, especially in markets with slower development cultures.

Xing: I've seen tradetech companies with a fatal flaw: dependence on several partners coming to the table at once for their product to work. That's risky because it's out of your control. If a product needs multiple partners to function and even one partner doesn't prioritise it, coordinating the group becomes difficult, regardless of customer or other parties' interest. That's why I personally stay away from such partnerships.

Lau: Partners might direct you to do things that veer from your original goals. For us, maintaining our identity is crucial, and that means aligning objectives between parties and having clear roles and responsibilities.

Au: Our model is partnership-focused. Solving SME financial inclusion means you can't build an exclusive platform; inclusion and exclusivity don't mix. So, we chose to be an active participant in others' communities. For partners not aligned with this vision, especially those who prefer exclusivity or benefit from information asymmetry, we may not be a good fit. And that's okay. This is the 'forever business' I'm building, and if someone seeks a short-term, transactional relationship, I'm okay with walking away.