

# Emerging Markets Insight

BY MIRAE ASSET FINANCIAL GROUP  
Q3 2016

INDIAN AUTO

## RIDING ON THE WHEELS OF FORTUNE

Global luxury-motorcycle manufacturers are booming in India, thanks to a young generation of affluent thrill seekers.

**PLUS**  
+

CHINESE TOURISM  
**Big Moves, Big Opportunities in the Chinese Tourism Industry**

BRAZILIAN BUSINESS  
**Food Truck 2.0**

VIETNAMESE START-UPS  
**Vietnam Rolls with Southeast Asia's Tech Growth**



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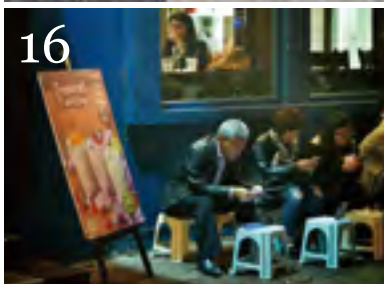
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# **BIG MOVES, BIG OPPORTUNITIES IN THE CHINESE TOURISM INDUSTRY**

Chinese are traveling in record numbers at home and abroad, and the industry is scrambling to keep up.

**By Wang Yueping**

SYNDICATION / CHINA ENTREPRENEUR



In 2015, various M&A, or strategic investment deals, were initiated by Chinese domestic tourism giants, including Uanda, Tencent, Baidu, Hainan Airlines, Fosun, and Utourworld, increasing the investment scale by 2.4 times over 2014.

On this basis, the giants will continue to increase tourism investment and M&A in 2016. Among these, the merger and reorganization between China International Travel Service Limited (CITS) and China Travel Service (HK) Group Corporation (HKCTS) will build a new tourism ecosystem to accelerate improvement of the industrial chain.

On February 23, 2016, CITS announced that its controlling shareholder CITS Group Corporation (CITS Group) and HKCTS were planning strategic reorganization, but the specific details had yet to be determined and were subject to the approval of the competent authority.

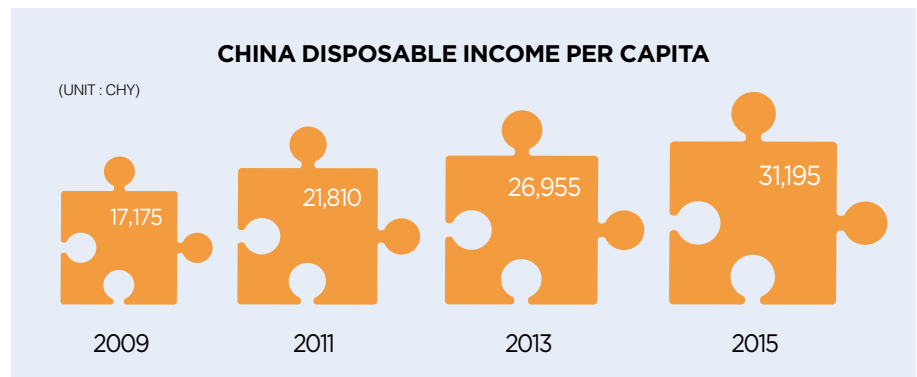
Because both parties are powerful central enterprises — CITS Group owns the sole duty-free group in the Chinese tourism industry, and this reorganization also involves three listed subsidiaries — this breathtaking announcement immediately stirred up the whole market.

Soon after the afternoon session opened on February 24, the stock price of CTS International Logistics subsidiary to HKCTS rapidly hiked, rising by 4.96 percent at the close; while the stock price of HKCTS rose by 0.75 percent to close at HK\$2.68/share.

### Buzz on reorganization

Reorganization of CITS and HKCTS has long been the subject of rumor.

Reorganized from China International Travel Service Limited and China Duty Free Group in 2004, CITS Group owns a listed company (CITS) and many subsidiaries with altogether 232 enterprises included into its consolidated statements. CITS Group engages in a broad business scope, such as travel services, distribution of duty-



## Reorganization of CITS and HKCTS has long been the subject of rumor.

free goods, integrated tourism project development and management, transportation, and e-commerce.

HKCTS originated from Hong Kong China Travel Service established by Chen Guangfu, a pioneering banker, in 1927, and is one of the three central enterprises headquartered in Hong Kong. Its business involves travel agency, hotel, scenic spots, real estate, finance, logistics, and assets. At

present, HKCTS controls two listed companies, namely China Travel HK and CTS International Logistics.

As early as November 5, 2015, it was said that HKCTS was about to merge with CITS, and there were two plans to be considered: HKCTS and CITS would form "a new CITS," or the three central enterprises CITS, HKCTS, and Overseas Chinese Town (OCT) would be combined.

However, rumor is rumor after all. CITS then issued a clarification announcement, indicating that matters concerning combination and reorganization of central enterprises needed to be decided by superior departments, and after consulting its controlling shareholder CITS Group, it was learned that, up till then, no relevant docu-



ment had been received by CITS Group; also, neither the listed company nor CITS Group had submitted to the superior authority concerning combination among CITS, HKCTS, and OCT.

However, though the rumor was false it suggested both sides and leaders of the central enterprises involved, including relevant officers of SASAC, the state-owned Assets Supervision and Administration Commission, had been discussing the merger of CITS and HKCTS, dating to November last year, but no definitive results had been finalized.

However, according to rumor and the most up-to-date information, HKCTS and CITS were more likely to form "a new CITS," though the finer details about how to reorganize their assets and how to integrate the listed companies remain to be deliberated over. But after the completion of reorganization at the level of parent company, the listed companies and their subsidiaries are

***By statistics, from 1985 to 2014 Chinese domestic tourism grew by 15 times, from 240 million to 3.63 billion person-times.***

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likely to get asset injection.

Based on open information, CITS realized US\$3.2 billion of gross revenue in 2015, up 6.54 percent on a year-on-year basis; and US\$240 million of net profit, a rise of 9.38 percent year-on-year.

CTS International Logistics subsidiary to HKCTS hasn't released its financial data in 2015, but after the announcement was made, its stock price showed positive movement. China Travel HK is the only HK-listed platform of China National Travel Service Group Corporation subordinated to

the state-owned Assets Supervision and Administration Commission of the State Council (SASAC), mainly specializing in scenic spots, travel agencies, hotels, passenger transport, and other tourism-related business.

As of March 9, 2016, HKCTS hadn't published its 2015 annual report. However, as the recent announcement on March 8 shows, it was actively engaged in a share buyback.

### **Big Mac of the tourism industry**

The tourism industry is widely recognized as a rising-sun industry, but facing Internet enterprises such as Tuniu and Ctrip, it remains uncertain whether the merger between CITS and HKCTS can help consolidate their position and achieve the desired effect.

By statistics, from 1985 to 2014 Chinese domestic tourism grew by 15 times, from 240 million to 3.63 billion person-times. The



travel rate rose by 12 times from 23 percent to 265 percent. Tourism had obviously become a routine consumption activity of Chinese residents. The number of tourists is predicted to continue to increase in 2016, and more and more residents will make travel a preferred choice for their holiday. In particular, tourists from second-tier and third-tier cities will contribute most significantly to the growth.

Outbound tourism consumption will resume the hot trend starting from 2015. As to short-distance outbound tourism lines, with the reviving of South Korea and Thailand, Japan, South Korea, Thailand, Malaysia, Singapore, and Southeast Asia are all possible annual hotspots. As to long-distance travel destinations, Chinese people traveling to Australia, New Zealand, the United States, Canada, Europe, and the Middle East will present a soaring trend.

Meanwhile, M&A and reorganization of tourism enterprises have turned active. In 2015, a spate of M&A investment deals

### ***The merger between CITS and HKCTS will spawn a new tourism ecosystem and speed development of the industrial chain.***

were initiated by tourism giants, involving an investment scale (according to incomplete statistics) of about US\$74.8 billion. Among them, the online tourism industry involved an investment & financing scale of up to US\$6.7 billion in the first three quarters alone, growing 2.4 times over year 2014. It was the competition between heavyweights such as Uanda, Tencent, Baidu, Hainan Airlines, Fosun, and Utourworld to win tourism investment opportunities that contributed to the enormous investment and financing scale. With the domestic economy entering into a stage of depth adjustment, the tourism industry,

compared with other fields, continues to maintain good growth prospects. In 2016, the giants will expand their investment in tourism M&As, and in addition to online tourism, airlines, hotels, and tourism real estate will be hot fields, and a blueprint for domestic tourism groups will gradually form.

In this context, the merger between CITS and HKCTS will spawn a new tourism ecosystem and speed development of the industrial chain.

According to information in the tourism industry, Oceanspring Phase II, Anji Mount Lingfeng Holiday Resort, and some other key strategic projects of China Travel HK are in steady progress.

As a listed company of the tourism industry, CITS has core competitiveness in business channels and operation capabilities of duty-free business. With the shaping of the "tourism - duty free" commercial mode, the company will only grow increasingly competitive in the future. In February 2016, five ministries and commissions formally issued a document to call for bids on the operating right of domestic duty-free stores. However, it seems that the company's market ascendancy is unlikely to budge.

Once merged, "new CITS" will link both domestic and overseas business, will further improve the upstream industrial chain and, become a de facto Big Mac of the tourism industry.

#### **Threat from the Internet**

Although as a state-owned enterprise, the company has enjoyed industrial bonus in some aspects, both CITS and HKCTS have felt the pressure of the rise of the Internet, and a burgeoning Internet will pose the greatest threat after the foundation of "new CITS."

According to its 2014 annual report, CITS realized US\$1.8 billion of operating revenue from tourism services, up 11.5 percent on a year-on-year; with a gross profit rate of



9.26 percent, being 0.69 percent lower on a year-on-year basis.

On the contrary, as financial reports of Internet tourism companies show, they had quite different growth. According to its financial report released in February, Tuniu saw US\$1.1 billion of net revenue in 2015, increasing by 116.3 percent on a year-on-year basis; package tours and DIY tours contributed to a trading volume (excluding entrance tickets and other single tourism products) of US\$1.6, increasing by 114.6 percent year-on-year.

The threat posed by the Internet is obvious to all, but CITS and HKCTS have no effective solution. Regarding this, a CITS insider once revealed that, in the past, to initiate a publicity project or a new assignment, leaders of the group needed to be informed, and it took quite a long time to wait for replies at various levels.

When funds were required, the approval formalities tended to be even more compli-

cated. Many sales promotion activities obtained approval only after the best promotional period elapsed. However, both CITS and HKCTS have given great attention and begun to respond. As revealed by Ren Xiaofeng, general manager of CITS E-commerce Department and CEO of cits.cn, currently online sales targeted at individual travelers takes up a small share in the total operating revenue of the head office of CITS, though it accounts for about 30 percent in some key areas. Meanwhile, the scale of online business in other areas

also presents a rapid rising trend.

Ren Xiaofeng also stated that cits.cn established new e-commerce strategies in 2014. These aimed to reinforce its brand, to grasp two implementation orientations of platformization and mobilization, to integrate collaboration between headquarters and subsidiaries, between online and offline, and between product and sale, and to strengthen four key elements including product, service, marketing, and operation.

The current cits.cn website comprises a B2B platform and the B2C CITS online business matrix. The CITS official website, reservation center, mobile client end, mobile web, WeChat presence, pgyer store, and other online channels, as well as 1150 physical stores in 87 cities nationwide, constitute an integrated service system.

Only time will tell whether the imminent "new CITS" will continue to outshine other tourism enterprises and come to dominate the industry.

***Currently online sales targeted at individual travelers takes up a small share in the total operating revenue of the head office of CITS.***



Chinese travelers recently have become the top retail travel spenders.



# RIDING ON THE WHEELS OF FORTUNE

Global luxury-motorcycle manufacturers are booming in India, thanks to a young generation of affluent thrill seekers.

**By Arshad Khan**

**Photos by Ritesh Sharma**



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Majestic looks. Thundering sound. And swift like a wild cat. These strapping beasts, these superbikes — rarely seen on Indian roads a decade ago — are now a luxury that many Indians can well afford. And so motorcycle mania is roaring into India.

The superbike market, which was at roughly 450 units per year in 2007-08, crossed 10,000 units last fiscal year. With the market size expected to touch 20,000 units per year by 2020, major global motorcycle manufacturers have driven themselves into the Indian market over the last five years and are now competing for brand status.

Manufacturers are trying to lure Indian riders who are not afraid to spend a ton to own a heavy-engine-capacity two-wheeler. “In the last five years, the earnings of young professionals have increased signifi-



“Indulging in experiential marketing in early years helps in building brand”

—VIMAL SUMBLY  
managing director,  
Triumph India

cantly,” says Abdul Majeed, partner at PwC and auto expert. “Now they have the money, the product, and the passion for leisure biking and the segment will only witness growth in the future.”

**Money matters**

Superbikes are super cool, but super expensive too. To make them more accessible, Harley-Davidson and other manufacturers have direct tie-ups with banks to ease the financial process. Banks such as SBI and HDFC offer loans specially for superbikes.

And manufacturers’ decision to import bikes under the complete knock down (CKD) banner rather than complete build units (CBU) has also helped bring down costs, making the superbikes affordable for young buyers. “Strategically importing



*“We will lead the luxury bike market unapologetically and boldly”*

—VIKRAM PAWAH  
managing director,  
Harley-Davidson India

**PRICEY WHEELS**

The most popular models cost from US\$14,900 for a Ducati Monster to US\$32,700 for a Triumph Rocket III. There are other costs as well for riders. For example, helmets cost between US\$450-750, jackets US\$90-370, gloves US\$75-225, and boots US\$150-300.

Ducati	Harley-Davidson	Triumph
Ducati Monster : US\$14,600	Harley-Davidson V Rod : US\$30,000	Triumph Tiger 800 XR : US\$15,600
Ducati 959 Pannigale : US\$21,400	Harley-Davidson Fat Boy : US\$23,800	Rocket-III : US\$32,700

SOURCE : COMPANY

under the CKD banner from a country like Thailand which has a free trade agreement with India attracts custom as low as 10 percent,” says Majid. Luxury bikes imported as CBU endure a very high rate of customs, 60-75 percent depending on the engine

size. Most manufacturers have set up a local assembling facility in Haryana to cut down costs.

**Reving up sales**

Expecting strong growth in the future, com-

panies have begun creative marketing to encourage sales. Recently, Triumph Motorcycles conducted a training session for Tiger-series customers in Pune to encourage adventure motorcycling. While arch-rival Harley-Davidson imparts basic riding skills to riders under its “Passport to Freedom” initiative, the Italian sports-bike maker Ducati is planning to open a riding school in India. For manufacturers, such experiential marketing is a better option than investing a chunk of money in mass marketing, as mass marketing won’t spur short-term sales in this growing but still nascent market. “The market isn’t large enough to go for mass marketing. Indulging more in experiential marketing in early years helps in building brand which eventually lifts future sales,” says Vimal Sumbly, managing director of Triumph India.

Indian companies are succeeding as well.



*Today, hundreds of bikers can be seen roaring through the wide lanes of expressways over weekends on their monster machines.*



**THE COMPETITORS**

Ducati Scrambler Icon	Harley-Davidson Street 750	Triumph Bonneville T100
US\$10,000	US\$6,700	US\$9,800
Powered by a 696 cc heart, which churns out 75 bhp and is mated to a 6-speed gearbox	Powered by liquid 749 cc Revolution X V-Twin engine, the bike gives a power of maximum 46 bhp	Powered by a 865 cc engine T100, gives a maximum power of 67.1 bhp and is mated with a 5-speed gearbox

enthusiasts,” says Bobby Desai, executive coach and trainer and Harley Iron 883 owner. The biking culture encouraged by manufacturers has started yielding results. Not only is it bringing people like Desai together with like-minded riders but it’s also encouraging many silent spectators to take up biking as a symbol of their independence. Today, hundreds of bikers can be seen roaring through the wide lanes of expressways over weekends on their monster machines.

Besides exclusive ownership groups such as H.O.G. (Harley Ownership Group) and R.A.T. (Riders Association of Triumph), there are more than 100 well-known biking clubs operating across the country. The biking culture is slowly catching the attraction of women, too. Veenu Paliwal, known as the “Lady of Harley,” broke all stereotypes when she took to two-wheelers in the early 90s.

DRIVEN, a Hyderabad-based start-up that serves exotic coffee and self-drive services, is making money by renting superbikes. Ashwin Jain, co-founder of DRIVEN, says, “Many youngsters can’t afford a superbike but desire to ride one. We are fulfilling their dreams by renting superbikes for nominal charges.” A Harley 750 from DRIVEN for a

day costs US\$30. Overwhelmed by the response, Jain, who rides Triumph’s cruiser Thunderbird, is planning to take DRIVEN into 14 cities.

**Exclusive club**

“Riding is a passion for me. Being a part of a coveted bike club, I get to meet other



Last year she bought herself a Harley to cover the whole of India on her superbike — a distance of 50,000 km. Sadly she lost her life in a road accident in April in Madhya Pradesh during her conquest ride. Just like Paliwal, hundreds of women have begun riding superbikes recently. Female bike clubs such as Bikerni and Riderni have formed to cater to the needs of members.

From organizing and sponsoring regular rallies to ensuring the new culture of biking expands its horizons, the clubs do it all. It helps to retain customers while bringing in new ones through word of mouth. "Promoting the leisure biking culture has remained our topmost priority. Once that culture is developed, sales come automatically," says Vikram Pawah, managing director, Harley-Davidson India.

Majeed of PwC says that since profits are impossible to generate in the first three to five years, the companies focus more on brand building to work for them in the long run. He says, "India is a market that no one can ignore. Manufacturers will continue to promote the new biking culture to fulfill their future objectives."

The growing popularity of the new biking culture was seen at its best in the recently concluded India Bike Week 2016, which attracted more than 12,000 riders. The festival, which used to be dominated by



***If Harley has more volume, Triumph has more options. And now Ducati is back in the game too.***

Harley, this time saw a lineup of global manufacturers such as Triumph, Ducati, and UM Motorcycle encouraging riders and unveiling new bikes for Indian buyers.

### Who rules the Indian roads?

If Harley has more volume, Triumph has more options. And now Ducati is back in the game too. While Triumph says it is here to be the market leader, Harley is confident that it will continue to lead. "We will lead unapologetically and boldly," says Pawah of Harley.

Harley's early entry gave it an edge over competitors. "We entered the market in 2009 to evaluate market potentials and we

did it successfully. We will definitely remain leisure bike lovers' first choice in the years to come," says Pawah.

The popular American cruiser brand opened its first outlet in July 2010 and since then has sold over 12,500 bikes, claiming a market share of over 65 percent. The company believes its legacy, wide distribution network, and experiential marketing strategy will keep it ahead in the race.

Harley's top competitor, the UK-based Triumph, which offers bikes in many categories, plans to become market leader by increasing its market share in each category — classics, cruisers, roadsters, adventure, and super-sports. It has sold an impressive 2,500 units in just over two years. After opening its maiden store in November 2013, the company now has a network of 12 dealers.

"Unplanned entry in the Indian market has backfired global players in the past. From launching bikes to opening outlets, we do a great deal of study to ensure success," says Sumbly. Triumph claims to have a market share of 30 percent in bikes with engine capacity of 500cc and priced above US\$7,400. It sells bikes in the price range of US\$10,400–37,000.

After taking a pause in early 2014, Ducati re-entered the Indian market in June last year with a bang by opening its largest sales and service facility in Delhi NCR.

Pierfrancesco Scalzo, Ducati Asia general manager of sales and marketing, says, "The Indian market is consistently and steadily growing, which is a good sign for our bikes. The response so far we had received for our bikes is overwhelming."

In less than a year it opened six outlets and plans to open two more. Majid of PwC says Ducati has managed to clock decent figures in its second inning with its Scrambler model being one of the most sought after bikes in the entry level segment. Ducati bikes in India fall in the price range of US\$9,600–60,000.

### BUMPY RIDE

#### A look at how the three luxury bike brands fared in the global market in 2015

- ▶ Ducati's revenues were up from €575 million in 2014 to €702 million in 2015
- ▶ Harley's revenue was down to US\$6 billion in 2015 from US\$6.3 billion in 2014
- ▶ Triumph's previously reported statement shows its revenue was down to £364 million in the first half of FY 2015 from £369 million during the same in FY 2014



People having fun and lunch from food trucks in Maua square with view of Museum of Tomorrow, a point on the marathon route for the 2016 Olympic Games.

SYNDICATION/EXAME

# FOOD TRUCK 2.0

Around 3,000 food trucks were opened in Brazil in two years. After an initial excitement period, natural selection has played its part. The successful ones are setting up franchises and growing.

**By Naiara Bertao**



## Brazilian Business



After living 10 years in Madrid, Spain, where he worked as a bar manager, Diego Fernando Juliano, from São Paulo, decided to go back to Brazil and open his own business. He wanted something related to food but that would also allow him free time every day to do what he likes the most: surfing. He got back to São Paulo in 2013, in the beginning of the food truck wave and had an idea he wanted to test out: with around US\$18,000 he bought a Volkswagen Type 2, also known as Kombi, had it refurbished, and started selling milkshakes in the bohemian neighborhood of Vila Madalena, in the western part of the city.

One month after opening, sales were so strong that Juliano had to give up his surfing time. He brought a second Kombi and realized his food truck business was working out too well to be left in second plan. "I saw that not only clients were interested but also entrepreneurs in owning their food truck," he said. He then decided to set up a franchise business. Today, he has his own Kombi, three franchise ones, in addition to two stores and a kiosk in shopping malls. His company, Kombosa Shake, made US\$737,000 in 2015.

### Street food bubble?

Kombosa Shake's Juliano is a member of a small group of people who went from being food truck owners to businesspeople. They have more than one truck, are

establishing franchise networks, and some are even opening stores. This is the case of Los Mendozitos; they sell wine by the glass for US\$4.50 and have 11 trucks in São Paulo, Rio de Janeiro, Curitiba, and Porto Alegre. They usually park close to venues with concerts, festivals, and food fairs. "We did some research and found that beverages food trucks did well but there was none selling wine," said André Fischer, one of the three owners.

Most bottles are imported from the Mendoza area, in Argentina (hence their name). Last year, a business owner from Campos do Jordão, São Paulo, reached out to them wanting to open a branch in the city — very popular among tourists during Brazilian winter, in June and July. "If it works well we can expand the franchise model," Fischer explained. Other examples are Só Coxinhas, with their own truck, four franchise ones, and one store; La Peruana, with one truck and one store; Holy Pasta, selling pasta; and Buzina, selling hamburgers — the two latter have two trucks each and are planning on opening stores.

Owning more than one food truck is a leap in the career of someone who only dreamed of getting by. It's when one is required to become a real businessperson. "You need to define exactly what you'll sell, hire suppliers, and standardize everything, even napkins," said Ana Vecchi, partner at Vecchi Ancona consulting company, specializing in food trucks.

Today, Kombosa Shake employs 40 people, including clerks and managers in charge of overseeing production. Los Mendozitos owners, who kept their old jobs in the beginning of operations, now work exclusively at their own company. Out of the four partners at Só Coxinhas,



### COMPANIES ON WHEELS

These are some of the main food trucks that have grown: they've either established franchise business or are opening stores

	LOS MENDOZITOS	SÓ COXINHAS	KOMBOSA SHAKE
<b>MENU</b>	Wine	Savory and sweet coxinhas	Milkshakes
<b>BUSINESS</b>	11 trucks in São Paulo, Rio de Janeiro, Curitiba, and Porto Alegre; they have a franchise in Campos do Jordão (SP) and plan to open a store in São Paulo in June.	Five trucks (four franchised) in São Paulo, Rio de Janeiro, and Campinas, in addition to a store in Guaratinguetá, upstate São Paulo.	Four trucks (three franchised) in the state of São Paulo. They also have two stores and one kiosk in shopping malls in São Paulo, Santos, and São Caetano do Sul (SP).
<b>REVENUE IN 2015</b>	US\$610,000	US\$460,000	US\$737,000



Mobile food truck parked near Itacoatiara Beach, the surf spot in the Niteroi neighborhood, waits for customers.

two have quit their former jobs in multinational companies and now take turns in supervising the business. They have also hired a management consulting firm to help them with their expansion plan.

**Risky business**

The small number of companies that have been established from food truck businesses shows how risky this market is. In recent years, Brazil went through a type of street food bubble. There are around 3,000 food trucks in the country. In the USA, we find 4,000 for a population 60 percent larger. In Brazil, expansion often happens for the wrong reasons. "It's not uncommon for people who got fired to think about opening their own business and this food truck trend has appealed to many," said Fabiano Nagamatsu, a consultant at the Brazilian Micro and Small Enterprises' Support Service — known as Sebrae. The initial investment, about

***There are around 3,000 food trucks in the country. In the USA, we find 4,000 for a population 60 percent larger.***



US\$77,000, is quite low but a lot of people think all it takes is to cook well to conquer fans on the streets.

But those who are inexperienced and unfamiliar with the food truck business may face great challenges. For example, weather impacts income. Rainy or cold days usually lead to slow sales. The owners should be financially ready for this or invest in heaters and blankets. Those who get it right may achieve a profit margin from 15 percent to 20 percent; however, although there are no statistics, this seems to be the minority of them.

In an attempt to join the professionalism of the franchise business and the lower cost of the trucks, some chains have given in to the food trucks, such as Portugalo, selling Portuguese food, and Burger Lab, hamburgers. With competition increasing, it became clear that full time dedication is required if you want to have a successful food truck business.



## Vietnamese Start-ups

The densely populated cities in Southeast Asia, such as Ho Chi Minh City with more than 10 million people, is among the factors driving the "sharing economy" forward.



# VIETNAM ROLLS WITH SOUTHEAST ASIA'S TECH GROWTH

The country is quickly becoming an attractive market for start-ups.

By Thu Huong Le





## Vietnamese Start-ups

When Singaporean Alvin Koh was running his coffee shop in Hanoi's Tay Ho District a few years ago, he noticed that it was nearly impossible to track the number of customers who came back to the shop — in essence, their loyalty to the place.

Most coffee shops run their loyalty programs using paper cards, which Koh thought was inconvenient for customers because they had to carry too many cards. It was also a lost opportunity for merchants because they could not learn the frequency and habits of their coffee-goers.

"I don't really know how often customers come, whether they come during the weekend or weekdays, or how much they spend," Koh said. "Sometimes the ladies carry too many bags and they don't know where their coffee cards are. Sometimes the paper cards go bad because of the rain."

Inspired partially by the Starbucks Loyalty Program, which enables Starbucks customers to scan their smartphones at the store to gain reward points, Koh and his

10-member team are looking at launching Peko Peko, a mobile platform that allows users to accumulate reward points at coffee shops. It would also allow coffee merchants to track such users and monitor the loyalty programs the merchants run.

The launch is scheduled to be in Hanoi, with the vision of expanding it to other major cities in Vietnam. So far, they have 10 coffee merchants signed up, and hope to hit 50 soon. Koh believes Vietnam is among the most attractive emerging markets for start-ups in Southeast Asia because of the young population and the many still unmet needs in the market.

"Everyone knows Singapore is a place to start, but it's not really a place to make money because the market is very small.

The population of Hanoi is like Singapore, and then you still have Ho Chi Minh City and Da Nang," he said.

Koh was among hundreds of start-up founders attending the two-day Tech in Asia 2016 in Singapore, pitching their start-up ideas to potential investors who have the same vision to invest in Southeast Asia's emerging markets.

### Mobile-first environment

Recently the news also broke about Alibaba's expansion into Southeast Asia with the US\$1 billion deal to acquire Lazada, which sells products in Singapore, Indonesia, the Philippines, Thailand, Malaysia, and Vietnam.

This further validates Southeast Asia's

***In Vietnam, the number of smartphone users is around 22 million and predicted to reach 26 million in 2016.***



A start-up center in Ho Chi Minh City. It provides a place where start-up founders can work together.



## Vietnamese Start-ups



***A new set of rules is being drafted by the Ministry of Planning and Investment, aimed toward easing up procedures for local and foreign venture capital funds to operate in Vietnam.***

attractiveness for start-ups and investors alike, with a 600-million mobile-driven consumer market.

Speaking at the conference, Facebook co-founder and founding partner of B Capital Group, Eduardo Saverin, noted Southeast Asia's lack of infrastructure in many markets in the region as an opportunity to force entrepreneurs to innovate and think outside the box.

Besides, the region is a truly mobile-first environment where cheap mobile devices are making it much easier for people to access services and products, according to Saverin.

"Soon a young girl in rural Indonesia will have more information at her fingertips than I had when I started at Harvard," Saverin said.

A report released last year by Ericsson suggested that almost two-thirds of mobile phone subscriptions in Southeast Asia and Oceania would be smartphones by 2020, reaching a staggering number of about 800 million people.

In Vietnam, the number of smartphone users is around 22 million, according to

some reports, and predicted to reach 26 million in 2016.

The greater availability and affordability of smartphones has paved the way for strong download growth of mobile applications in the region, said Danielle Levitas, senior vice president for research and marcom at App Annie, a California-based business intelligence company and analyst firm.

App Annie considers Vietnam among the frontier markets for mobile application growth, with download growth of mobile applications having risen nearly 60 percent year-on-year in Vietnam (2014-15).

Notably, mobile games are undoubtedly a big part of Vietnam's culture, accounting for nearly half of downloads on both Google Play and iOS in 2015.

The mobile-first environment and densely populated cities in Southeast Asia also make services such as ride sharing or other services in the so-called "sharing economy" continue to thrive, Levitas emphasized.

For Facebook co-founder Saverin, who has continued stepping up his investments in Southeast Asian start-ups, Southeast Asia is also a less crowded market for inves-

tors, and governments across the region are rolling out initiatives to support entrepreneurship.

### **5,000 tech firms by 2020**

The Vietnamese government has also stepped up efforts to support start-ups and cultivate the spirit of entrepreneurship in the country.

A new set of rules is being drafted by the Ministry of Planning and Investment, aimed toward easing up procedures for local and foreign venture capital funds to operate in Vietnam.

The government is ambitious about turning the country into a start-up nation with 5,000 tech firms by 2020. Last month, Deputy Prime Minister Vu Duc Dam called for a renewal in thinking in terms of supporting start-up initiatives to catch up with the rest of the world.

Topica Founder Institute, which offers training courses for start-up founders in Vietnam, estimated that at least 67 tech start-ups in Vietnam received funding last year, with 48 percent of angel/seed deals coming from overseas investors.

Many start-ups in Singapore are also looking at Vietnam for users.

Rinita Vanjre, co-founder and CEO of BonAppetour, is among those. The Singapore-based start-up is about food sharing: connecting home cooks with travelers and foodies for a unique local dining experience. Local hosts can post their offerings on the site, prepare the meal, and then travelers can come to the host's place to dine.

The concept of dining with strangers, Vanjre admitted, might be harder to take off in Vietnam due to language barriers and the fact that street foods are technically available for most of the day. Even so, she's optimistic. "There are already people who have expressed an interest in becoming a host on the site," she said. "So we are very excited about that."