
The Role of Venture Capital Firm in Developing the Indonesian Startup Ecosystem (Case Study: MDI Ventures & Indigo Creative Nation Program)

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Abstract – MDI Ventures is a corporate venture capital arm of Telkom Indonesia, the largest telecommunication company in Indonesia. Established in 2015, MDI Ventures provides seed to growth capital for early-to mid-stage companies in Southeast Asia and globally. It currently has a total of US\$830 million in assets under management across five funds, and are managing 43 companies in their portfolio with 8 exits in total, putting MDI Ventures as the venture capital firm in the country with most exits. MDI Ventures also collaborates with Telkom Indonesia to manage Telkom Indonesia’s incubation and accelerator program called Indigo Creative Nation program, with a purpose to develop the Indonesian startup ecosystem by accelerating the growth of early-stage startups through seed financing and mentoring. However, most of their startups which are part of the program are having a hard time raising their Series A financing. The primary data gathered is from interviewing three startups from the program and spreading questionnaires to venture capital professionals. For the analysis, Bell-Mason Diagnostic tool is used to analyze the gap on the twelve dimensions of each company. Turns out that these three companies need to fix their three dimensions, and MDI Ventures is going to do value-adding activities to help these three companies in closing the gap in each respective dimensions.

Keywords – Venture Capital, Incubator Program, Accelerator Program, Bell-Mason Diagnostic.

I. INTRODUCTION

As the fourth biggest country in the world in terms of population while still being an emerging country, Indonesia represents such massive opportunities in the future that is predicted to be mainly driven by mobile internet. As the 272.1 million Indonesian people are getting introduced to the mobile internet ecosystem day by day, 175.4 million of them have been converted into mobile internet users [7]. By going digital, Indonesia could unleash the next level of their economic growth. The size of Indonesia’s internet economy was estimated at \$40 billion in 2019, represented 4% of the Indonesia’s \$1.1 trillion GDP, and has more than quadrupled in size since 2015 at an average growth rate of 49% a year and it is expected to reach \$130 billion in annual economic impact by 2025 [6]. With the growth, Indonesia is really attractive in the eye of investors, especially venture capital firms.

As a corporate venture capital firm, MDI Ventures is poised to capture the opportunities in the Indonesia’s internet economy. Positioning themselves as a multi-fund venture capital firm, MDI Ventures invests in technology companies from seed-stage to beyond. MDI Ventures also collaborates with Telkom Indonesia to operate Telkom Indonesia’s incubation and accelerator programme called Indigo Creative Nation program. Indigo Creative Nation was set up to accelerate the growth of early-stage startups through seed financing and mentoring, as well as developing the Indonesian startup ecosystem. However, as the program ends, the startups are still having trouble to raise its Series A financing.

To analyse the issue, questionnaires were prepared to find better understanding of the perspectives of venture

capital professionals to invest in startups raising its Series A round. Furthermore, in-depth interviews were done with the C-suite executives of three startups in the Indigo Creative Nation program to find better understanding of the issues. The data is then analysed by using the Bell-Mason Diagnostic method. The Bell-Mason Diagnostic is a rule-based tool that is applied to have a deeper understanding of the status of a technology company at each stage of its growth by answering a series of questions for each twelve evaluation dimensions [1]. Based on the analysis, there are three dimensions that these three startups need to fix, and MDI Ventures is going to add values by helping these companies to close the gap of these three dimensions.

II. LITERATURE REVIEW

A. Venture Capital Firm

Venture Capital (VC) firm is a form of private equity, but more focused on early-stage technology companies that have high-growth potential [3]. VC firm invest an additional amount of capital in exchange of equity, hoping that in the future they could sell their equity at a higher price than their initial price when they invest for a return [4]. Some VC firm tries to maximize their return by working closely with the founders and provide them with every resources they have [15].

To improve the chance of making successful investments and higher returns, VC firms also help the entrepreneurs in achieving their business goals by giving value-added services [8]. A good VC firm will always bring more than just capital [13]. In fact, world-class entrepreneurs tend to choose value-adding VC firms as their long-term partners in achieving their business goal, hence the best VC firms have better chances to invest in the best companies than average VC firms [9].

B. Corporate Venture Capital Firm

Corporate Venture Capital (CVC) firm is a type of VC firm that make investments in startups through its corporate funds, with some investments are strategic, meaning they are made primarily to increase the sales and profits of the corporation's own businesses by identifying and exploiting synergies between itself and their investees [17]. Other objective is financial, wherein a company is looking for attractive returns [2]. In most cases, the objectives of the CVC firm is more to the strategic side rather than the financial side, and the parent company of the CVC firm would eventually acquire the company [16].

C. Incubator and Accelerator Program

Startups incubators begin with companies that are just starting up in the process and they do not operate on a set schedule [14]. In some cases, it even begin with self entrepreneurs with just an idea to begin with. Startup incubators help these people to find their co-founders to start a company. Startup incubators usually provide co-working spaces, workshops, connection to mentors and investors, and an aligned community. A lot of value that these entrepreneurs got is just being in the space, learning from other peers and joining events.

Startups accelerator program usually have a set timeframe in which companies spend few months working with a group of mentors to build the fundamental of their business and then scale it up [14]. Startups that are part of the program usually are given a small seed investment, typically around \$100,000 to \$150,000 in exchange for a small amount of equity. Other than capital, these accelerator program will give the participants a lot of values, including mentoring, workshop, networking with fellow alumni, key talents hiring, among others.

D. Bell-Mason Diagnostic Method

Bell-Mason Diagnostic was developed by Gordon Bell and Heidi Mason. Bell-Mason Diagnostic works by manually characterizing and plotting the status of the high tech companies at each stage of its growth, and then comparing it to the diagnostic's definition of an "ideal" company by testing it against a set of rules, which are applied by answering a series of questions for each of twelve evaluation dimensions [1]. After plotting the graph, it will show the firm's potential deficiencies and pinpoint dimensions that are in or out of balance. When there is a gap in the dimensions between the analyzed company and the ideal company in the Bell-Mason Diagnostic analysis, then there should be issues regarding of each dimension and department [5].

III. METHODOLOGY

A. Data Collection

This research will collect both primary and secondary data. The primary data will be collected from the result of an in-depth interview with the C-suite executives of three companies in order to gain valid data and a better understanding of the current situation of the company and its problem by asking them through a list of questions related to the Bell-Mason Diagnostic tool. The interview session will also cover the founder's journey in building the company through storytelling session. The secondary data will be collected from literature reviews, journals, books, and market outlook in order to provide background knowledge to support the collected data.

B. Data Analysis

After collecting the data, the analysis of each company can be done by using the Bell-Mason Diagnostic method to find the gap in each of the dimension within the companies that hinders the startups in getting their Series A investments. By combining the Bell-Mason Diagnostic diagram of each company with the Ideal Bell-Mason Diagnostic diagram based on the survey, the gap in each dimension could be seen clearly. The gap in each dimension shows the organizational dysfunctions that hinders the startups in getting their Series A investments.

IV. FINDINGS AND ARGUMENTS

Based on the questionnaire, A total of 43 responses have been recorded, with respondents coming from local and foreign VC firms with various roles in the firm. All of these VC firms focus on the Indonesia market as well, investing in various stages. The summary of the questionnaire results could be seen in Table 1 below.

Table 1. Questionnaire results.

Dimensions	Average Score (n = 43)
Engineering	4.49
Product	4.39
Manufacturing	4.34
Business Plan	4.16
Marketing	4.41

Dimensions	Average Score (n = 43)
Sales	4.52
CEO	4.71
Team	4.50
Board of Directors	4.42
Cash	4.41
Financeability	4.40
Control	4.22

Source: Questionnaire results.

Founded in 2018, Company “A” is an Umrah marketplace company, connecting Umrah travel agencies to consumers via its two-sided marketplace, removing middlemen and therefore able to introduce better price for consumers. Based on an in-depth interview with the CEO of Company “A”, the company is having trouble in their sales, financeability, cash, and board of directors [10]. The Bell-Mason Diagnostic diagram could be seen on Figure 1.

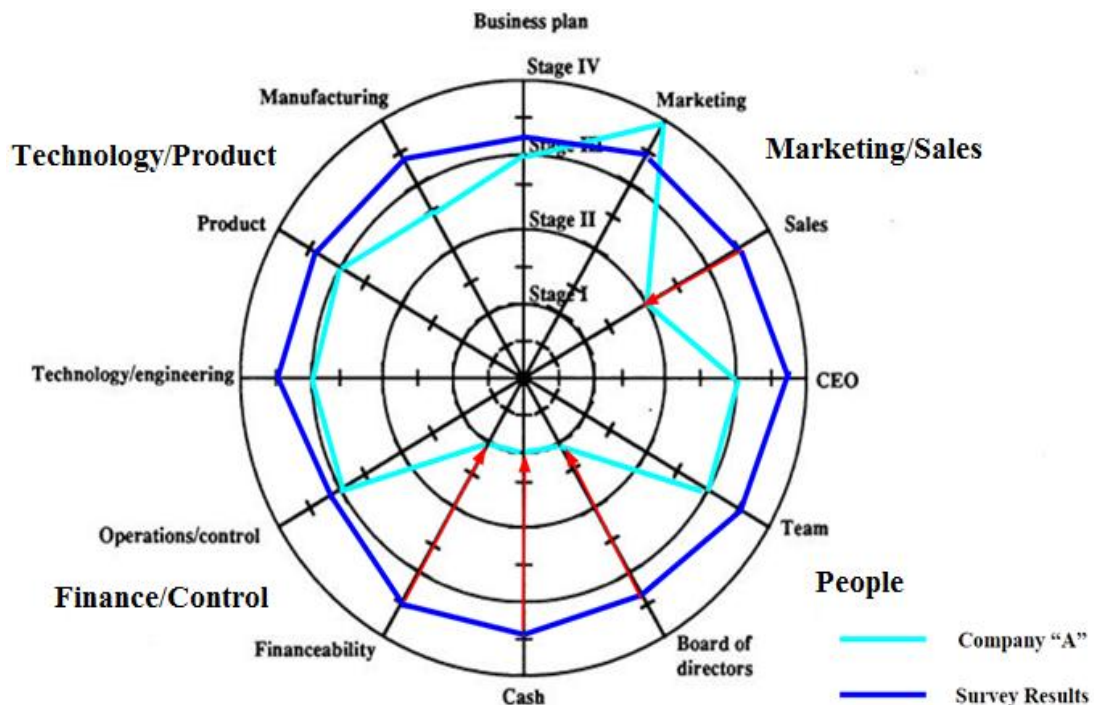


Fig. 1. Dimension Gap of Company “A”. Source: Questionnaire results.

Founded in 2017, Company “B” is a digital enabler for micro businesses, providing various solutions including point of sale system, cash management system, B2B commerce, and financing access. Based on an in-depth interview with the CEO of Company “B”, the company is having trouble in their sales, CEO, team, technology, financeability, cash, and board of directors [11]. The Bell-Mason Diagnostic diagram could be seen on Figure 2 below.

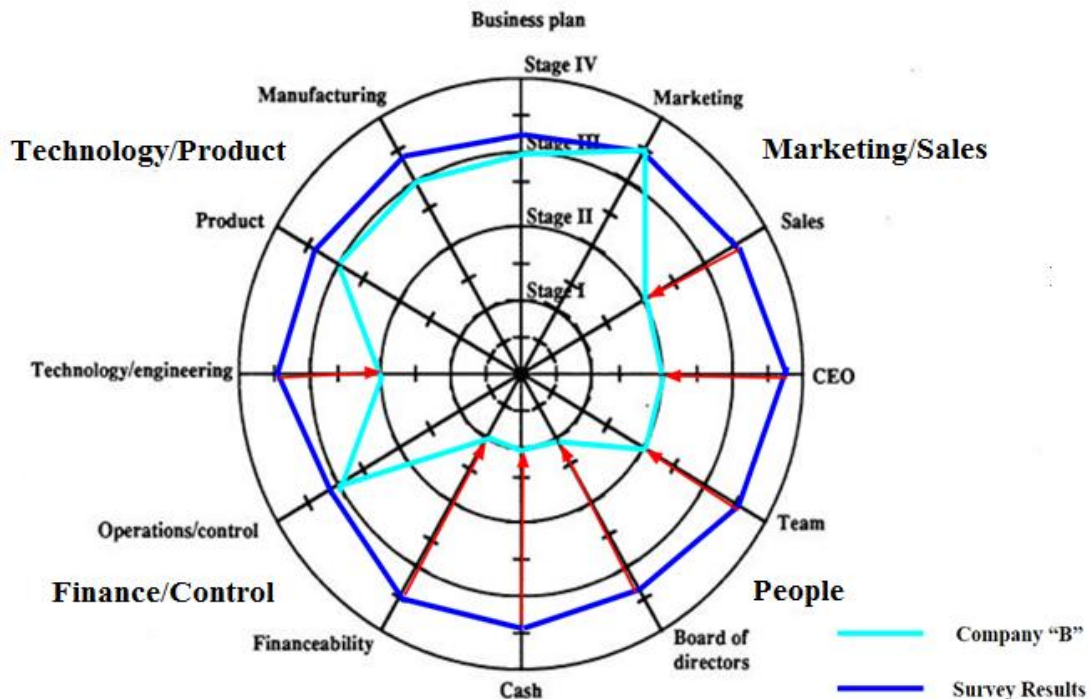


Fig. 2. Dimension Gap of Company “B”. Source: Questionnaire results.

Founded in 2018, Company “C” is a mobile concierge platform, helping hotels to digitize their operations and do cross-sell to boost revenues from guest consumptions. Based on an in-depth interview with the CEO of Company “C”, the company is having trouble in their sales, cash, and financeability [12]. The Bell-Mason Diagnostic diagram could be seen on Figure 3 below.

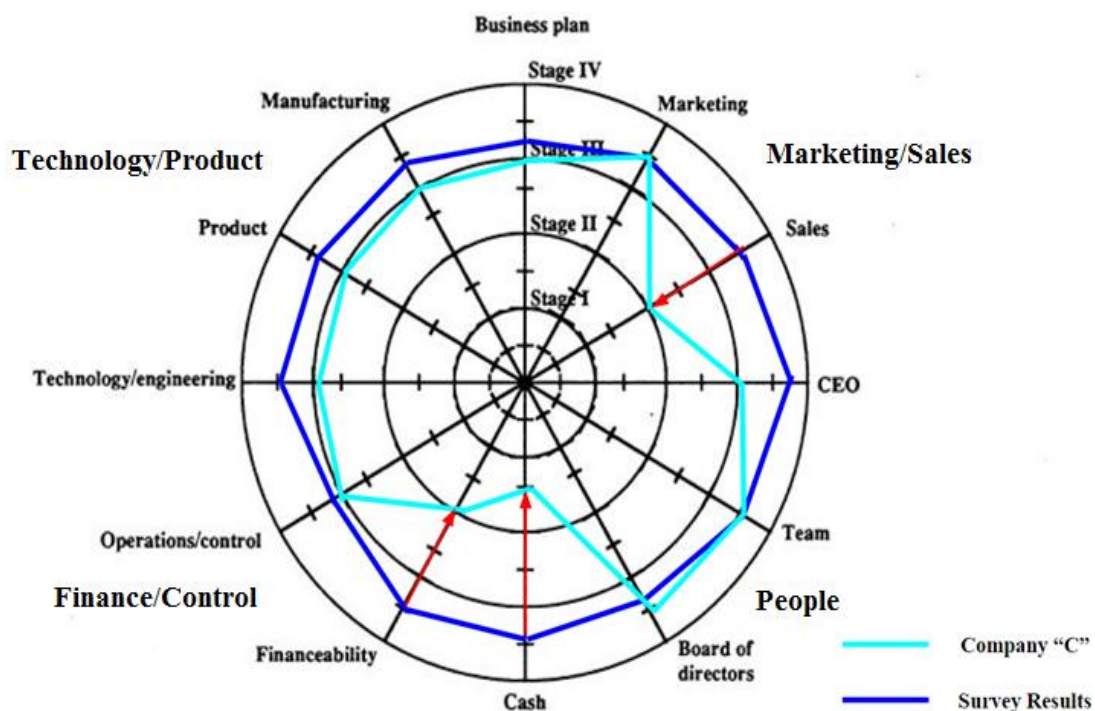


Fig. 3. Dimension Gap of Company “C”. Source: Questionnaire results.

As the result of the Bell-Mason Diagnostic analysis, there are 6 out of the 12 dimensions that should be fixed among these 3 companies, including sales, CEO, team, board of directors, cash, and financeability. Considering

the limited time and resources that MDI Ventures has, the Action Priority Matrix will be used to help MDI Ventures in sorting these 6 dimensions that need to be fixed. Based on the analysis, there are 3 dimensions that only takes a minimum amount of effort to generate huge impact, which are sales, cash, and board of directors.

V. CONCLUSION

As the result of the Bell-Mason Diagnostic analysis, there are 6 dimensions that needs to be fixed by these three companies in order to increase their chance to raise their Series A investment, including sales, CEO, team, board of directors, cash, and finance ability. After analyzing which dimensions that need to be prioritized first based on the effort and impact, the solution analysis will focus on 3 dimensions, which are sales, board of directors, and cash. These 3 dimensions are chosen as they could generate high impact for the company with minimal effort.

For the sales dimension, MDI Ventures could facilitate these three companies to participate in the NEXT-BE Fest event to ensure that these three companies are able to find synergy opportunities with Telkom's CFU that these companies could use to add more revenue streams. For Company "A", they could add additional revenue streams by partnering with each of the subsidiaries to introduce their Umrah marketplace platform to the employees as part of their employee benefits program. For Company "B", they could add additional revenue streams by partnering with Small and Medium Businesses (SMB) Digitalization Tribe of Telkom Indonesia to white label its solution. For Company "C", they could add additional revenue streams by partnering with Travel and Tourism Tribe of Telkom Indonesia to help the company with hotels acquisition.

For the cash dimension, there are 2 ways which MDI Ventures could help. For the first way, MDI Ventures could put in charge an experienced financial advisor within Telkom Indonesia to help these companies in setting up their cash management strategy. As corporates put profitability as their main key metric, putting an experienced financial advisor should benefit these companies in doing their cash management. For the second way, MDI Ventures could offer bridge financing via convertible notes to help these companies extend their runway and solidify their short-term position until they are ready to do the next fundraising. MDI Ventures could set up the terms that heavily favour them as they are bearing the risks earlier, hence they would receive a more attractive return.

For the board of directors dimension, MDI Ventures could put in charge an independent board member either from MDI Ventures itself or from Telkom Indonesia. MDI Ventures could also appoint an individuals from outside of the company. However, there are certain trade-offs between those options. Hence, MDI Ventures could do some due diligence process on the specific individual who will be trusted to be the board member.

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AUTHOR'S PROFILE



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Max Suyatno Samsir was born in Jakarta on May 12th, 1998. He graduated from Tarumanagara University with major in Civil Engineering in 2019. Currently, he is a Master candidate at Bandung Institute of Technology (ITB) Indonesia, majoring in Business Administration. He is currently pursuing his career as an investment professional in the venture capital industry. He is a part of Southeast Asia investment team at BAce Capital, a venture capital fund backed by Ant Group. He is responsible for deal sourcing, due diligence, and market research. Previously, he was an investment intern at MDI Ventures. He was responsible for helping MDI Ventures to invest in early-stage companies and help to operate

Indigo Creative Nation program, an accelerator program by Telkom Indonesia.



Second Author

Dr. G.N. Sandhy Widyasthana was born in Ujung Pandang on November 24th, 1973. He completed his undergraduate from Telkom University with major in Telecommunication Engineering in 1995, then get his Master of Business Administration (MBA) degree from Bandung Institute of Technology (ITB) in 2007, and get his Doctoral degree from Bandung Institute of Technology majoring in Management Science. He is and industry expert that has over 20-years experiences in Telco and IT business. He is currently a Director of Portfolio Management at MDI Ventures, a corporate venture capital firm backed by Telkom Indonesia. He is part of the founding team and has been responsible for gathering

investment portfolio to collaborate with Telkom Indonesia to extract synergy and values for both parties.