

## Legal Insights: Failed Start-Up/Tech Companies in Southeast Asia, Why They Failed, and Effective Solutions from an Indonesian Law Perspective

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Earlier this year, a major player in e-commerce industry in Indonesia, JD.ID, declared that their operation would be permanently closed starting 31 March 2023. This closure is a continuation of its downsizing efforts in December 2022 that impacted 30 percent of its employees, or 200 people. Similarly, Tokotalk, an e-commerce enabler platform, also officially ended their operational services on 28 October 2022. This rendition of news has added to the list of startups that close down their operations since 2020. Until recently, approximately 22 local startups in Indonesia were forced to close their business operations. Some of them closed down due to the market changes as the result of Covid-19 pandemic.

The pandemic, which in turn, resulted in the economic downturn, has made many startups and technology companies unable to generate positive returns for their investors. The three main factors of the failed startups trend are, the inability to gain new source of funds, lack of market demand, and competitive environment. Additionally, some investors pursue "wrong opportunities" by investing in technology companies that are not capable of making profitable income, resulting in the unfortunate closures of these companies. Although not significant, the technology sector players in Southeast Asia ("**SEA**") are highly affected by the condition depending on different levels of the countries' economic developments, as well as the public accessibility of these companies.

Through this article, we assess the current trend of startup closures and the reasons behind them. We also provide a brief elaboration on the things that an investor needs to look out for when investing into startups or technology companies during the current economic situation, and alternative ways for startups and technology companies to raise funds and maintain profitability.

### The current trend of startup closures & efficiency in various technology companies

Across SEA, the highest percentage of startup closures occurred in the Philippines and Singapore with, respectively, 15.85% and 14.27% companies in these countries went out of their businesses.

Furthermore, the record shows that most of these startups are small companies with 2 to 10 employees in their seed funding stage.

The sectors impacted are 21.62% startups in the travel industry, while only 8.99% of those in the Software as a Service industry ("**SaaS**") sector suffered the impact.

In Indonesia, at least 102 startups (including those that closed down prior to Covid-19 Pandemic) closed down their businesses for good. The number could be larger because there were lesser-known tech startups. Around 33% of the companies closed down within 12 to 20 months since their establishments. Some 67% of the startups succeeded in passing the initial period of 2 years, before closing down their business operations in the subsequent years.

To maintain their survivability, many of the larger players have commenced an efficiency measure contradictory to the aggressive expansion that was the main strategy in the earlier startup boom in SEA. Startups and technology companies in various sectors in Indonesia, including GOTO, LINE, LinkAja, Sayurbox, Ruangguru, SiCepat, Sirclo, Koinworks, Molandin, Shopee, and many others have to substantially lay off their employees. One of the reasons of the layoffs is their initial "over-hiring" that bloated their organizations. To create a more efficient

and effective working environment to reach profitability, these companies needed to slim down their organizations.

We also see that some of these technology companies closed down some of their unprofitable operational arms. This includes the closure of GRAB Kitchen in Indonesia by GRAB and LINE TODAY by LINE. Other companies have also made similar strategic decisions, to be able to focus on more profitable business activities.

Many industry observers see the development as the end of “money burning” era, which is, infamously, closely associated with the emergence of these startups and technology companies.

#### List of Closed Down Start Ups and Technology Companies in Indonesia

From publicly accessible sources, we gathered the information on closed down startups and technology companies in Indonesia, and compiled them into the list below:

No	Company Name	Sector	Last Fund Stage	Active Year	Closing reasons
1	8villages	Agriculture	Pre-series A	2011-2012	founders move to a new project
2	AbraResto	Food tech	Seed	2013-2015	internal matters
3	AgenKAN	Financial tech	Seed	2019-2021	website defunct
4	Ahlijasa	Lifestyle	Seed	2015-2019	dormant/inactivity
5	Airy Room	Travel	-	2015-2020	pandemic situation
6	Alikolo.com	E-commerce	Seed	2014-2015	internal matters
7	Alkemis Games	Others	Seed	2014-2019	dormant/inactivity
8	Antar.id	Logistic & Transportation	Seed	2014-2017	dormant/inactivity
9	Artawana	Financial Tech	-	2016-2017	founders move to a new project
10	Artoncode	Others	Seed	2012-2016	no new funding

No	Company Name	Sector	Last Fund Stage	Active Year	Closing reasons
11	Ayobis	Logistics & Transportation	Seed	2014-2016	founders move to a new project
12	BlackGarlic Indonesia	Food Tech	Seed	2015-2017	internal matters
13	Blanja.com	E-commerce	-	2014-2020	change of business strategy
14	Bukapintu	Professional Services	-	2016-2018	dormant/inactivity – website defunct
15	Cabara	Professional Services	Seed	2011-2014	founders move to a new project
16	Cantik.com	E-commerce	Seed	2014-2016	dormant/inactivity – website defunct
17	Cetaku	Others	Seed	2017-2020	dormant/inactivity – website defunct
18	Club Alacarte	E-commerce	Seed	2017-2020	dormant/inactivity – website defunct
19	Conversion8	Ad tech	Seed	2015-2017	founders move to a new project
20	Cumi	E-commerce	Seed	2018-2021	dormant/inactivity – website defunct
21	Do-cart	E-commerce	Seed	2017-2018	founders move to a new project
22	Ennouns	Professional Services	Seed	2014-2015	dormant/inactivity – website defunct
23	Eragano	Agriculture	Seed	2015-2021	dormant/inactivity
24	EventsID.co	Professional Services	Seed	2015-2018	dormant/inactivity – website defunct
25	FindTukang	Professional Services	Seed	2016-2019	dormant/inactivity

No	Company Name	Sector	Last Fund Stage	Active Year	Closing reasons
26	Geevv Indonesia	Search & discovery	Seed	2016-2018	founders move to new projects
27	Gogonesia	Travel	Seed	2014-2020	dormant/inactivity – website defunct
28	Goola	Food tech	Seed	2018-2020	dormant/inactivity
29	Gravira	Lifestyle	Seed	2009-2012	dormant/inactivity – website defunct
30	HaloHOLA	Media	Seed	2015-2020	founders move to new projects
31	HargaHot.com	E-commerce	Seed	2012-2018	dormant/inactivity – website defunct
32	HipCar	Logistics & Transportation	Seed	2015-2020	internal matters
33	Hubud	Sharing Economy	Pre-seed	2013-2020	dormant/inactivity
34	Hyjabs	Social Networking & Communication	Seed	2014-2015	dormant/inactivity – website defunct
35	IDaff	Ad tech	Seed	2015-2017	dormant/inactivity – website defunct
36	IDBlogNetwork	Media	Seed	2010-2020	founders move to a new project
37	Infonesia	Social Networking & Communication	Seed	2016-2019	founders move to a new project
38	Jet Express	Logistics and Transportation	-	2015-2022	internal matters
39	Kakatu	Education	Seed	2015-2019	dormant/inactivity
40	Kartoo	Financial Tech	Seed	2015-2018	dormant/inactivity – website defunct

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41	KerjaDulu	Professional Services	Series A	2014-2018	dormant/inactivity – website defunct
42	kolase.com	Financial Tech	Seed	2018-2021	dormant/inactivity – website defunct
43	Livaza	E-commerce	Seed	2014-2018	dormant/inactivity – website defunct
44	Lolabox	Professional services	Seed	2013-2014	dormant/inactivity – website defunct
45	Lolalo.la	E-commerce	Seed	2014-2017	-
46	Lubna	Financial Tech	Seed	2018-2019	founders move to a new project
47	Luminov	Others	Pre-seed	2013-2017	founders move to a new project
48	LYKE	E-commerce	Series A	2015-2018	-
49	Mapmu	Social Networking & Communication	Seed	2015-2017	dormant/inactivity – website defunct
50	Medika Platform	Health	Pre-seed	2016-2020	founders move to a new project
51	MeetDoctor	Media	Seed	2011-2018	founders move to a new project
52	MobilWow	E-commerce	Series A	2012-2018	dormant/inactivity – website defunct
53	Motoran	E-commerce	Seed	2018-2019	founders move to a new project
54	Muslimarket	E-commerce	Series A	2015-2020	founders move to a new project
55	NGOMIK	Media	Seed	2010-2017	dormant/inactivity – website defunct

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56	Ohdio	Media	Seed	2012-2019	dormant/inactivity – website defunct
57	Paraplou	E-commerce	Series A	2011-2015	dormant/inactivity – website defunct
58	PayAccess	Financial Tech	Series A	2014-2018	dormant/inactivity – website defunct
59	Pazpo	Proptech	Seed	2016-2018	dormant/inactivity – website defunct
60	PesanLab (LabConX)	Health	-	2015-2020	founders move to a new project
61	Pinjam.co.id	Financial Tech	Series A	2015-2019	dormant/inactivity – website defunct
62	Plomo	Food Tech	-	2016-2018	founders move to a new project
63	Pomona	E-commerce	Series A	2016-2020	dormant/inactivity – website defunct
64	Qlapa	E-commerce	Series A	2015-2019	internal matters
65	Rapotivi	Media	-	2015-2018	-
66	Revasi	Others	Seed	2013-2016	dormant/inactivity – website defunct
67	Saqina	E-commerce	Seed	2008-2019	dormant/inactivity – website defunct
68	Selena Leisure	Lifestyle	Seed	2017-2019	dormant/inactivity – website defunct
69	Sevva	E-commerce	Seed	2016-2020	dormant/inactivity – website defunct
70	Shoop!	E-commerce	Seed	2016-2020	dormant/inactivity – website defunct

No	Company Name	Sector	Last Fund Stage	Active Year	Closing reasons
71	Sindhen	Search & discovery	Pre-seed	2015-2019	founders move to a new project
72	Sorabel	E-commerce	Series B	2014-2020	-
73	Squee	Social Networking & Communication	Pre-seed	2015-2018	founders move to a new project
74	STOQO	Ecommerce	Series A	2017-2020	pandemic situation
75	Storie	Social Networking & Communication	Seed	2019-2021	founders move to a new project
76	TeknoUp	Media	Seed	2009-2015	dormant/inactivity – website defunct
77	The Loyal Box	Enterprise Solution	Seed	2015-2016	-
78	The Palapa Group	Sharing Economy	Seed	2015-2019	founders move to a new project
79	The Shonet	Social Networking & Communication	Seed	2017-2020	pandemic situation
80	Tinggal	Travel	Seed	2016-2017	switch to new business
81	Tinker Games	Others	Seed	2011-2018	founders move to a new project
82	Tokobox	E-commerce	-	2019-2020	founders move to a new project
83	Tokotalk	E-commerce	Series B	2018-2022	-
84	Tripvisto	Travel	Series A	2014-2017	internal matters
85	Unyu	Social Networking & Communication	Seed	2014-2014	dormant/inactivity – website defunct

No	Company Name	Sector	Last Fund Stage	Active Year	Closing reasons
86	Urbanhire	Professional Services	Seed	2016-2020	founders move to a new project
87	Valadoo	Travel	-	2010-2015	-
88	Veryfund	Financial Tech	Seed	2015-2019	founders move to a new project
89	Video Games Indonesia	Media	-	2002-2016	-
90	VIP Plaza	E-commerce	Series A	2013-2020	dormant/inactivity
91	Wavoo	Social Networking & Communication	Seed	2014-2016	founders move to a new project
92	WeYap	Search & Discovery	Seed	2014-2015	-
93	Wifimu	Ad Tech	Seed	2014-2018	dormant/inactivity
94	Wobe	Others	Seed	2014-2018	dormant/inactivity
95	WORKnPLAY	Others	Seed	2017-2019	founders move to a new project
96	WOWBID	E-commerce	Pre-series A	2018-2020	pandemic situation
97	Wujudkan	Financial Tech	-	2012-2017	internal matters
98	Yogrt	Social Networking & Communication	Series A	2014-2019	dormant/inactivity
99	Zeemi.tv	Media	Seed	2014-2016	switch to new business
100	Zelos	Professional Services	Seed	2014-2017	founders move to a new project

## What Investors Need to Look Out when Investing in Start Ups and Technology Companies from Indonesian Law Perspective

Notwithstanding the challenges due to the ongoing economic condition, the startups and technology sector will continue to grow, supported by public demands. Investing in this sector, especially in Indonesia, would still be attractive and promising in the long term.

From a legal perspective, when investing in startups or technology companies in Indonesia, an investor must:

- (a) conduct a proper due diligence. To minimize the associated legal and financial risks, investors must conduct Legal Due Diligence ("LDD") as well as Financial and Tax Due Diligence. This is to ensure that the investor can identify any red-flags in the company they are investing. A due diligence exercise would help the investor to know the current situation, and determine the appropriate valuation of the target company. We have provided a more detailed elaboration on LDD in our article entitled "General Corporate: Key Legal Aspects of a Legal Due Diligence in M&A Transactions in Indonesia" (<https://www.mondaq.com/shareholders/1282972/general-corporate-key-legal-aspects-of-a-legal-due-diligence-in-ma-transactions-in-indonesia>).
- (b) ensure that the company has the appropriate licenses to operate the business. It is important to identify whether the company has the correct licenses that conform with their business activities. Many early-stage startups, particularly in Indonesia, may not comply with the legal requirements. Such incompliance may hinder their onward operations. Furthermore, founders of the startups should implement good corporate practice.
- (c) comply with the prevailing laws. Technology innovation often grows faster than the regulatory framework. However, it is important to ensure that the target company maintains its compliance with the prevailing laws, or makes it the company's priority.
- (d) ensure that the investment is secured with internationally acceptable standard underlying agreements. An investor must ensure that their investment is secured and entered into with the appropriate, internally acceptable standard, underlying agreements for the specific investment. While some investors or target companies may prefer cost efficiency in the preparation of transaction documents, it is important that the transaction documents are in the correct forms and appropriate for their investment scheme. This is to ensure the performance of the agreements by the relevant parties. In the event of a dispute, the underlying agreements must be enforceable before the laws of the relevant jurisdiction.
- (e) identify the intellectual property of the startups. The most valuable assets of a startup or technology company are their innovation and technology products. The investor should identify whether the intellectual property of the company is correctly registered under the prevailing laws and regulations.

To ensure all that, investors should consult with competent and experienced consultants, including legal, tax, and financial advisors.

## Alternative Fundings to Maintain Profitability and Growth in the Current Economic Situation

For founders and business owners, the current economic situation could be challenging when they need to raise funds to maintain and grow their businesses. In this regard, startups could consider alternative funding sources, such as:

- (a) Securities crowdfunding, through trusted and licensed platforms.
- (b) Joining forces with other similar businesses, or cooperating with complimentary businesses. Merging existing businesses with other likeminded business owners with complimentary offering.
- (c) Obtaining loan facility from banks or other financial institutions rather than venture capital or private equity.
- (d) Securing investment from institutional investors with alternative schemes.
- (e) Joining startups incubators.

Additionally, working on sustainable business strategy to navigate economic challenges would also be very important. These are some things that startups and tech companies can do:

- (a) Keeping track on regulatory compliances.
- (b) Mindful hiring, although growth is necessary, companies should create effective and efficient teams rather than over-hiring.
- (c) Having a clear business plan and reasonable expansion plan.
- (d) Focusing on sustainable business model.

It is important to note that regulatory incompliances as well as layoffs have financial implications. As such, implementing correct strategy on such matters would be crucial to maintain sustainable business.

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