MDV Speed Read

With funding societies

Launched in February 2017 Funding Societies Malaysia is the leading SME Digital Financing platform in Southeast Asia. Funding Societies assists SME owners by providing funding access for them to start or grow their businesses and help them manage their transactions and cash flows. This is done by providing short-term working capital for inventory purchase, marketing spend, expansion and others. Applications are applied and processed digitally on their platform. Funding

Societies currently operates in Malaysia, Singapore and Indonesia, making it the largest SME digital financing platform in the region. It was recently reported that Funding Societies Malaysia is on track to surpass its RM1.00 billion mark for financing disbursements in the country; from the current RM700.00 million.

Founder and CEO of Founding Societies Malaysia, Wong Kah Meng's background is in consulting, focusing on banking and financial services on areas like banking strategy, risk management and operations. His experience with SME and retail customers showed that there is a visible financing gap in that segment as they are not adequately provided for by financial institutions unlike financing for individual customers and large corporations. Financing for individual customers for example, is readily available by lenders given the availability of homogenised products such as personal and housing financing, credit cards and hire purchase. Larger business corporations are also extended financing and loans given the presumed bigger profit margin and security provided for the loans/financing.

In comparison, financing for micro and small enterprises is limited as they are not getting the access to the right type of financial services to expand and sustain the businesses. This is timely, considering the total addressable SME funding market across key ASEAN markets (Singapore, Malaysia, Indonesia and Thailand) is reported to be approximately USD$250.00 billion where Malaysian market size alone is USD$20.00 billion. The SME financing segment is the financing gap that Funding Societies aims to fulfil; by serving credit-worthy SMEs that are not necessarily bankable from the perspective of acquisition cost and cost of distribution from financial institutions. Further, Funding Societies utilises their digital platform for ease of transaction and cost efficiency to tap into SMEs with good track records and growth tractions; albeit with a small ticket size that traditional financial institutions might not find meaningful to serve.

When looking to provide relevant financing for SMEs, Kah Meng explained that Funding Societies' approach is to serve broad and deep - its range of product offerings can cater to different customer segments and industries. The availability of broad range of financing products and services for SMEs from Funding Societies is also to tailor to the different market dynamics and consumptions of each country in the ASEAN markets that Funding Societies serve.

Funding Societies Products (source: corporate website)

Expansion Challenges

Because each ASEAN market differs from one country to another, a lot of groundwork is carried out to attune to its local market demands.

The challenges faced by Funding Societies to enter new markets would mean extensive and exhaustive groundwork and engagement with the target market, local ecosystem and regulators. These steps are crucial to establish Funding Societies footprint in the market; as existing track records and credibility in the financial service space will bear testimony to their ability to carry through in other markets regionally, Kah Meng further explained.

Before entering a specific market, Funding Societies examines the specific local market conditions, demands and requirements to be able to serve a workable product proposition that would make sense in the targeted market. This is done to allow for crucial risk assessment and due diligence processes specifically tied to the relevant markets to be conducted. These processes ensure Funding Societies air-tight underwriting requirements on the financing opportunities for crowdfunding on their platform as well. Upon understanding and providing products that meet the local market demands, Funding Societies works towards standardising the products across the board regionally.

The groundwork on each country includes the understanding of the regulatory and statutory requirements as financial services is understandably, one of the highest regulated sector. This means that longer time is needed before entering a specific market – some take up to 2 years; and having to work with each regulatory stakeholders to ensure that the platform and product offering by Funding Societies is in accordance to the existing local regulations. However, Kah Meng noticed that as the regulatory landscape matures, each regulatory authority will take cognisance of each country's ruling which will then provide for an almost streamlined set of guidelines.

Another crucial differentiation for Funding Societies is that the platform for Funding Societies transactions was designed and developed to ensure a stable and secure backbone for its transactions via the financing platform. The modularity of the architecture behind its digital platform was developed to be able to customise to the different ASEAN markets requirements for Funding Societies; quite akin to a plug-and-play approach.

Fundraising for Start-ups

Funding Societies is backed by credible investors such as Sequoia India, Softbank Ventures Asia Corp and LINE Ventures, amongst others. We spoke to Kah Meng about how a start-up can remain attractive for investors in the subsequent fundraising rounds. At each fundraising round, a founder must determine the addressable market opportunity vis-à-vis its high-growth opportunity to determine the financing pool to seek for. A USD$250.00 million market in Southeast Asia or USD$20.00 billion market in Malaysia will need rigorous rounds of subsequent fundraising.

A current recurring point that resonates personally among a lot of start-up founders that we have interviewed, Kah Meng included, is that a founder must be passionate about the business. Kah Meng, with his experience in strategy, management consulting, retail and SME banking, finds helming Funding Societies to be right up his alley. Kah Meng feels that a start-up founder must be passionate about solving the problem statement for their business, as the degree of success can be uncertain and varies between one business to another.

Hiring the right team, especially in the early days, is very important as well, due to the multiplier effect on the rest of the company as it will subsequently set the tone and culture of the company. According to Kah Meng, having the right team will help to define the entire start-up and set the right culture, set up, fit and mentality for the company.

These are the common qualities that Kah Meng feels are crucial to address to entice investors. The different stages of a start-up lifecycle, growth traction, addressable market opportunity and strength of the team are all crucial elements to address for fundraising as each element weighs differently at different stage of fundraising. For example, start-up in the earlier stage would likely require a closer due diligence on market opportunity and team strength but for C series funding onwards, the number crunching and profitability become essential.

Future Plans

The pandemic remains a challenge for all business, Funding Societies included. The sluggish economy means Funding Societies had to manage its default rates and liquidity. However, it also provided opportunities for the company as more SMEs began its digital technology adoption to stay relevant and maintain its cost-efficiency. Offering funding through digitalised transactions provides opportunity for Funding Societies to reach out to more underserved SMEs during these crucial times.

Funding Societies aims to provide wider financing assistance to SMEs, beyond just financing, by also including managing expenses and enabling better payment transactions. To reach out to greater and wider SMEs ecosystem, Funding Societies is currently working with Carsome, Lazada and foodpanda to extend their payment solutions to the SMEs within their ecosystem. These collaborations are two-pronged as it is also important to establish trust and create its brand image awareness amongst the SMEs to utilise the Funding Societies platform.

Last Words

Lastly, Kah Meng thanked MDV for extending its financing assistance to Funding Societies, which in turn allows for Funding Societies to extend their financing to other SMEs. MDV's timely funding support has helped Funding Societies to, "turbocharge the growth for Funding Societies".

We also would like to thank Wong Kah Meng for allowing us the opportunity to speak to him, despite his very busy schedule. We hope that both MDV and Funding Societies can continue to create stronger SMEs for Stronger Societies through our funding solutions!