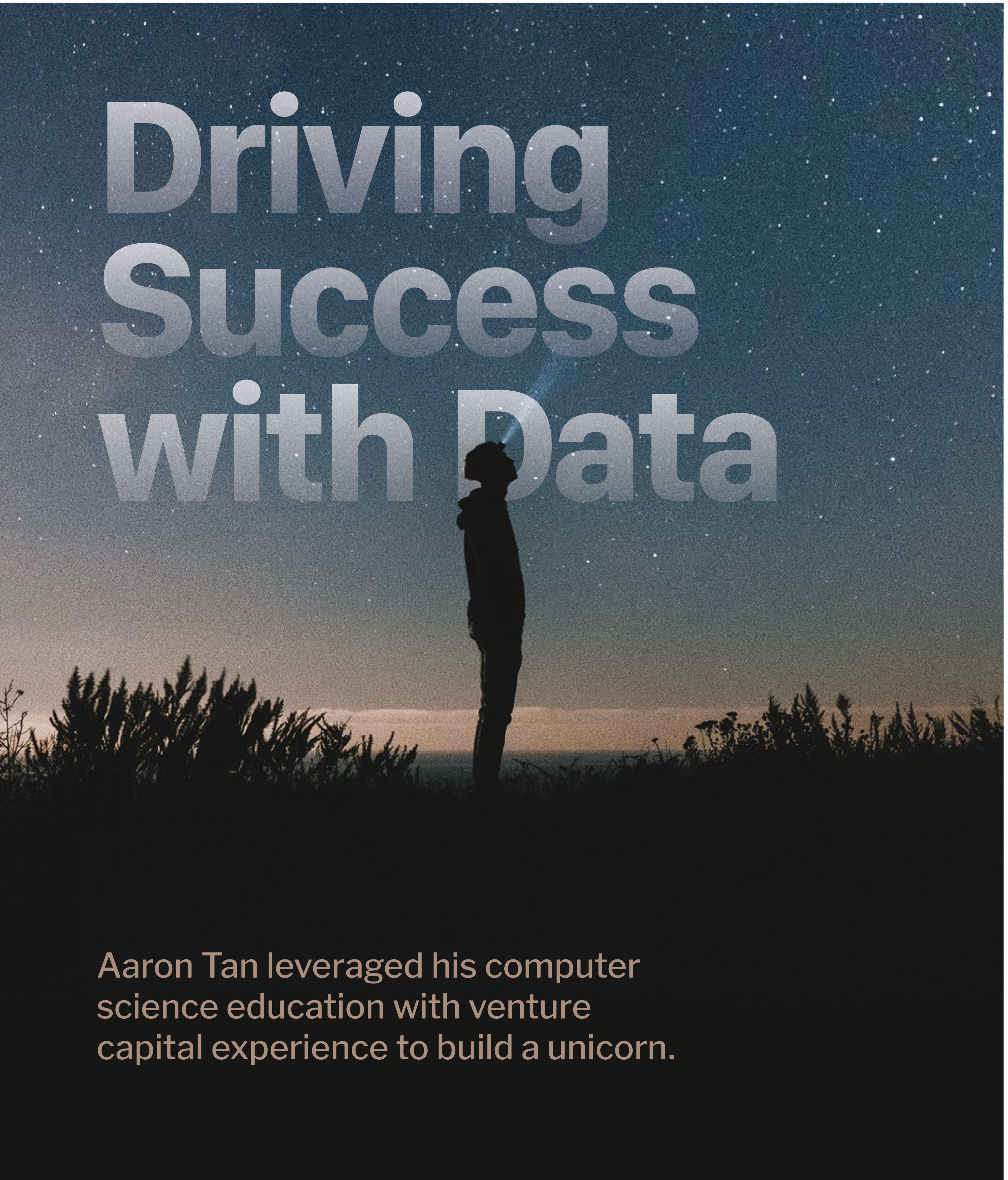


# Driving Success with Data

Aaron Tan leveraged his computer science education with venture capital experience to build a unicorn.

With annual revenues of about US$800 million and a workforce of some 5,000 people across seven markets in Asia, online car retail platform Carro has come a long way since CEO Aaron Tan founded the start-up with two former schoolmates. Less than 10 years after Carro sold its first car, and three years following its attainment of unicorn status with a valuation of at least US$1 billion, it is now mulling over an Initial Public Offering (IPO). Tan charts the start-up's early challenges, the hard lessons learnt, and the importance of a data-driven culture.

**What inspired you to start Carro? Did you spot a specific market gap or opportunity?**

I started the company between 2015 and 2016 while I was serving out my government scholarship bond with the then-IDA (Infocomm Development Authority of Singapore). I was in the US working in a venture fund called SingTel Innov8, and I noticed something interesting about the way that people buy cars in the US. There was this company called CARFAX, and another one called KBB (Kelley Blue Book). One tells you the price of the vehicles, and the other tells you the accident history of vehicles. Long story short, it was all about establishing trust, and helping people buy and sell vehicles better.

In 2015, I was close to serving out my bond. I got a couple of my Carnegie Mellon University classmates (Carro co-founders Aditya Lesmana and Kelvin Chng) together and said, "Hey, we should form a start-up together!" The opportunity cost wasn't very high at that point in time because, five years into our first jobs, how senior could we be?

We thought it was an interesting and big enough opportunity. Given my venture capital background, a few things are important. First, adjacencies. That means, where can I go from here? Today, I'm in the automotive business, but I can branch out into financing, insurance, warranties, and after-sales services. So adjacencies are super important for me. Second, competition. Is there too much unhealthy competition where there's a red ocean? If so, we avoid it. Third, I look at either TAM (Total Addressable Market) or SAM (Segment Addressable Market). What's more important to me is SAM. In this case, we were looking at the used car segment regionally–it was worth about US$20-30 billion. Today, it's worth US$20 billion in Indonesia alone. If you look at Singapore and Malaysia, each is worth about US$10 billion. Thailand's value is about US$10-20 billion. This adds up to a market of about US$50-60 billion regionally just in ASEAN (the Association of Southeast Asian Nations). Fourth, as we were doing up our initial business plan, we wanted to do something that people wouldn't find too hard to understand. If you're selling wellness and self-help, it is harder for most people to understand, even from the investor standpoint. Buying and selling cars is easier to relate to, just like selling properties and clothing is easy to understand. Think 衣食住行 (Chinese for "Clothing, Food, Housing, Transport", i.e., daily necessities). When we were thinking about what to do, we wanted to make sure that we were doing something that was related to those four things.

In our case, we caught the mobility trend pretty well. At that point in time, in 2015, I was based in the US and in my final year with the venture fund. I had met the founders of Tesla, Grab, Gojek, and Uber. I felt there was a lot of movement and momentum in the used car business, or for that matter, the mobility business. There was self-driving and EVs (electric vehicles), so there were a lot of things going on. I thought the momentum was right, and the competition intensity was low because nobody was doing what I wanted to do at that point in time. There was a good market size with very large market segments, and they were very addressable markets. And there were a lot of adjacencies that we could go into. So we thought this was a very good space and we took the plunge.

**What major obstacles did Carro face in the first five years? How did you overcome them?**

The biggest issue going into any business is always manpower. How are you going to compete with Facebook and Google for talent? How are you going to get developers to build your system? How are you going to get middle and general managers?

Any of the big companies can pay 10 times more what I can pay. How can we sell the Carro story? The easy answer is: You can give them equity and make them equity partners. But how can a Series A company, which is still at a very early stage with maybe 20 people, convince a world-class talent to say, "This is it, I see the potential" and join us? Most people just prefer more cash. So the compensation and hiring of people was the biggest hurdle that we had.

Coupled with this was the fact that we have to be regional, if not global, from Day Zero. Let's say you raise a million dollars. You could hire a few people with that money and your runway is about a year at best. And you have to show numbers if you want to raise your next round. One thing that we did relatively well as a company was fundraising. We never really had this issue of a fundraising gap whereby we needed money, and we didn't have it. The company was always relatively cashed up.

**How did you manage to do that? Did the company produce the necessary numbers?**

At the seed stage, it is easier to get money compared to the more mature stages, because you have family and friends. Sometimes we might be able to get some investor money, and of course I'm in the investor camp since I know all of them. We raised about US$700,000 for our first fundraiser. It was literally just four coffees with four high-net-worth individuals, and that was done.

But I was very clear that if we do not have the requisite numbers, be it revenue or gross profit or EBITDA (earnings before interest, taxes, depreciation, and amortisation), we would not be able to raise Series A funding, no matter how good a storyteller I am. We were lucky that we had good numbers from the start. A car in Singapore costs about S$100,000 to S$200,000, so after we sold some cars, I could show my investors a few million dollars in sales, and other investors were then willing to put money in.

**It cannot just be luck that led to your success.**

One might say it is down to skills as well, but a lot of it is also market timing. Because I was still actively involved in the capital markets, I saw things other CEOs in the start-up world didn't see. I saw a funding winter going into 2022 and we were lucky to strike the last deal for Series C funding before the winter came. I pushed for it to be done by the end of 2021, and by January 2022, it was completed.

We also made some hard decisions in 2021. We got out of one of our highest revenue-generating businesses in Indonesia. The problem was that our competitors were raising hundreds of millions of dollars and were subsidising the markets. We didn't want to play that game because the revenues were ultimately going to drop, so we left that market and kept our cash instead.

In 2022, we also decided to be careful with how we spend and, more importantly, how we track the business. What I mean by 'tracking' is having an end-to-end view of the entire business process, knowing exactly where the process is at any point in time. One day, my Chief Financial Officer (CFO) returned from a business trip in Hong Kong where he had met a PE (private equity) fund manager who asked how many cars we had in inventory for more than 180 days. My CFO answered that it was probably around 20 to 30. The fund manager said, "That's a complete lack of discipline!" I took that rebuke quite seriously. I asked the CEOs of the various countries to report to me how many cars we had held onto for over 180 days, because I realised it's information I did not have off the top of my head. When the numbers came back, it was a bigger number than the 20 to 30 that my CFO had initially thought.

For us as a business, we don't want the inventory to be ageing. Ideally, we would want to have zero-day or one-day churn—that would be the Holy Grail. If you have a car that is ageing, that means you will have to incur significant losses on the valuation of the vehicle.

**Does this speak to the importance of a data-driven culture within the company?**

I always tell my team, "We are not a car dealer; we are a tech company." What's the difference between us and XYZ Dealer out on the streets? It has to be because we use AI (Artificial Intelligence), and more importantly, we are able to improve the customer experience and achieve operational excellence.

We never really had this issue of a fundraising gap whereby we needed money, and we didn't have it. The company was always relatively cashed up.

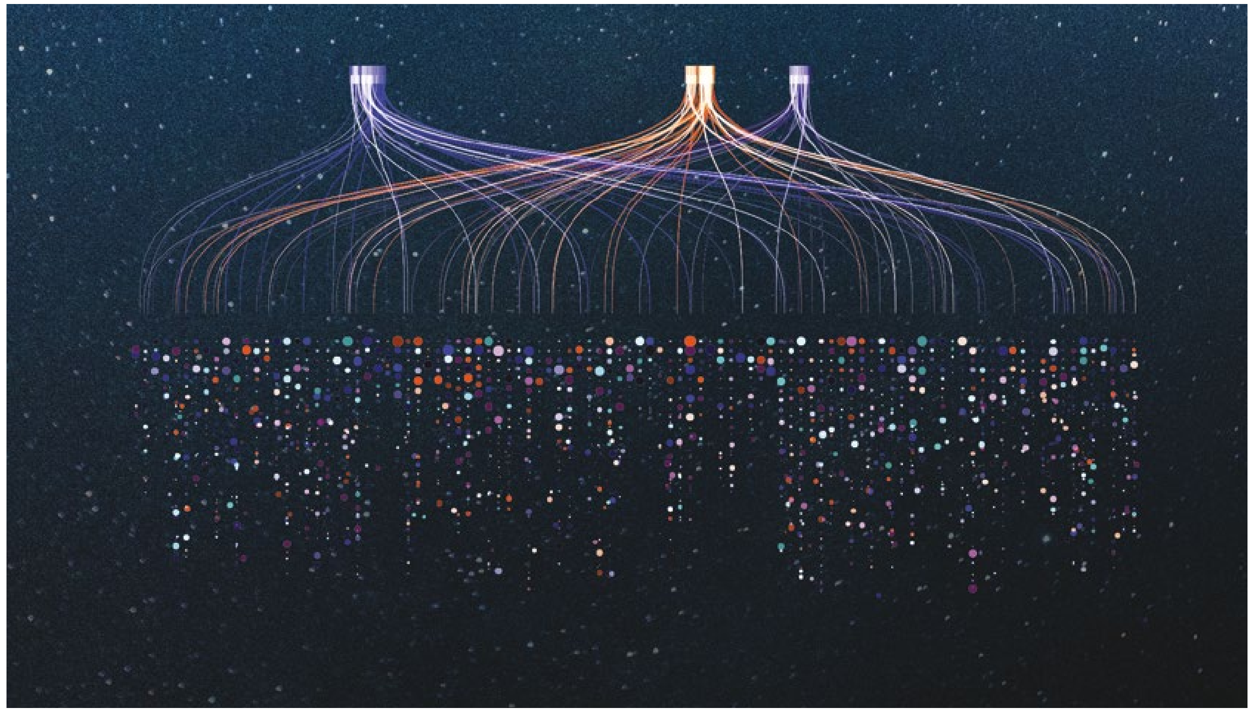
In theory, if you implement tech properly and you have a data-driven culture, your recommendation engine should get better over time, and you'll find a match much faster. My productivity is about two to three times more than the traditional car dealer's. One headcount for us does, on average, two to three times more than that for the traditional car dealer. Why? Because we have tech to assist us.

Our customers can buy a car entirely online without the need to see a single salesperson. Even if they want to see one, they can still complete the purchase online in less than 20 minutes, because all the paperwork is automated. If you go to a traditional used car dealer, it will take you hours to get the paperwork done.

**How did you identify and approach each market, starting with the most mature one, which we assume is Singapore?**

I look at it from a population and market interest standpoint. For start-ups, you should look at where the investor interest lies. Most investors across the globe tend to draw parallels. They say, "China has good TAM, so when the middle class grows, everything else will grow like Alibaba and Tencent did." They look at it from a population growth standpoint, which is a convenient way to look at it. I tend to look at it a bit differently. Carro has a presence in populous countries such as Indonesia and Thailand, but we're not in the Philippines or Vietnam. Why? The SAM for the latter two countries is too small. Vietnam has a population of almost 100 million people, but the used car market is tiny. It's about a few hundred thousand units per year because most people ride scooters. This is where the SAM is way more important than population size.

Carro has recently expanded into Hong Kong and Japan. A Japanese business partner asked me why I had expanded into Japan when its economy isn't expanding. I responded, "It's true your economy is not growing, but I am starting with zero sales in Japan, so every dollar I make is growth!" Furthermore, people often believe that there should be fewer people driving in Japan as the population ages, but the roads in Tokyo are always congested. And Tokyo is not the only Japanese market segment–there is still Osaka, Saitama, Nagoya, and many places in and around Greater Tokyo. We decided to go into Japan because



we felt that the third-largest economy in the world was still a very large market.

Why we are entering these Pacific markets such as Taiwan, Japan, and Hong Kong is simply because we thought these are the markets where the investors are. When I do my business, I'm targeting my end-consumers in Singapore, Malaysia, and the rest of Southeast Asia. But in Japan and Hong Kong, I'm targeting the investors instead. We're thinking of an IPO in the coming months, depending on the situation in these markets. We need investors to buy the story, and to recognise, understand, and hopefully love the brand. The best thing you can do is being in the market where the investors are, and I believe that Hong Kong is still a market where a lot of investors still hang out.

We should hire from our headquarters instead of locally. In other words, put someone you can trust to be in charge first.

**What is your leadership style?**

I like to think of myself as being performance-driven. At the end of the day, as the CEO, I have to be very clear about the carrots and sticks. If a person is not performing, how and when should I fire him? It's easier said than done, but these are the disincentives or sticks. Conversely, if he is doing well, what carrot should I give him? Also, how do I highlight to the other employees someone who is doing well, so they can look up to him and do the same?

To me, it's again all about having a data-driven culture. Actually, I don't want to use the word 'culture'; I prefer the Chinese phrase 赏罚分明, translated as rewards and punishments are delivered clearly and impartially. Last year, a few of my senior executives came to me asking about getting pay raises. I was finding it very hard to justify why someone should get more than another person. I eventually realised there was a big issue with the way we were doing compensation, and for that matter, the way we were doing our staff appraisal rankings. There's a science to all that, and when you have a few thousand people on your payroll, you really need the science.

**Looking back, is there anything you would have done differently in the early stages of Carro's development?**

We could have done a lot better with our market expansion. We were lucky that we had the right founders. My co-founder Adityah is Indonesian, so it was fairly easy to enter the Indonesian market. Our Chief Technological Officer (CTO) for Carro Indonesia, Paisit Jarunnamsiri, was my housemate when I was working in the US, and he's Thai, so venturing into Thailand was quite simple too.

When it came to newer markets such as Japan, Hong Kong, and Taiwan, I thought we lacked management oversight. One of the learnings as we expanded was that we should hire from our headquarters in Singapore, instead of locally. In other words, put someone you trust to be in charge first. It was only when we expanded beyond the fourth market, which was Malaysia, that we started hiring the respective country CEOs locally.

Looking back, we made the mistake of assuming that people can learn about Carro's business easily, and we did not have anyone supervising operations. I've just told my board of directors that, going forward, in every new market that we go to, we must have someone who has been with us for at least one to two years and who understands what we are doing, so that this person can implement the same system of working. We will definitely hire locally, but these hires need to report to this person that we've sent over and be trained accordingly.

**Upon reflection, what are the key entrepreneurial lessons that you would like to pass on to new founders?**

I've always said I wished we ran ERP (enterprise resource planning) software from Day Zero. It goes back to having a data-driven culture. If there's any advice that I would give to any start-up founder, it's this: Do whatever you need to do to get the business going in the first one or two years, and once you are at Series A, you should invest in back-end systems. Install an ERP software. It could be SAP, Oracle, or NetSuite; it doesn't matter. That way, you can be more efficient in the long run. It would have been incredibly helpful if we had done this early on, instead of doing it five years after starting the company, which was very painful. This whole push about looking at numbers and productivity right from the start and bringing it to the core of the business is super important to get any business off the ground.

Secondly, from a fundraising standpoint, always keep to your numbers and projections. Don't go out with too aggressive numbers. A mistake founders often commit is to paint too rosy a picture and assume the VCs (venture capitalists) will forget these numbers later. They might, but don't forget they have a copy of your PowerPoint slides. These figures could come back to haunt you especially when you over promise and under deliver.