

Bangladesh Startup Ecosystem

The Untapped Digital Goldmine of Asia





Executive Summary

Bangladesh startup ecosystem is coming of age riding on **key drivers**:

- **Strong Economy Vitals for Startups:** Tech adaptable young population **50%+ under 35 years**, **164 million** people (**8th largest** in the world) with high density (1200 people/Sq Km). **Middle class growing at 10% per annum** to reach **34 million by 2025**, **98%** mobile phone connection, **62%** internet penetration, **102 million+** people on internet, **94 million** mobile internet penetration. The pandemic has also accelerated the use of ICT technology, including digital commerce, education, healthcare, agriculture.
- **Demographic Bulge with the Right Skill-sets:** The country generates 5,000+ IT graduates each year is creating a strong group of entrepreneurial waves focused on solving critical problems, including those during the pandemic. The country's **median age of 26 years** means more young people are willing to take risks and explore innovations in the economy. With limited opportunities from STEM graduates (due to the absence of large scale industrialization except for RMG/Textile, which is still more labor-intensive than automation) - they are looking into forming ICT enabled companies and Startups. NRBs (Non-Resident Bangladeshis) are also returning, bringing in both investment capital and knowledge remittance.
- **Bangladesh Startup Ecosystem at an Inflection Point:** The Bangladesh Entrepreneurship Ecosystem is at an inflection point with an excess of **US\$ 200 million** in international investments from big-name corporate investors and venture capitals, investing in industries like FinTech, Logistics, and Mobility over the last four years. The emergence of active Angel Investment Networks, Impact Investing, host of local and international operating accelerators/ incubators propelled **1,000+ active Startups**, generating **1.5 million+ employment** - embracing Startups as part of the country's everyday life. Additionally, B-SEC (Bangladesh Securities and Exchange Commission) has also approved small-cap stock exchange guidelines, which is a big step towards providing investors with Startup exits.

Government Support:

- The Government of Bangladesh deployed the National ICT Policy in 2009 to become Digital Bangladesh by 2021. Government policies and projects from the ICT Ministry, such as IDEA Project and Startup Bangladesh Limited with 100 crore BDT (**US\$ 11.5 Million**) funds, are taken to improve the local startup ecosystem. Additionally, GoB is setting up 28+ Hi-Tech Parks, including infrastructure support like data centers, to support technology companies.

COVID-19 Impact:

- Since March 2020, the country and all its businesses and startups have been affected drastically by the COVID-19 disruption. 24% of companies reported to have stopped operations, with **56% of startups seen at least a 50% drop on revenue generation**. 60% of Startups have runway less than three months threatening 1.5 million employment and an annual loss of over US\$ 53 Million in 2020. The disruption, however, is **also propelling accelerated adoption of digital services** with Digital Financial Services, Logistics, and Grocery on-demand, EdTech, HealthTech seeing steep growth.

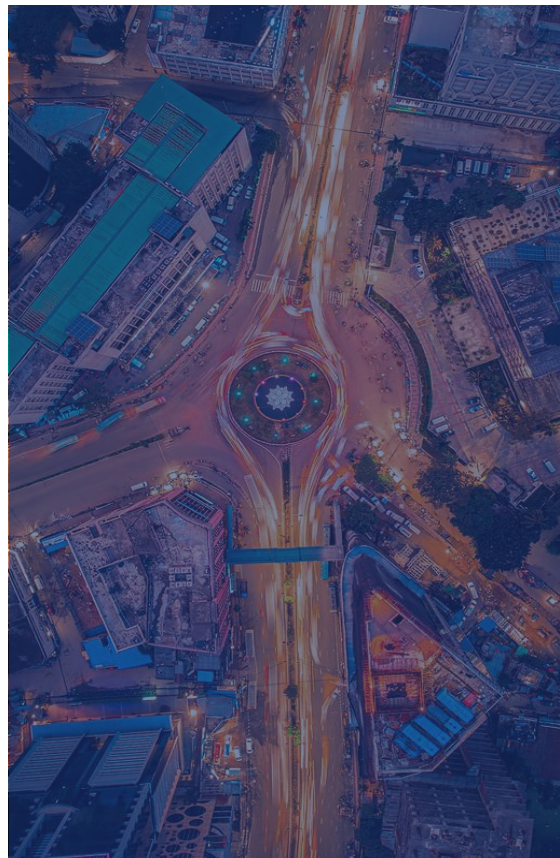


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Bangladesh: The Untapped Economy in Chindia

- 01 | Economic indicators of the past decade, suggest growth for the country
- 02 | MAC population will double in 5 years, increasing consumer appetite
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Economic indicators of the past decade suggest growth for the country

164Mn

Population
2019

27.9

Median Age
2019

US\$1,855

GDP Per Capita
2019

US\$299Bn

GDP
FY 2018-19

~6.5%

GDP Growth Rate
Average (2010-19)

US\$3.61Bn

FDI
Average (2010-19)

US\$41Bn

Total Exports
FY 2018-19

US\$34Bn

RMG Exports
FY 2018-19

US\$800Mn

ICT Exports
FY 2018-19

161Mn

Mobile Subscribers
May 2020

102Mn

Internet Users
May 2020

94Mn

Mobile Internet Users
May 2020

Bangladesh, the **39th largest economy** and one of the fastest growing countries, showed an impressive annual GDP growth rate of **~6.5%** over the last decade. The country's annual GDP growth rate officially surpassed that of India's in 2016 and has been higher than that of its neighbor since then.

GDP per capita has been growing at rates over **5%** since 2015 peaking at **US\$ 1,855** (as of 2019), which is almost equal to China in 2005. Final consumption expenditure, which accounts for private consumption and general government consumption, has been growing positively for the last 10 years.

The economy is on track in graduating from the **LDC status in 2024** and has made impressive strides in human development. PwC, a global consultancy, also predicts Bangladesh to become the **28th largest economy** in the world by 2030.

It dominates the **global RMG market in 3rd position**, right after China and Vietnam, earning **US\$ 34Bn** (83% of total export earnings) as of 2019. It's ICT sector is booming, exporting **US\$ 800Mn** worth of service across the globe.

The country has a population of 164 Mn and has reached 37% urbanization. Connectivity has reached its peak, with **98%** mobile phone connection (**161Mn**) and **62%** internet penetration (**102Mn**) and **57%** mobile internet penetration (**94Mn**).

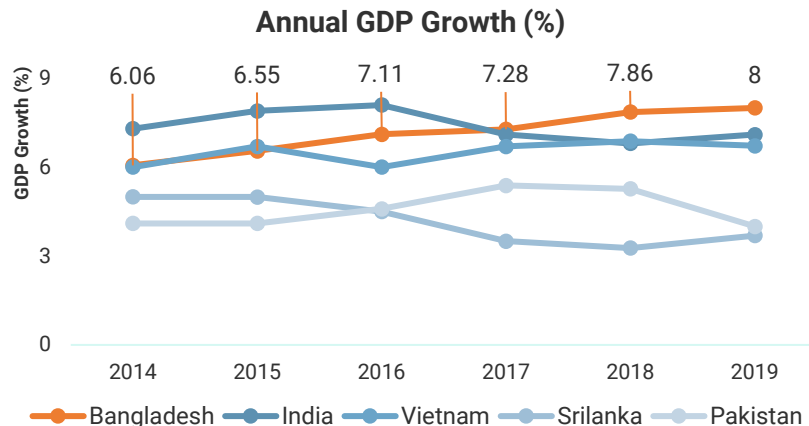
MAC population will double to ~34% in 5 years

increasing consumer appetite

Bangladesh recorded an impressive annual GDP growth rate of **8.1%** in 2019; the highest in the country's history and in South Asia for 2019. The strong performance is attributable to a number of factors that have contributed to inclusive economic growth

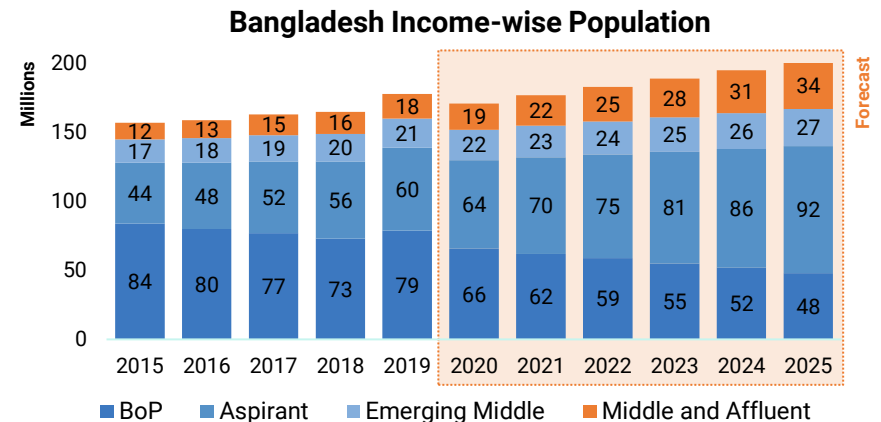
According to The Bangladesh Bureau of Statistics (BBS), the country has a young population with a median age of **~28 years** and **62%** of the population below the age of 35.

The country also benefits from 'density dividend', as **164 Million** population is nestled in a country with land size similar to that of Michigan, USA.



Bangladesh's rapidly growing economy has spawned an economic class of urbanites, who are upwardly mobile with a growing appetite for consumer spending. This Middle and Affluent Class (MAC) population is young, tech-savvy and optimistic about their future, leading them to spend on living standard enhancing goods and services.

According to a study by The Boston Consulting Group (BCG) on Bangladesh's surging MAC population, the projected MAC population stands at **19 Million** as of 2020 and is projected to grow to **34 Million** by 2025.



Markers of digital penetration are increasing, boosting startup activity



8th

Largest Population
In the World

5th

Most Densely
Populated in the World

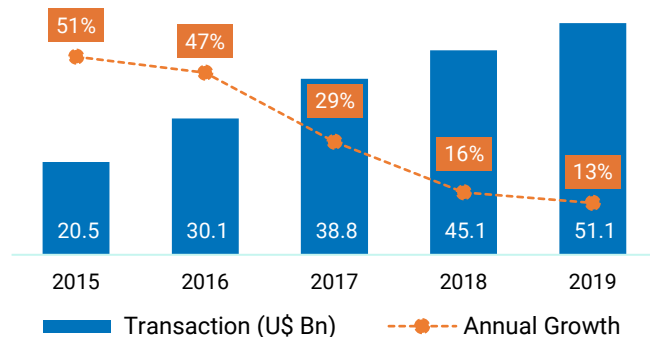
~62%

Population
Under the age of 35

28 Years

Median Age
A country of youth

MFS is growing steadily at a 20% CAGR



MFS is growing steadily at a 20% CAGR over the last 5 years

- Every one out of two persons (**85Mn**) has a MFS account in Bangladesh
- **5.3Mn** people conducts **7.6Mn** transactions of **US\$ 151Mn+** everyday
- **7Mn** new MFS accounts registered during pandemic surge (Mar-May'20)



eCommerce market is expected to grow to US\$ 3Bn by 2023

- **2,000** e-commerce sites and **50,000** Facebook-based outlets which delivers around **30,000** products everyday
- **80%** of online sales are concentrated in Dhaka, Chattogram and Gazipur
- Bangladesh eCommerce market stands at US\$ 1.6Bn, ranking 46th in the global ranking



ICT sector has grown by 40% annually since 2010

- Over **1,500+** IT companies thrive in the country capturing a significant share in the international markets worldwide is expected to produce 1% of the country's total GDP in the next five years
- Bangladesh is the second largest supplier of online labor with over **650,000** registered freelancers generating **US\$ 100Mn+** annually



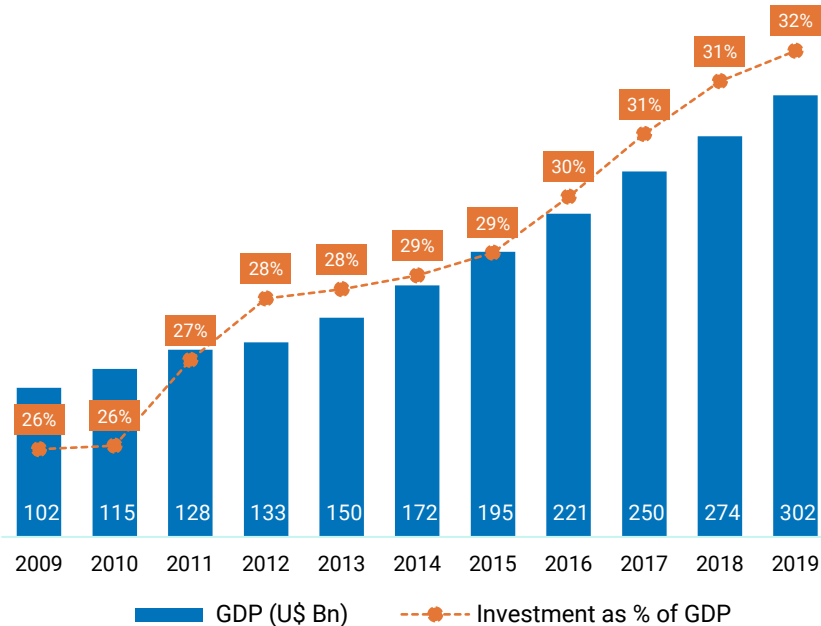
Government boosting Startup activity through ICT wing

- Government initiated its own public startup support wing, **Startup Bangladesh** with 100 crore BDT (**US\$ 11.5Mn**) fund to catalyze investments
- Multiple competitions conducted to boost student entrepreneurship – **100+** startups received seed fund over **US\$ 1.5Mn+**
- National ICT Budget for fiscal year 2020-21 stands at **US\$ 0.53Bn**

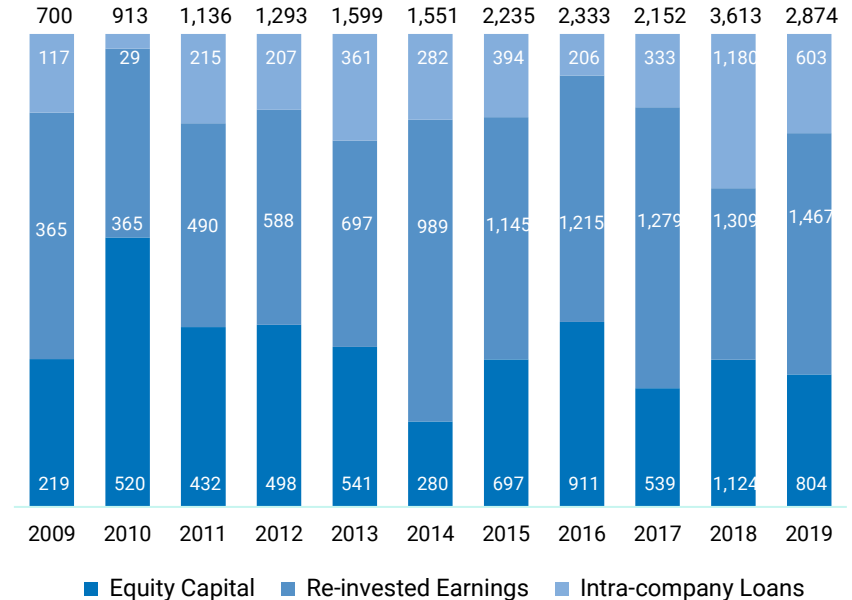
Investment in the country has grown ~4X over the last decade

Alongside steady economic growth, the investment to GDP ratio of Bangladesh has grown to **32% (US\$ 96Bn)** in FY 2018-19 from **26% (US\$ 26Bn)** in 2009-10. Despite the excellent progress, the country's Foreign Direct Investment (FDI) in CY 2019 stood at a mere **3%** (US\$ 2.87Bn) of the country's total investment. With policymakers devising policies to attract FDIs, investments are expected to increase in the new decade.

Investment as % of nominal Annual GDP of Bangladesh



FDI Breakdown by Component (US\$ Mn)



Right time to attract foreign investors

as the startup epicenter of the world shifts towards Asia



Emergence of Asia a startup hotspot

- Asia now has **42% (262 out of 615)** of all the total unicorns
- Market valuation of unicorns from Asia stands at **US\$ 960 Bn**



Boom in global startup funding

- 2018-19 saw record investment of total **US\$ 21.5Bn** for mature stage companies
- 30% increase in funding in Asia Pacific countries the last 5 years



Aspiring ecosystem activates in Bangladesh

- Educational institutions are creating focused curriculum for integration of technology, producing **5,000+** IT professionals annually
- 28 High tech parks are launched to support startups and innovations
- Ecosystem enablers such as, co-working spaces, competitions, accelerators and incubators have come up in the last 5 years boosting the ecosystem

Government of Bangladesh focusing on ease of doing business

- GoB is on the mission to improve 'Doing Business' ranking from 168 to top 100
- GoB imposing new policies and pushing special economic zones in accordance to Bangladesh's formal graduation to middle income status in 2024
- Multiple incentives for foreign investment:
 - Tax exemption for up to 15 years for foreign investors
 - No import duties for export oriented sectors
 - Retained earnings treated as new investments;
 - Foreign ownership companies can also secure working capital/long term financing from local financial institutions



Strategic Location
at the Heart of Asia
Beneficial location at
the crux of "Chindia"



Bangladesh Startup Ecosystem is Coming of Age

- 01 | Bangladesh Startup Ecosystem: A glance of growth in numbers
- 02 | Government initiatives boost the startup ecosystem to come of age
- 03 | Bangladesh Ecosystem is diverse and operating in multiple sectors
- 04 | With Fintech leading the ecosystem, the overall confidence of ecosystem was positive in 2019-20
- 05 | Increasing number of accelerators and incubators are acting as enablers in the ecosystem
- 06 | Bangladeshi Startups are attracting global and local investors
- 07 | Homegrown Startups have raised US\$ 200Mn+ of foreign investment

Bangladesh Startup Ecosystem

A glance of growth in numbers



1,000+

Active Startups
in Bangladesh

200+

New Startups
born every year

Fintech
Ride-Sharing
Logistics

Popular Growth Sector
In 2019

Dhaka
Chattogram
Sylhet

Major Active Cities
in the Startup Ecosystem

US\$200Mn+

International VC Fund
Brought in the last decade

US\$15Mn+

Startup Investment
Raised in 2019

40%

Local Investment
US\$ 6Mn in 2019

US\$11.5Mn

Startup Bangladesh Fund
Established in 2020

US\$80Mn+

Alternative Investment Fund
Registered in Bangladesh

200+

Active Angels
Boosted by Angel Networks

20+

Accelerators & Incubators
Active in the Country





1.5Mn+

Total Employment Created
by the Startup Ecosystem

Government Initiatives

boost the startup ecosystem to come of age



	 Multiple events initiate the entrepreneurship spirit	 Ecosystem enablers, accelerators & incubators initiate	 Local & global investors bet on the ecosystem	 Govt initiatives boost the startup ecosystem to come out of age				
	2013	2014	2015	2016	2017	2018	2019	2020
	Google Groups Startup Weekend	Founder's Institute TIE Dhaka	GP Accelerator Makerlab	Banglalink IT Incubator YGAP	R- Ventures	YY Goshti Tiger Cage	Bangladesh Angels Startup Dhaka Incubator	Biniyog Briddhi BYLC Ventures
	U\$5Mn : Bd Jobs	U\$1Mn : Priyo.com	U\$7Mn : Surecash	U\$2Mn : Cloudwell	Idea Project Launched	Bangabandhu Satellite launched	Tier-4 Data Center Launched	BDT 100 Cr. Seed Investment Fund by Startup Bangladesh
	Startup Documentary by Startup Dhaka,	Innovation Extreme	Digital World	U\$1.3Mn:AjkerDeal	U\$2Mn : Pathao	U\$56Mn : bKash	State owned VC launched – Startup Bangladesh Limited	28 High-tech Parks launched
	Startup Bash			U\$1Mn : Direct Fresh		U\$15Mn : Shohoz	Launched EkSheba, EkPay, EkShop	2,650 Unions under broadband internet connectivity
	Startup Weekend			U\$0.83Mn: Pathao	Social Media Expo	U\$10Mn : Pathao		
				Innovation Fair Connecting Startups		U\$5.5Mn : Chaldal	U\$4.2Mn : Sindabad	U\$18Mn : Augmedix
				Robi-Airtel M&A		U\$5Mn : Zero Gravity	U\$2Mn : Deligram	U\$1.1Mn : SOLshare
						U\$3.8Mn : Bdjobs	U\$1.5Mn : ShopUp	U\$0.83Mn : Gaze
						U\$1.7Mn : SOLshare	Student to Startup Competition	U\$0.6Mn : LoopFreight
						U\$1.6Mn : ShopUp	Accelerating Asia	U\$0.5Mn : iFarmer
						U\$1Mn : Sheba	Jerra - Summit Partial M&A	Call 4 Nation
						JTI - Akij M&A		COVID Accelerator
								EverCare - Apollo M&A
								Unilever-GSK M&A
								Janata Jute Mills M&A

LEGENDS

Ecosystem Enablers

Government Initiatives

Notable Investments

Notable Events

Merger & Acquisition

LEGENDS

Ecosystem Enablers

Government Initiatives

Notable Investments

Notable Events

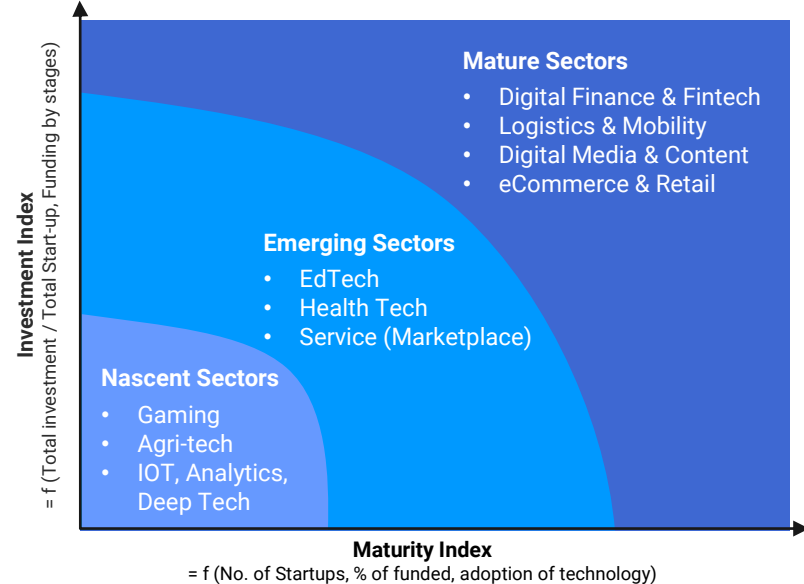
Merger & Acquisition

Bangladesh Startup Ecosystem

is diverse and operating in multiple sectors



Startup Sector Maturity vs Investment



Mature Sectors: Sectors with large funded startup base with the highest adoption of deep-tech coupled with local & global investor attraction

Emerging Sectors: Sectors with medium funded startup base with relatively low-to-high adoption of technology and medium investor interest

Nascent Sectors: Sectors with small startup base with relatively low investor activity

With Fintech leading the ecosystem, the overall confidence of ecosystem was positive in 2019-20

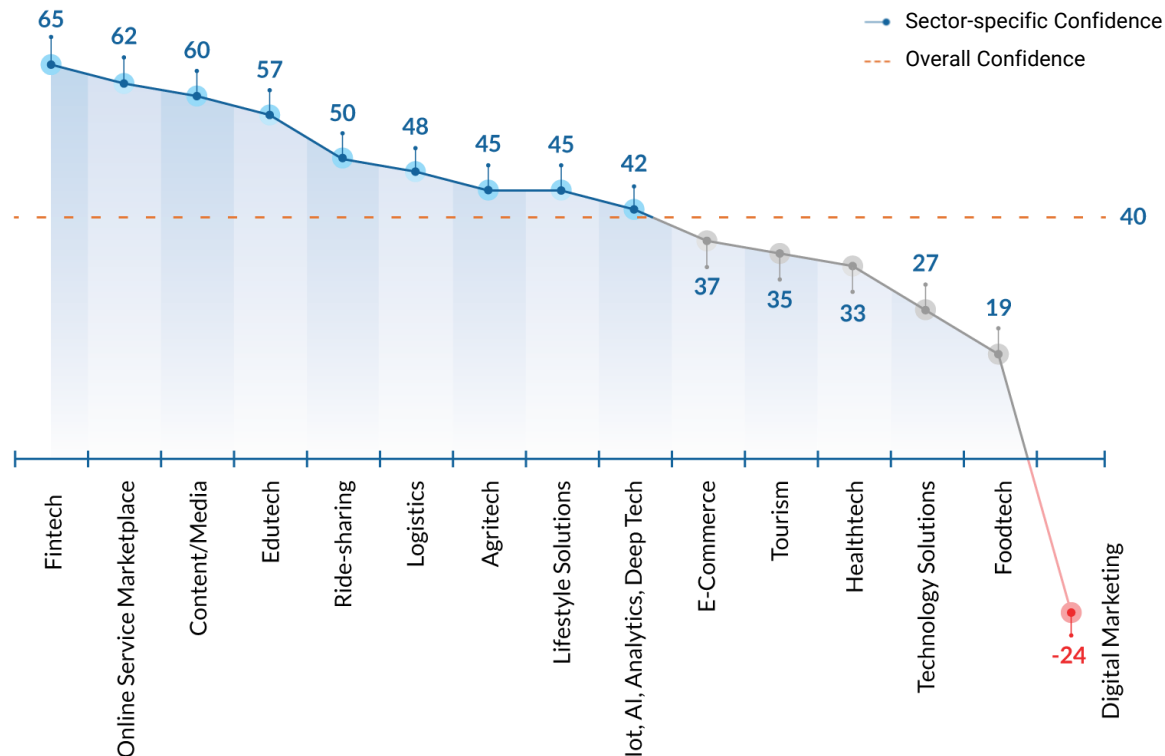
A survey source from **100+** startup founders and investors rated **Fintech** and **Ride-sharing** and **Logistics** as the most promising sectors.

Online-enabled service marketplace platforms has captured the urban market significantly over the last 5 years. Players like **Sheba.xyz**, **Smanager**, **Jantrik** and **Hellotask** are formalizing the unstructured SME market and informal workers boosting financial inclusion.

eCommerce & fCommerce sector garners high confidence from investors. Startup players like **ShopUp**, **Chaldal**, **eValy**, **Daraz** and **Sindabad**

Meanwhile, digital marketing showed a drop in confidence, due to market saturation and thinning profit margin coupled with latest TAX issuance.

Startup Ecosystem Confidence Index

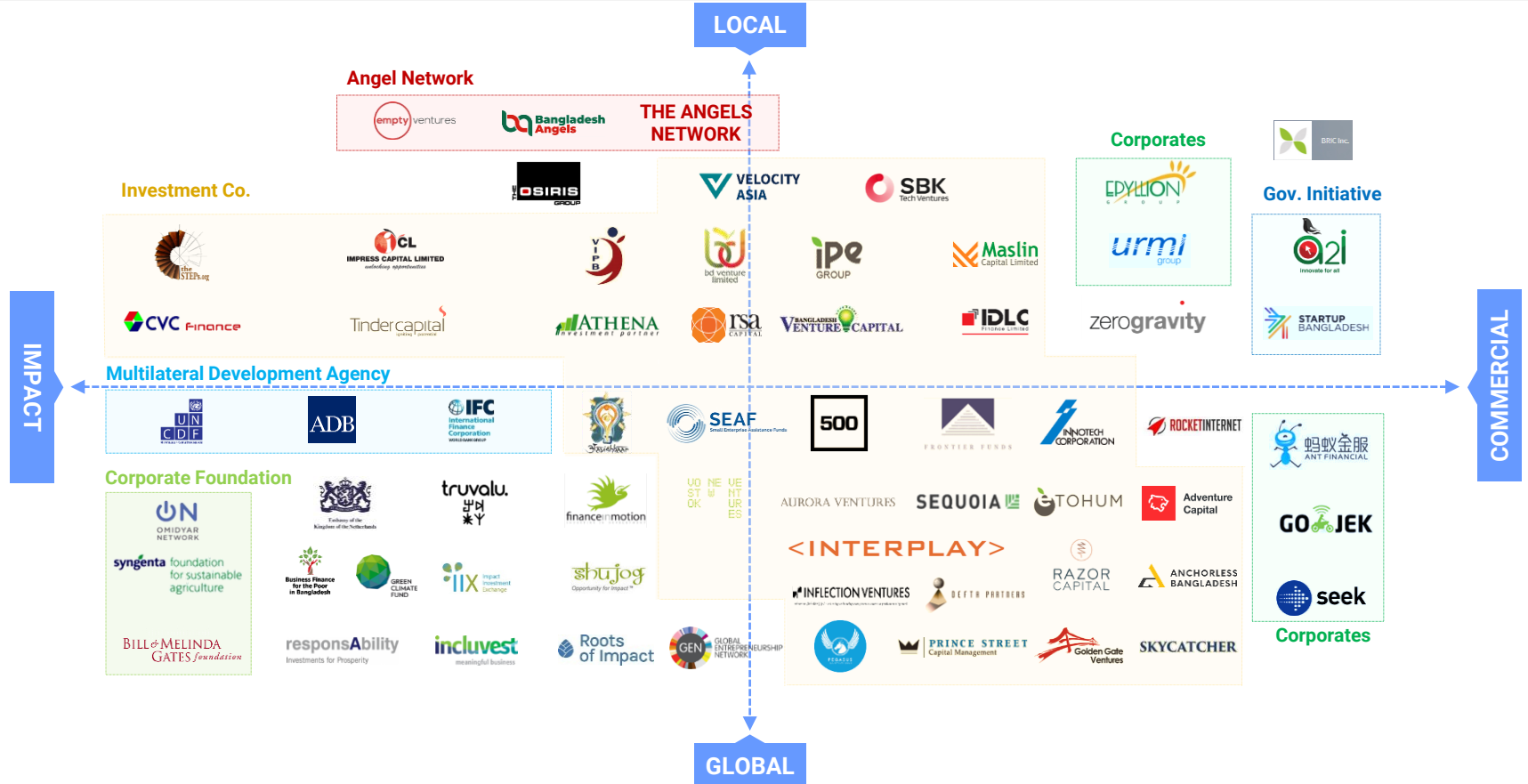


Increasing number of accelerators and incubators are acting as enablers in the ecosystem



Bangladeshi Startups

are attracting global and local investors





Homegrown Startups

have raised U\$ 200Mn+ of foreign investment over the last decade



U\$ 80Mn+

Bkash

fintech

from

Money in Motion, BRAC Bank,
Gates Foundation & Ant Financial



U\$ 7Mn+

SureCash

fintech

from

Osiris Group



U\$ 3Mn+

Shop Up

fintech

from

Sequoia Capital India, Omidyar
Network & Lonsdale



U\$ 2Mn

CloudWell

fintech

from

Aavishkar Venture Capital



U\$ 2.8Mn

SOLshare

cleantech

from

IIX Growth Fund



U\$ 9Mn+

Zero Gravity

(Sindabad & Kiksha)

ecommerce

from

Aavishkar VC & Frontier Fund



U\$ 5.5Mn+

Chaldal

ecommerce

from

IFC, IDLC, Mir Group,
Y Combinator



U\$ 2Mn

Deligram

ecommerce

from

SkyCatcher



U\$ 1.3Mn

AjkerDeal

ecommerce

from

Innotech Corporation



U\$ 0.9Mn

Gaze

deeptech

from

Anchorless Bangladesh



U\$ 15Mn+

Shohoz

logistics

from

Linear Venture,
Golden Gate Venture



U\$ 12.8Mn+

Pathao

logistics

from

GO-JEK, Osiris Group
Openspace Ventures, and
Battery Road Digital Holdings



U\$ 3.8Mn+

BDjobs

job marketplace

from

SEEK



U\$ 2Mn+

Sheba.xyz

service marketplace

from

Epyllion Group, BFP-B DFID
and Local Angel Investors



U\$ 1Mn+

Bongo

entertainment

from

Razor Capital

Not an Exhaustive List*

● Full Funding Undisclosed



Low Funding & COVID-19 Pandemic Inflict a Critical Blow

- 01 | Bangladesh Startup Ecosystem ranks far behind in comparison to the Global Startup Ecosystem
- 02 | Finding the right talents & access to financing still remains the top problems for emerging startups
- 03 | Funding in Bangladesh as percentage of GDP is significantly low
- 04 | Pandemic Recession has slowed down startup investments worldwide
- 05 | COVID-19 Disruption in Bangladesh leaves 60% of Startups with less than three months of runway
- 06 | While all sectors are in peril, 3 Essential sectors have seen growth in Bangladesh



Bangladesh Startup Ecosystem ranks far behind in comparison to the Global Startup Ecosystem

Category	United States	China	India	Indonesia	Bangladesh
Global Startup Ranking	1	14	23	54	98
Global Innovation Index ^[1]	61.73	54.82	36.58	29.72	23.31
Total Number of Startups ^[5]	100,000+ ^[3]	25,000+	50,000+	5,000+	1,000+
Time taken to setup a new business (days)	4-8	30-40	15-30	15-30	15-30
Corporate Tax Rate	39%	25%	34%	22%	25%-35%
Number of local VC Firms ^[5]	1000+	-	700+	300+	25+
Number of Angel Investors	300,000+	-	1,800+	5,000+	200+
Number of Accelerators/ Incubators	1,500+	12,000+ ^[4]	250+	-	20+

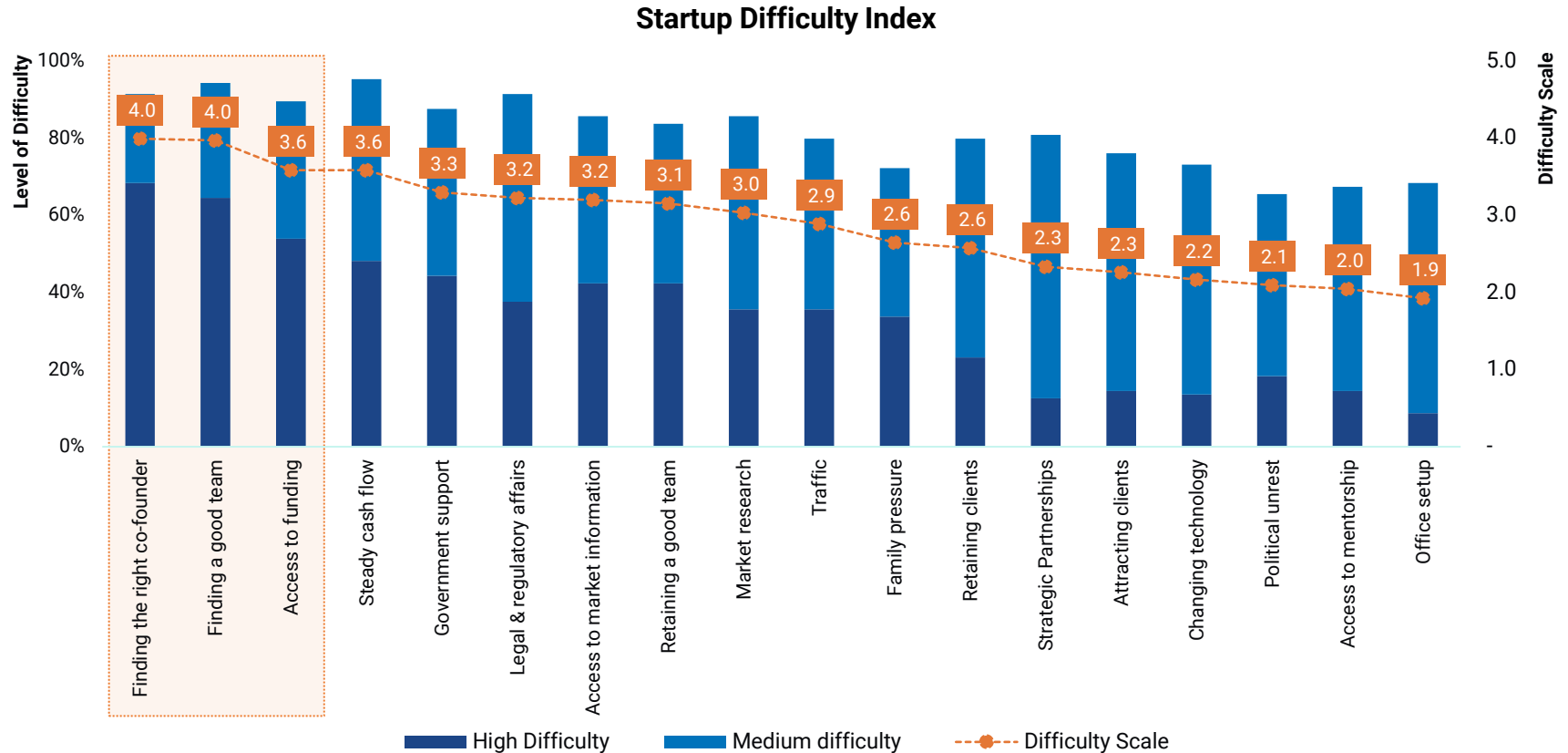
[1] The Global innovation Index ranks the innovation performance of 128 countries based on 82 indicators

[2] Global startup ranking by Startup Blink ranks the top 100 countries based on the quantity/quality of startups and enablers in the ecosystem coupled with business environment and critical mass.

[3] United States has the highest number of startups in the world

[4] China ranks #1 in number of incubators and accelerators across the world due to Chinese Government initiatives

Finding the Right Talents & Access to Financing still remains the top problems for emerging startups



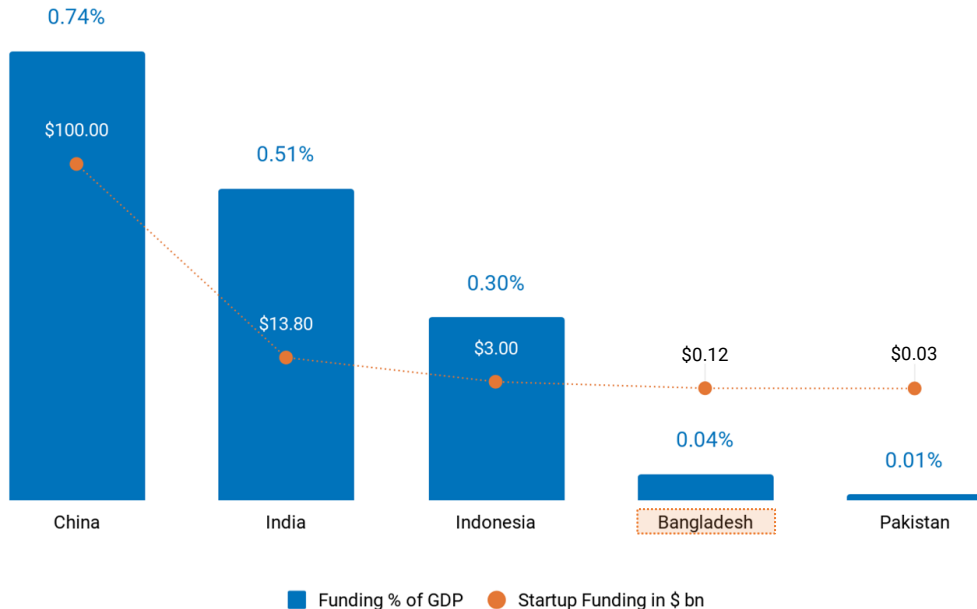
Funding in Bangladesh

as percentage of GDP is significantly low



The already low **Startup Funding State of Bangladesh** (GDP 10x lower than India), (GDP 50x lower than China) - is at stake due to COVID-19

State of Startup Funding in Southeast Asia (2018)



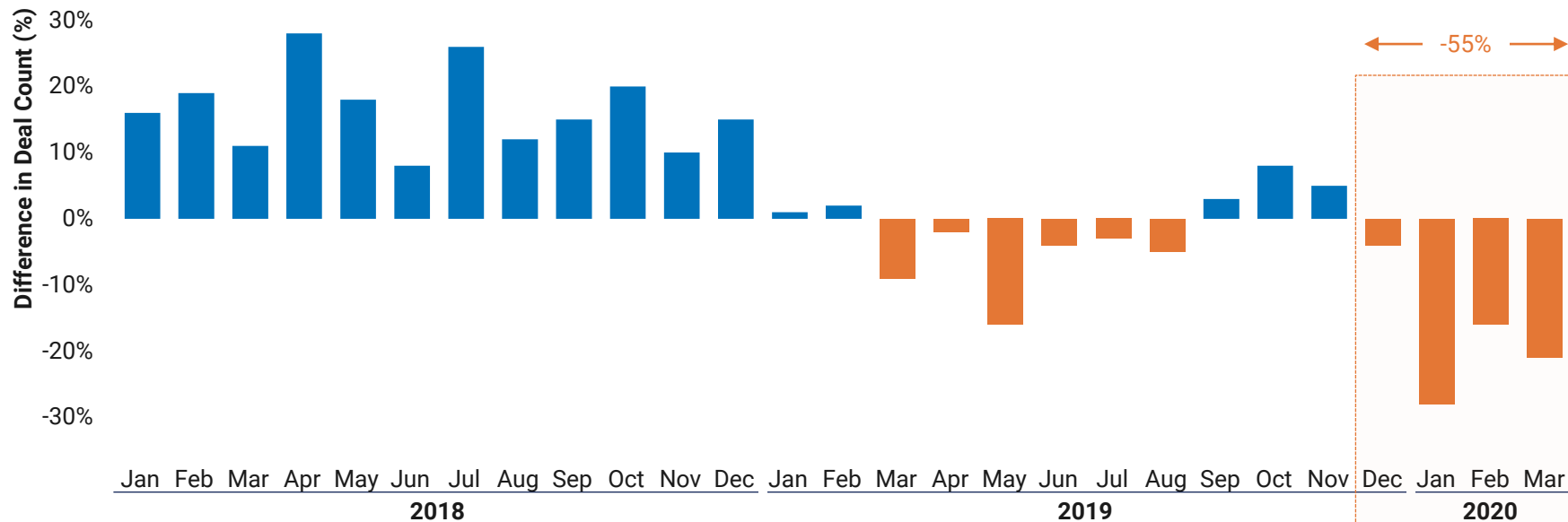
Pandemic Recession

has slowed down startup investments worldwide



Due to pandemic recession kindled by COVID-19, number of startup investment deals worldwide per month have dropped by half (**55%**) since pre-COVID era (November 2019)

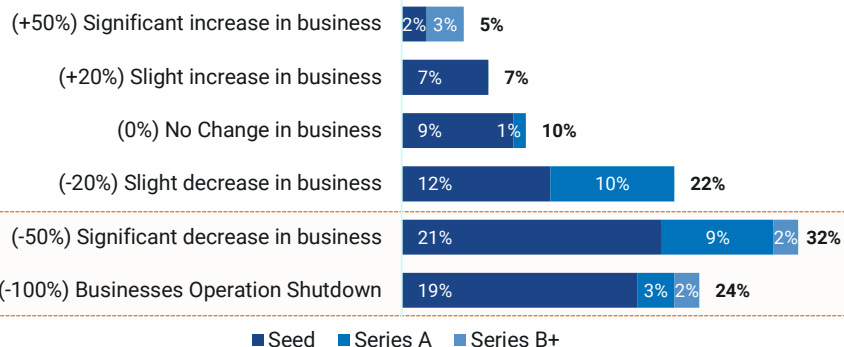
No. of Investment Deals Per Month Worldwide



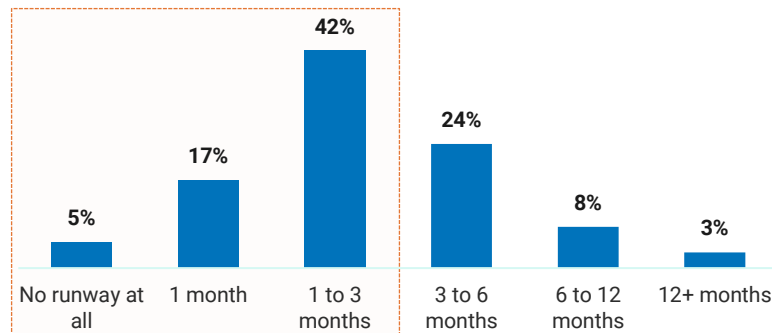
COVID-19 Disruption in Bangladesh

leaves 60% of Startups with less than three months of runway

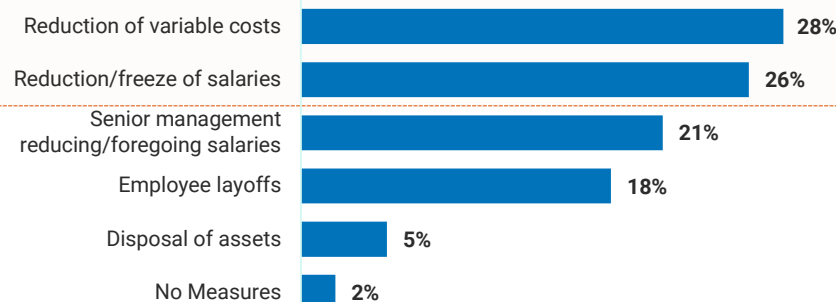
56% of businesses saw at least a **50%** drop on revenue generation, while **52%** seed stage startups saw decrease in business



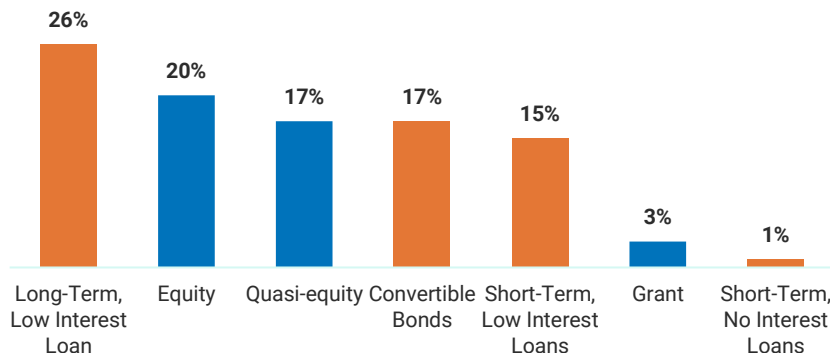
63% of Startups have less than 3 months of runway



Reduction of Variable Cost and Salary are the first measure taken by **54%** of the startups



59% of the Startups seek leverage (loans and bonds) in times of crisis



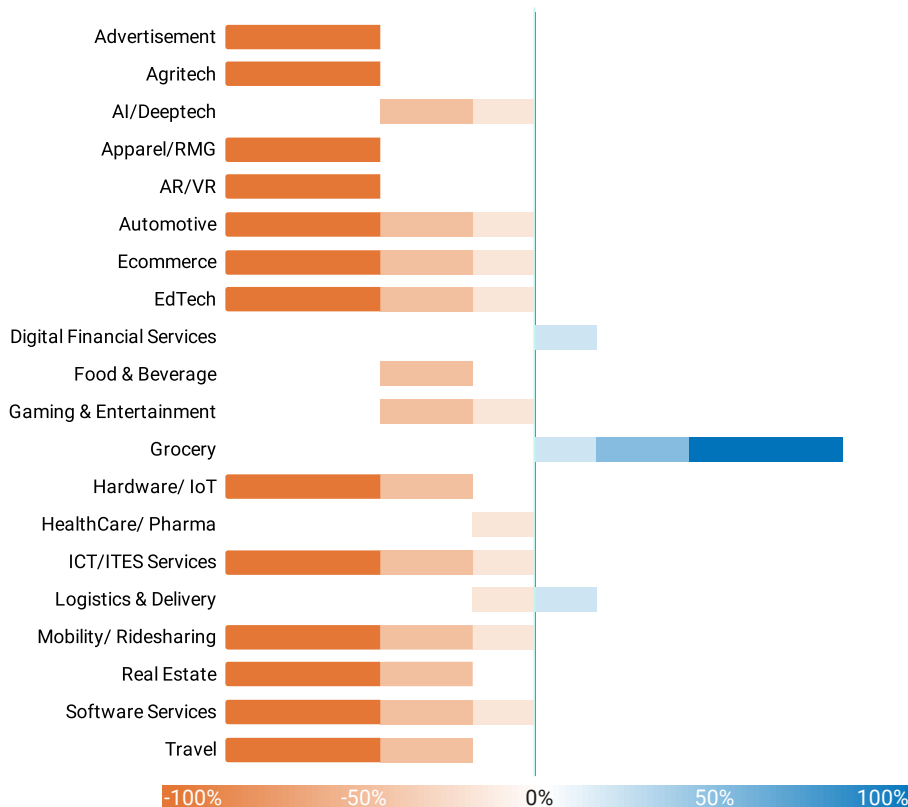


While all sectors are in peril, 3 Essential sectors have seen revenue growth in Bangladesh

Grocery Logistics Digital Financial Services

are the **essential sectors**
that have seen positive impact in business

COVID-19 Sectorial Revenue Impact in Bangladesh

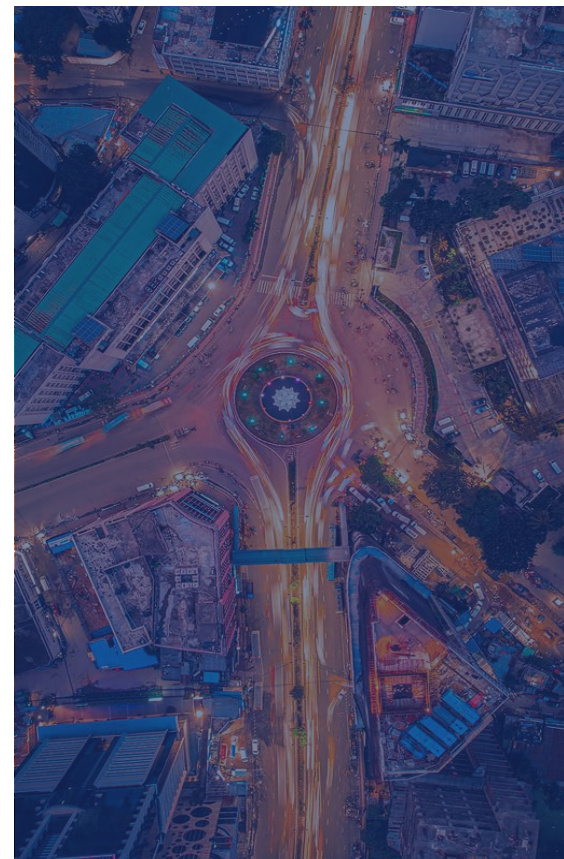


An aerial photograph of a city at night, with a large stadium in the center. The stadium is illuminated with blue and white lights, and its surrounding area is also lit up. The city's streets and buildings are visible in the background, with some lights reflecting on the water in the foreground. The overall scene is dark, with the stadium and city lights providing the main source of illumination.

Recommendations

Recommendations

- **Startup Policy:** With the Digital Bangladesh agenda in Government's core, it is eminent to form a startup policy to offer multiple benefits for the startup and ecosystem players such as ease of access to debt finance, reducing the cost of doing business, ease of doing business, fiscal policy support - VAT/tax exemptions and rebates. An enabling policy will promote the growth of startups and the ecosystem attracting foreign investment in the ecosystem, benefiting the country's growth and employment rate.
- **Fund of Funds:** Startup Bangladesh and ICT Ministry can form a fund of funds through a public private collaboration to invest in Startups. The fund of funds makes downstream investments in venture capital and alternative investment funds that in turn invest in startups.
- **Investor Benefits:** The government needs to ensure an investment friendly environment in Bangladesh. Recommendations would be to update Foreign Exchange Regulation Act 1947, reduce entry barriers, introduce TAX benefits and ease repatriation of profits of foreign investors to attract foreign investments.
- **Ease of Doing Business:** Business processes, policies, and regulations have to be streamlined and more comfortable to start and operate startups/SMEs. A way forward could be to use technology and fintech platforms to make tax payments seamless, transparent and secure.
- **Industry-Academia Collaboration:** Industry-academia is mandatory to set up the right kind of infrastructure to nurture innovation and talents at school/university level as well as leverage knowledge remittances from NRBs all over the world through incentivized initiatives.
- **COV-19 Startup Support Fund:** The ICT ministry can establish a BDT 150 crore startup support fund program in the form of grant/ quasi-equity/ matching fund nature to support the 150 startups for a runway of 12+ months. Based on multiple criteria i.e. employment, market potential, and post-pandemic adjusted valuation, startups can be categorized as- small, medium, and large.



An aerial night photograph of a city, likely in Southeast Asia, featuring a river winding through a dense urban landscape. A prominent mosque with a large dome and minaret is visible in the lower center. The image is overlaid with a dark blue gradient.

Appendix



Probable Economic Trajectories & Way-out of Pandemic

U-shaped
most likely
economic
recovery
trajectory



V-shaped

Recovery with a possible short lived boom, driven by huge stimulus needed for a hard stop to the pandemic. This would be a surprise scenario.



U-shaped

Recovery based on a longer crisis, driven by a more modest response to the pandemic. This appears increasingly likely.



L-shaped

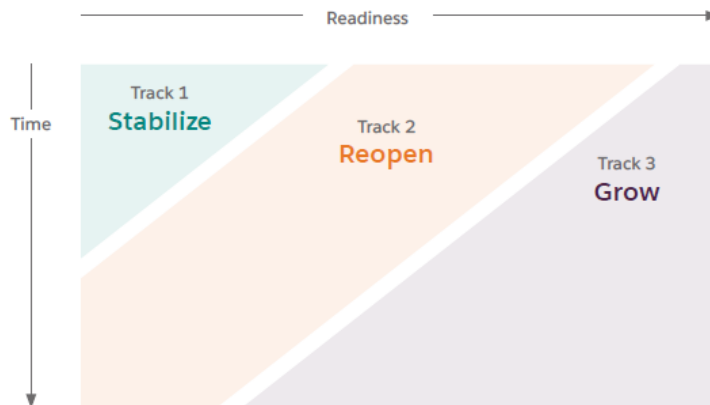
Non recovery of a decay into a depression, driven by failed responses to the pandemic and economic crisis. This would represent a deep and long global depression due to the interconnectedness of world economies.



Y-shaped

Recovery is a combination of U- and L-shaped recoveries – in this(likely) case, the economy divides into two tracks: fast and slow sectors that represents fast and slow recoveries.

Startups will face different trajectories based on their industry, but **planning and adapting** is the way out with the right kind of Capacity



Stabilize

Mitigate short term risk and stabilize operations

Reopen

Plan & orchestrate to resume operations

Grow

Accelerate change to grow in the post Covid world



How to define a Bangladeshi Startup?

Startup is an entity working towards **innovation, development, deployment and commercialization of new products, processes, or services** driven by technology or intellectual property

ORIGIN

Bangladesh

Founders of Bangladesh origin, with HQ or core product development in Bangladesh

INCEPTION

2010 onwards

Active technology product/ platform/ business inception in 2010 or later

DIFFERENTIATOR

Innovation

Innovation in technology, business process or business model being executed at speed

STAGE

Prototype+

The start-up must have at least a prototype or MVP; (idea-stage excluded)

Startup Insights: Why Startups Succeed or Fail? (I/II)

Why Startups Succeed or Fail

Building a successful business is every entrepreneur's goal — but only 1 in 12 succeed in doing so.

Startup Science built an integral, whole systems model of a startup, synthesizing wisdom, learnings and frameworks from many of the top experts in the field to figure out what differentiated the successes from the failures. Over the years, they gathered and analyzed a comprehensive data set on over 34,000 companies to test and iterate their maps and models. Here are some of their primary insights, learnings and discoveries:

One of the most important principles successful companies possess is: Balance. Creating a successful startup is a balancing act amongst many variables simultaneously often amidst environments of extreme uncertainty and volatility. One of the most important balancing acts is between The Inner Dimensions and The Outer Dimensions of a startup. The Outer Dimensions are most

Stages of the Startup Science Lifecycle



Achieve Problem/
Solution Fit: confirm
whether they are
solving a meaningful
problem.

Achieve Product/
Market Fit: confirm
through qualitative
and quantitative
metrics that their
product has a real
passionate early
adopter user base
that loves what
they're building

Prepare the
company for scaling
by optimizing a long
conversion funnel
beginning from first
customer contact;
refine the business
model, culture and
financing plans.

Step on the gas
pedal and aggressively
drive growth and
scale organizational
capacity

Not assessed in this graphic

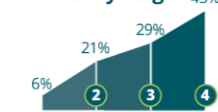
succinctly summarized by Traction — [Users, Customers, Product Usage and Revenue]. The Inner Dimensions are Five Fold: Customer Relationship, Product, Team, Finance and Legal.

Startup Science discovered that **the primary reason startups fail is that their Inner Dimensions get ahead of their Outer Dimensions**, which they call **Premature Scaling**.

Funds Raised by Stage



Latest Month's User Growth by Stage



Cumulative Months Worked by Stage



Numbers of Employees by Stage



Startup Insights: Why Startups Succeed or Fail? (II/II)



Companies that scale prematurely are classified as **inconsistent**

Companies that scale properly are classified as **consistent**

Average Funding Raised

Inconsistent Companies

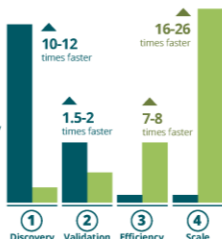
\$1,100,000

Consistent Companies

\$3,400,000

User Growth

Inconsistent startups grow 10-12 times faster in Discovery stage, 1.5-2 times faster in Validation stage, 7-8 times slower in Efficiency stage and 16-26 times slower in Scale stage.



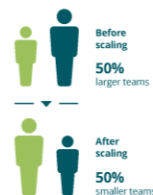
Users (paid)

Enterprise startups that scale prematurely have 75% more paid users in Discovery and Validation stages compared to consistent startups. Consistent startups have 50% more paid users in the Scale stage than inconsistent startups.



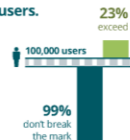
Team size

Inconsistent startups have 50% larger teams before scaling and 50% smaller teams after scaling.



Users (free)

23% of consistent startups exceed 100,000 users. 99% of consumer focused startups that scale prematurely stay below 100,000 users.



Outsourcing

On average, inconsistent startups outsourced 11% of product development in Discovery and 19% in Validation. Consistent startups outsourced 3 to 4%.



Focus in the Discovery Phase

70% of startups that scale prematurely focus 50% or more of their resources in Discovery stage on product development. 45% of consistent startups focus their energy on customer development.



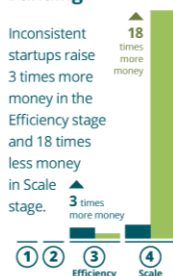
Customer acquisition

45% of startups that scale prematurely spend more than \$15,000 per month on customer acquisition before optimizing their conversion funnels & acquisition costs. 80% of consistent startups spend less than \$15,000.



Funding

Inconsistent startups raise 3 times more money in the Efficiency stage and 18 times less money in Scale stage.



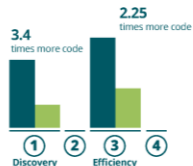
A sign of premature scale: Perfectionism

- too much focus on scalability
- building nice-to-have features
- too little user testing

\$10 Million

The self-reported valuation of inconsistent startups before entering Scale stage. Consistent startups report \$800,000

Lines of Code Written



Inconsistent startups write 3.4 times more lines of code in the Discovery stage and 2.25 times more lines of code in the Efficiency stage.

This infographic is based on the widely recognized research of the Startup Genome project that was started by Bjørn Lasse Herrmann and Max Marmor in 2010. In 2018 Bjørn and Max decided to continue the Startup Genome research under the name Startup Science. The purpose of this new project is to advance the original work and to contribute to laying the foundations for a comprehensive paradigm for the Management Science of Entrepreneurship and Innovation.

Acknowledgement

LightCastle Partners acknowledges the valuable contribution of the following notable personnel and organizations from the Bangladesh Startup Ecosystem to prepare this report.



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iDEA project, ICT Division



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