

Clone or create: A conversation with Aaron Tan, CEO of Carro

Building a new business isn't necessarily about creating an entirely new business model but about understanding the market and where the opportunities lie, according to the CEO of Southeast Asia's largest automobile marketplace.



In this episode of *The Venture*, we share a conversation with Aaron Tan, the CEO and founder of Carro, who tells McKinsey's Andrew Roth how he grew the business to become Southeast Asia's number one automobile marketplace in just five years. They explore topics including his approach to innovation, his method of spotting market opportunities, his open business culture, and the way he's dealing with the impact of COVID-19. At the close of the interview, McKinsey's Tomas Laboutka offers his insights. An edited transcript of the podcast follows.

Podcast transcript

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—Aaron Tan, CEO of Carro

Andrew Roth: From Leap by McKinsey, our business-building practice, I'm Andrew Roth, and welcome to *The Venture*, a series featuring conversations with legendary venture builders in Asia about how to design, launch, and scale new businesses. In each episode, we cut through the noise to bring practical advice on how leaders can build successful businesses from scratch.

I'm excited to welcome Aaron Tan, the CEO and founder of Carro, to the show. Carro is the number one automobile marketplace in Southeast Asia, which Aaron has grown by leaps and bounds since 2015. There's a lot to cover, including Aaron's move from venture capital (VC) back to being an entrepreneur, what

Aaron thinks about the clone-versus-create debate, and why engineering talent is now more critical than ever.

Welcome, Aaron. Great to have you.

Aaron Tan: Thank you, Andrew. Thanks for having me.

Andrew Roth: We first met while you were at Singtel's venture-capital fund, Innov8, and I've really been looking forward to this conversation. So take us back to 2015, when you decided to leave venture capital and found Carro. What initially inspired you? And what was the decision-making process that led you to commit to this venture? But first off, please tell us a little about Carro.

Aaron Tan: Carro started back in 2015 as a wholesale marketplace for cars, which effectively means that we buy and sell cars and facilitate the trading of vehicles among wholesalers. If the Hondas or Toyotas of the world need to sell a used car, they don't do it directly to consumers. They use a platform such as ours that connects them to the smaller used-car dealers, so it's largely a B2B business.

Soon after we started, we decided to move into financing, which we felt was a very important vertical and something that we needed to get right. So rather than partner with someone, we decided to underwrite credit ourselves, because we had the technology. We also had the signals and know-how that the banks lacked. In fact, the default rate of our B2B loan book has been 0 percent to date.

Carro is split into three main verticals. Number one is the auto marketplace. Number two is the financial services, and within that group, we also have our own insurance company across Southeast Asia. The final part is after-sales service that includes repairs, spare parts, and so on.

We have raised more than \$100 million in capital and employ more than 400 people across Indonesia, Thailand, and Malaysia, as well as Singapore.

I started my first company when I was 13. By the time I was 20, I had already sold a couple of companies. But in my teens, against my better judgment, I accepted a government scholarship that put my entrepreneurial career on hold while doing my undergraduate and postgraduate computer-science studies in the United States.

After I graduated, I returned to Singapore to fulfill the obligations of my government scholarship, and I began my venture-capital career with Singtel in 2010. And when my commitment was completed, I decided, “OK, you know what? It’s time to go back to doing fun things again.”

So from my standpoint, the top priority was to start a company, since I really enjoy building things from scratch. I also needed to satisfy my entrepreneurial urge, which I didn’t get too much of at Singtel, which was mostly investing. But I learned a lot of valuable skills in those five years that I was eager to apply when starting a company.

One question that I get a lot is, “Why do something in automotive? Why not do something in restaurants or virtualization?” The truth is, I met with a lot of automotive companies during my venture-capital years and learned the importance of going after large verticals—in other words, automotive, insurance, financial services, and properties as well. And that was the reason why we chose our verticals.

And at that time, I said to myself, “When there’s anything that is going to be interesting over the next five years or so, it’s going to be automotive related.” Because five years ago, Uber had already started, and I realized the automotive industry had more potential.

There are also a lot of companies that have grown big and remained big. And if you look at Southeast Asia, there’s a large white space for automotive services. That’s why we started with

the automotive space five years ago.

Andrew Roth: There’s this whole debate around whether to clone or create. Should an entrepreneur enhance an existing model or put pressure on themselves to break out and do something completely new? By 2015, Carvana, Uber, and Vroom in the United States were already a few years old. Did you take any inspiration from their models and growth?

Aaron Tan: No, and that has a lot to do with my time studying in Pittsburgh, when I bought several cars. And when you buy a car in the United States, the two main sources of information are Carfax and the Kelley Blue Book (KBB). Carfax tells you the history of the car, such as if it was leased or whether it has been in an accident. And KBB tells you the pricing of the car, whether you’re trying to sell it to a buyer or a dealer.

These tools give you a lot of transparency and information that help you with your transaction, and these things did not exist in Southeast Asia. And as a result, a lot of what we did early on in this business was based on an understanding of what we felt was right for this market. So we launched a KBB equivalent for Southeast Asia, where we allowed for instant pricing of vehicles.

So I don’t think that there is a need to be super-innovative and come up with something that is entirely unique. I think there are gaps in the market, but not all gaps are equally translatable.

And that’s where you come in as an entrepreneur and ask, “Where’s the opportunity? What’s the risk like? Is this a potentially big enough opportunity in Southeast Asia? Does this need exist in Southeast Asia? And if so, is there an incumbent? And if not, why?”

So we looked at a ton of businesses across the United States and actually more so in China, because I think Southeast Asia is more similar to the Chinese market than the American market.

Andrew Roth: You're an experienced entrepreneur, and as you were getting started in 2015, what were the main risks and assumptions you made before you had any customers?

Aaron Tan: To be very frank, we didn't have too much of a risk, as we have seen over the last few years. The first PowerPoint that I did—back in late 2015—and the road map and the ecosystem play I laid out then still apply today. So life didn't really change too much for us. The business has grown pretty much as we expected.

When we started, because of my venture-capital background, I knew VCs hate backing asset-heavy companies. Even if you are sitting on a lot of cash, buying a lot of inventory is something that's frowned upon by VCs. So even today, we try not to take that kind of risk, where we take on too much inventory.

But I always tell people that various funds invest in various things. Some funds prefer asset-heavy businesses like the Toyotas, the Hondas, and the Suzukis of the world and would love to invest in something like Carro. But if you're looking at traditional venture funds, then it might be tough, because they might look at this as risky. But we have been quite lucky and have a balance of both kinds of investors.

Andrew Roth: A lot of our clients can ideate and build a minimum viable product, but there's often a gap in capabilities in order to grow and scale—whether it be product management, performance marketing, data and analytics. In this stage of Carro, what are the capabilities you're prioritizing? What are the priorities in your hiring plan? Where are you focused right now?

Aaron Tan: My focus shifts every few months. At this point in time, due to COVID-19, a lot of my focus is on things like cash flow, profit and loss, accounts receivable, accounts payable, and the projected default rates. We do have quite a big financing business, so we watch our numbers quite closely.

The main metric I look at now is burn, or expenses. The first thing I did during this crisis was to cut my

marketing cost to the absolute minimum. That was the first thing to go because nobody is buying vehicles right now.

The next thing that we are focusing on is "What is going to happen moving forward?" As a result, we're hiring more engineers right now. They can work from home or anywhere, and we've always had a very distributed team from the beginning.

So the focus is on two parts. Number one, on managing cash. Number two, on managing engineers and making sure the engineers are building products and services to future-proof ourselves against events like COVID-19. And the two things we're investing in are growth and making sure that the company stays afloat for a long, long time.

So we continue to invest in the future of the business, because the current situation means you cannot meet the customers, so we need a way for us to bring this process entirely online. But we still rely on signed hire purchase agreements. It's not like we didn't want to move online earlier, but we couldn't for legal reasons. But given the situation, we're exploring the potential to change the Hire Purchase Act so customers can e-sign and make it legally binding.

I personally believe that this COVID-19 situation will last for a while, more than 12 to 18 months and potentially even longer. And in periods of recovery, we will likely see a W-shaped recovery instead of a V-shaped recovery. So it'll be up for a little bit and then go back down and then go up again.

So as I tell my management team, "This situation will last for a bit, and be prepared for the new norm, which is we're not going to see the customers. So in the absence of the customers and the desire for sales, what do we need to do? How does the platform come in to support all things? What needs to exist? What are the services? How do we do it? What's the process?"

And that's the reason why the engineers are busier now, because they're building up the platform for us to function better moving forward. As a tech company, the majority of our spend is engineering. We can only do better than traditional companies because we know how to harness technology to get things done.

Andrew Roth: You have 400 people on the team. What are you doing about culture and gathering feedback? What about team culture, now that they're all remote? Any tips on how to maintain the sense of purpose and passion?

Aaron Tan: I believe in a divide-and-conquer approach instead of holding huge online town halls with 400 people. Our companies are spread across five or six different geographies, with engineers in China, Vietnam, and elsewhere. And English is not necessarily the primary language, so doing a town hall with all Carro employees simply isn't possible.

So we split ourselves into small teams; that allows them to go and get things done themselves, using handbooks and guidelines we put together for that purpose. One of the first things we did was to survey our entire company to understand how our people are doing. The most important part of our company culture is to embrace openness. So if we're not doing a good job, we want to understand why and find a way to do better by listening to as much feedback as possible.

I want people to speak their minds, which is why I decided on a named survey so people can come up and tell me what exactly is going on. I don't think we have an internal issue where people don't speak up, so for me it is about making sure people give useful feedback. Has it been useful? I think so.

For instance, we've started sending more communications across the groups, because some people were telling us that they didn't know what was happening in certain parts of the company. For instance, some employees didn't know our financing business was allowed to open because they are part of essential services. So we increased our ability to communicate with our staff and keep them updated across the organization.

Andrew Roth: It's already natural for you to operate remotely and collect feedback that's not anonymous. So you've been able to create a culture where there's no downside for someone to be honest.

Aaron Tan: Correct.

Andrew Roth: We're going to do a quick lightning round. Who would you want on your board? Bill Gates or Steve Jobs? And why?

Aaron Tan: Bill Gates. I genuinely think boards need people who are less about being mavericks and more about governance.

Andrew Roth: In a world without Carro, what start-up or company would you want to work for?

Aaron Tan: I'd go back to what I did before. I actually loved my time in the venture fund.

Andrew Roth: I think you referenced this before: What single metric at Carro keeps you up at night right now?

Aaron Tan: Burn. The lost profitability.

Andrew Roth: Describe Carro's culture in one word.

Aaron Tan: Open.

Andrew Roth: Aaron, thanks so much. I love some of the things you said about your culture, divide and conquer. It's good to hear how you got started and about finding gaps in the marketplace. A lot of executives sometimes feel there's pressure to create some amazing new business model, but you can find gaps and enhance things and localize them. I'm looking forward to what comes next for you and Carro, and let's keep in touch.

Aaron Tan: Thank you, Andrew, and thanks for having me.

Andrew Roth: In this segment of the episode, we invite founders and experts from McKinsey to provide more context and to draw practical insights from research and from talking to CEOs about some key themes that we call “Think Big, Move Fast.” These themes include where you should play in the market, how to close the capability gap, what types of talent and capabilities to optimize, and how to move beyond the minimum viable product and get to real growth.

My journey as an entrepreneur started many years ago. I’ve launched e-commerce companies, loyalty companies, and data companies. That journey brought me from the United States to Singapore about ten years ago, and I’m now helping large incumbents launch their own start-ups. I have Tomas Laboutka here from Leap by McKinsey. Tomas is an experienced entrepreneur himself. Tomas, what struck you the most from the conversation today?

Tomas Laboutka: Thanks for having me. The first thing that really struck me was the first steps that he took. Think back, and then actually start small and sprint. And he did that similarly in three steps. He looked at China, the United States, and then asked himself, “What are the key segments? Financial services, insurance, big properties, automotive.” Then step two was “OK, what’s missing? What are the services that are missing in those industries?” And then looking into the culture match in this region: “Can this work here?”

And eventually, he moved to the third step and started looking into the incumbents: “Is there a strong incumbent? Yes or no, and why?” And after getting all the answers, which drove him toward Carro, he just starts sprinting, with focus, and went all in.

Andrew Roth: I liked how he described how he started. He solved the one specific problem, being “How do you price used cars and build trust around the pricing?” And then he built lots of services around financing and insurance. What also struck me is he’s investing during COVID-19 in more engineering talent, so he’s not just waiting it out. He’s already investing. He’s clear that he’s looking at his daily burn, which of course any founder would be doing right now, but he’s also investing in engineering. When we got to the lightning round, we talked a little bit about culture. Any reaction to that?

Tomas Laboutka: You know, he said one word, “open,” and he referred to it earlier in the conversation, and it was clear that he has, as do many of the CEOs that we see, the mindset of “Diamonds are made under pressure. When the situation is tough, let’s make sure that my burn is low, I pay attention to my pebbles,” and all of those first resilient moves.

But then you really want to continue with bold actions, and that translates into investing—investing in engineering and investing in talent. He is also focused on building up a culture that is open, both in terms of communication and engagement. And this was something that really struck me as he spoke about the 400 people who he ultimately asks, not anonymously, what it is that he should be focusing on and where they should go. So being open is something that really stood out.

Andrew Roth: I agree. Not an easy thing to do to, to maintain culture, especially when everyone’s working remotely. Thanks, Tomas.

Andrew Roth and **Tomas Laboutka** are associate partners in McKinsey’s Singapore office. **Aaron Tan** is the CEO of Carro.

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