



Stanford eCorner

How North American Search Companies Faltered in China

Robin Li, *Baidu*

September 23, 2009

Video URL: <http://ecorner.stanford.edu/videos/2286/How-North-American-Search-Companies-Faltered-in-China>

What is it that American search companies have failed to understand in China? Baidu's CEO Robin Li asserts numerous reasons that foreign-based search tools underestimated the growth of China's online content in the 1990's and early 2000's. He first points out that the capabilities of Google and Yahoo! overseas did not match China's tremendous scale of content growth. In addition, North American companies underestimated the fierce competition and entrepreneurial spirit of the Chinese. And many Internet companies coming to China did not plan for the long-term investment necessary to fully mesh with the local market.



Transcript

What it is about Baidu and the Chinese search market that's allowed Baidu to become much more successful than Google and Yahoo! in China? Specifically, what is it that American companies that, both then and now, still don't understand about China that you think you do and they don't? Robin Li: I think that there are a lot of misconceptions about this question. There are very successful American companies in China: Intel, Cisco, Microsoft. They have been in China for a very long time. They figured out how to do business in China and they have been quite successful. But Internet companies, a little bit different. There are three reasons for that. First is that, during the '90s, I think the Chinese IT market was very, very small. Nobody paid attention to that. But during the past decade, I think, with the Internet coming to China, that the market gets larger and larger as Chinese economy gets larger and larger, the opportunity, the potential for that market has become very meaningful to a lot of people. Therefore, it's a fast-growing market.

It's growing very, very quickly, much faster than the world average. For example, when I returned to China, I remember we had less than 10 million Internet users, and today we have more than 338 million Internet users. So during the past 10 years, the market actually changed very quickly, very dramatically. American companies did not realize that in the early days. They thought, "OK, the amount of online information grows about 50% per year. I'll grow my index by 50% per year." But in fact, if you pay attention to China, the amount of Chinese information online triples every year. And we triple our index every year. So that gives the Chinese Internet users impression that if you cannot find anything on the other search engines, you may be able to find it on Baidu. If you cannot find it on Baidu, you cannot find it anywhere else. So that's just one example of showing how quickly the market is.

If you are not close to that market, you have missed a lot of opportunities. The second reason is that, although Baidu is perceived as a Chinese company like many other NASDAQ-listed folks --SINA, Sohu, Netease, Shenda--- but they are almost 100% funded by U.S. VCs, many of the Silicon Valley-based. This kind of money actually helped a lot in the development of the Internet market in China. And as many of you know, Chinese people are very entrepreneurial. They really want to make a difference. They are hardworking. Once they are married with VC money, it's very competitive. So the Internet space in China has become very, very competitive. This is different from many other sectors.

In the traditional sectors, American companies are basically competing with state-owned enterprises. They move very slowly. They don't have the right incentive structure. But in Internet, it's very different. It's like everyone knows everyone and they all have the right incentive structure to become successful. The third reason is that Internet companies, be it American or otherwise, are generally very young. Young companies usually do not plan for the very long term. Sometimes they are not patient enough. They try, they lost a lot of money. A couple of years later, five years later, they say, "OK.

I give up. I have enough challenges in my domestic market. I don't want to deal with this thing." So that happened to a number of American Internet companies. I think that's the three most important reasons for what happened in the Internet space in China.