

China's startups hope for boom after Alibaba IPO

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In this Sunday, June 1, 2014 photo, Nils Pihl stands in front of his company logo on the wall at his apartment, which he converted to an office in Beijing, China. Pihl has spent 18 months building what he calls cutting-edge software to crunch "really big data sets." But instead of going to Silicon Valley, the 27-year-old Swede and his four colleagues have been working on his invention from a small apartment overlooking smoggy northwest Beijing. (AP Photo/Andy Wong)

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software to crunch "really big data sets." But instead of going to Silicon Valley, the 27-year-old Swede and his four colleagues have been working on his invention from a small apartment overlooking smoggy northwest Beijing.

In typical startup fashion, they've raised hundreds of thousands of dollars after countless pitch meetings and were racing to prepare their product for launch. Their investors are in Beijing as well as the U.S.

China might seem an odd choice for young tech entrepreneurs. Instead of innovation and risk taking, the country is more associated with state domination of the economy, rampant intellectual property theft and heavy duty government censorship of social media.

Perceptions, however, are changing. The high profile success of Jack Ma's e-commerce company Alibaba, which is planning a giant initial public offering in the U.S. this year, has drawn attention to how the former startup outmaneuvered eBay in China to become the world's biggest online bazaar. More recently, use of smartphones and the mobile Internet has grown explosively, creating new opportunities for e-commerce and other tech ventures.

"We find this to be like the best incubator you could get," Pihl said in his building's courtyard, where children chased each other and couples took twilight strolls. "We don't consider ourselves a Chinese startup. We're a Valley startup hanging out in Beijing to keep our costs low."

Alibaba and a handful of other online ventures are the most visible examples of companies that began with a startup ethos and thrived despite bumps along the way. Perhaps the biggest challenge for startups came three years ago when several Chinese companies were caught in accounting scandals and forced off U.S. stock exchanges.

Such problems pushed Chinese regulators to halt all IPOs in China, another blow to the startup scene since going public is a common way for ambitious companies to raise additional funds after being nurtured by [venture capital](#) and other early investors.

Regulators lifted the ban earlier this year, making way for 11 IPOs in the first three months of 2014, just one short of the number in the U.S. during that time, according to accounting firm PwC. Analysts were expecting as many as 400 Chinese IPOs this year, but confusing new regulations issued by the government have again held back offerings.

Still, Chinese companies such as No. 2 e-commerce site JD.com have listed in the U.S. this year, and entrepreneurs and investors in China are expecting a flood of investment.



In this Sunday, June 1, 2014 photo, Nils Pihl sits next to a work station at his apartment, which he converted to an office in Beijing, China. Pihl has spent 18 months building what he calls cutting-edge software to crunch "really big data

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"If Alibaba goes public at say \$150 billion to \$180 billion and they continue to grow at 30 percent a year, in five years this could be the largest company in the world" by market capitalization, said Richard Hsu, managing director of Intel Capital China at a recent startup forum in Beijing. "And if the largest market cap in the world is now a Chinese company involved in e-commerce, how much attention is the rest of China going to get?"

Budding Chinese firms of all types raised more than \$1 billion in venture capital in the first quarter, a 35 percent jump over the same period last year, according to Dow Jones VentureSource. That was far short of the nearly \$10 billion raised in the U.S. during the same period, but enough to rank China ahead of Europe in venture capital.

Behind the numbers are China's vast market of more than a billion people and the eagerness of Chinese consumers to adopt innovations such as shopping via smartphone and the latest social media. Chinese firm iResearch forecasts mobile phone games alone to bring in \$11 billion a year in revenue in 2017, triple the current amount.

"There's definitely a critical mass of talent that has been nurtured in the past 15 years by the mobile phone and the Internet," said Alan Guo, CEO of Chinese e-commerce company LightInTheBox, which went public on the New York Stock Exchange in June 2013. "We have a new generation of Chinese who are global."

Other draws for startups include the country's lower salaries. According

to the online job site Glassdoor, average pay offered in software engineer job postings in Beijing was a quarter that for similar positions in San Francisco.

The Beijing city government also tries to support the fledgling industry by giving Chinese and foreign tech companies a 15 percent break on income taxes.

For some foreigners, those factors and an abundance of venture capital cash outweighed the country's negatives such as air pollution in many cities and the hard-to-learn language.

Entrepreneurs such as Substantial Games co-founder Pin Wang have built their companies here even if they don't plan on selling their products in the country.

Born in China but raised in Canada, Wang moved to Beijing five years ago and started his company in a small office, where he and his mostly foreign staff fine-tuned their tablet-based game, Ember Conflict, with a \$320,000 investment from Shanghai-based investors.

"There was a stigma around doing a startup in China around three to five years ago for sure," the 28-year-old said. Getting a job at Google was considered more prestigious but "now Chinese are saying: Oh, I can see why, it's a chance to get rich."

Marketing 360 CEO Terry Ding said he made that leap and mounted a 20-person, all-Chinese team with some \$1 million in investment to build a software platform for marketing companies.

Still, the Chinese startup world still has a lot of growing up to do, said Ding.

He expects to sell his company for \$6 million at most, a humble sum by Silicon Valley standards, because Chinese and global markets still undervalue business support services such as his, especially those designed in Chinese that require translation to sell overseas.

"The Chinese aren't ready to support this kind of innovation—software, behind the scenes," Ding said. "But it will definitely change."

"I think people will start to trust that China's development and its startup companies can make some remarkable things happen."

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