

zmodo

Globalization in Shenzhen: A Perspective on Business Practices in China

**Rick Wan
2018.4.17**

Quick Introduction: Dr. Rick Wan

zmodo

1986~1997

Educated in the US (1991)

- PhD in Physics
- Worked at:
 - University of Wisconsin
 - University of Pittsburg
 - Champaign-Urbana

1997~2002

Startups in the US

- Co-founded Eptco
- Partner with BI

2002~2007

Startups in China (Shanghai)

- Partner with SBI
- Co-founded Ehow

2007~2013

Business Growth in China

- SBI acquired by ENN
- Worked at ENN Underground for Coal Gasification (Inner Mongolia & Uzbekistan)
- Set up ENN Solar
- Set up ENN Europe GMBH
- Joined GCL group in Solar and LED (Suzhou and Shanghai)

2009~now

Globalization in Shenzhen

- Co-founded Zmodo (2009)
- Set up Jiangsu facility
- Set up Zmodo Europe GMBH
- Set up Silicon Valley R&D and Operations
- Set up Zmodo Australia office

All my ventures have been in technology start-ups

Introduction: Zmodo & meShare

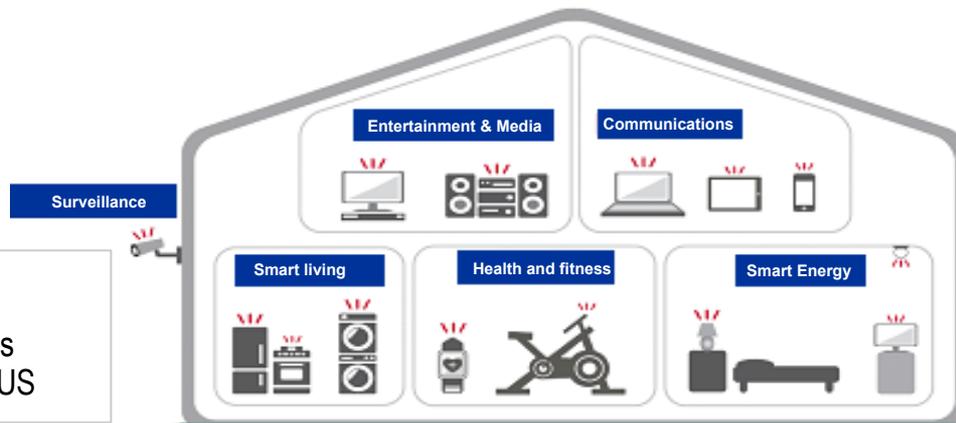
zmodo

Zmodo & meShare

- Smart home products
- IoT platform

Profile

- 650 employees
- \$95M revenue
- ~4M devices connected
- 1.5M customers
- Serve ~ 40 countries
- 100PB data IDC in US



Smart devices

IOT platform services

Zmodo & meShare

Introduction: Zmodo Products

zmodo



Introduction: meShare IoT platform



Connectivity

Devices with Vertical Application Services

Highest level of security

AI initiated cloud technology

meShare's Mission: Create scalable, simple, affordable IoT solutions that simplify your daily life.



Introduction: meShare IoT platform

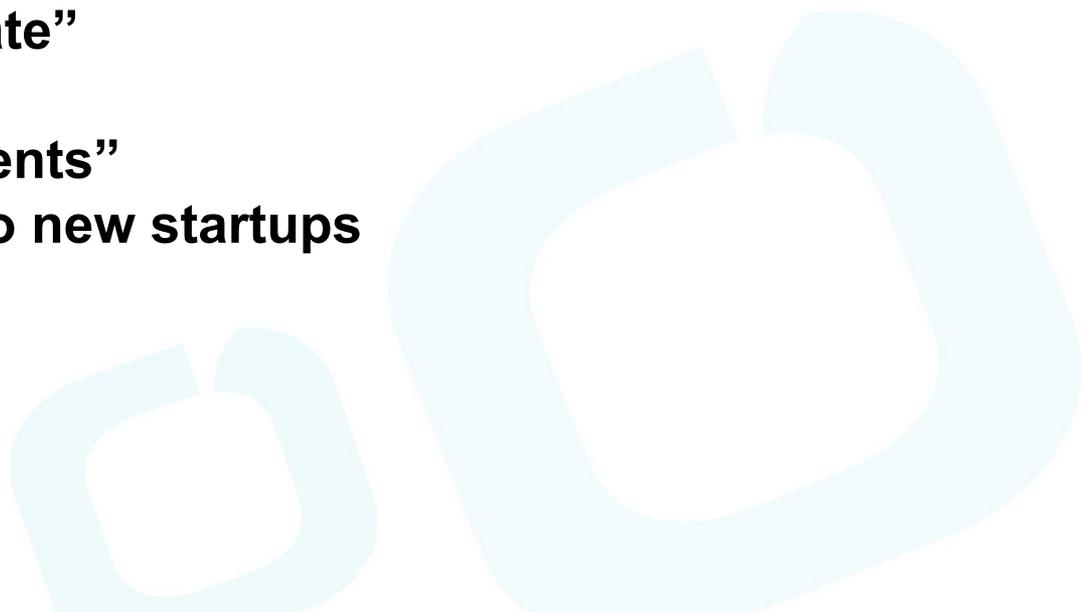
zmodo

Security is Always
The Priority

Powered by US servers, the Zmodo Cloud Recording is protected by bank-level encryption that can be accessed only by your personal account, to ensure that your videos are kept safe at all times.

meShare's IDC center has over 100PB capacity and is located in Champaign, IL

Today, I'd like to share perspectives from my personal experience “on the ground” in Shenzhen and China:

- Startup “Climate”**
 - Startup “Soil”**
 - Startup “Nutrients”**
 - Suggestions to new startups**
- 

Shenzhen Overview

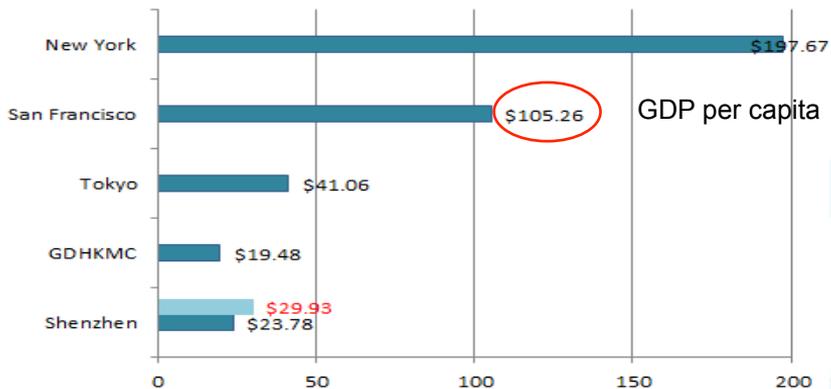


GDHKMC Bay Area
Area: 56,000 sq. km
GDP: 1.3 trillion USD
Population: 66.72 million

Greater Tokyo Area
Area: 36,800 sq. km
GDP: 1.8 trillion USD
Population: 43.84 million

San Francisco Bay Area
Area: 17,900 sq. km
GDP: 0.8 trillion USD
Population: 7.6 million

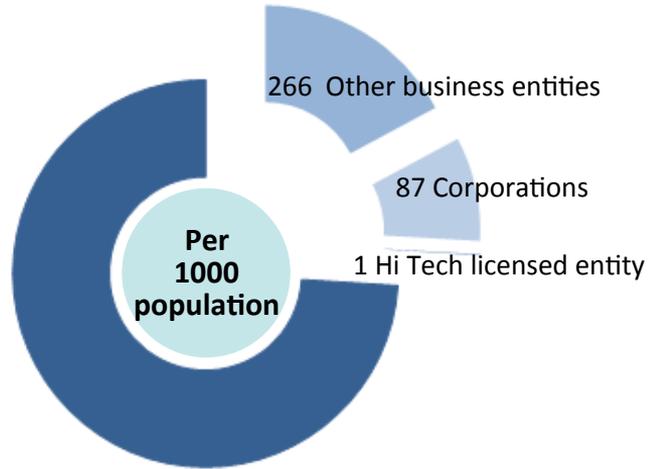
New York City
Area: 783.84 sq. km
GDP: 1.7 trillion USD
Population: 8.6 million



Shenzhen Facts:
Most startups in China: 3,093,234
Youngest Population: 33 median age
Most GDP/per capita: \$30k
Most patent applications in China: 170.5K
PCT Patent: Shenzhen 41% over nation wide

Startup "Climate" in Shenzhen

In 2017, 552,223 startups registered with the government, with an average of 1,513 new businesses per day.



Total IPOs in Shenzhen: 389



Startup “Soil” in Shenzhen

Silicon Valley

PROs

- **Variety of startups:** across all high-tech sectors
- **Most advanced investment mechanisms:** from angel to private equity (and everything in between)
- **World class talent:** from business to technical fields

CONs

- **Lack of hardware engineering & manufacturing**
- **Cost of Living:** expensive
- **Cost of Talent:** high

Shenzhen

PROs

- **Transition from OEM hub to true hardware innovation**
- **World-class hardware manufacturing ecosystem:** ~50% of electronics hardware are designed, developed, or manufactured here
- **An incubator of software:** Investment driven startups

CONs

- **Lack of innovation:** copy cat mindset
- **Lack of Global legal guarantees**
- **Lack of world class university:** scarcity of talent



- Hub for foreign high-tech companies in China
- Headquarters or branches for many domestic companies
- City with technology readiness:** internet penetration; broadband speed; digital economy

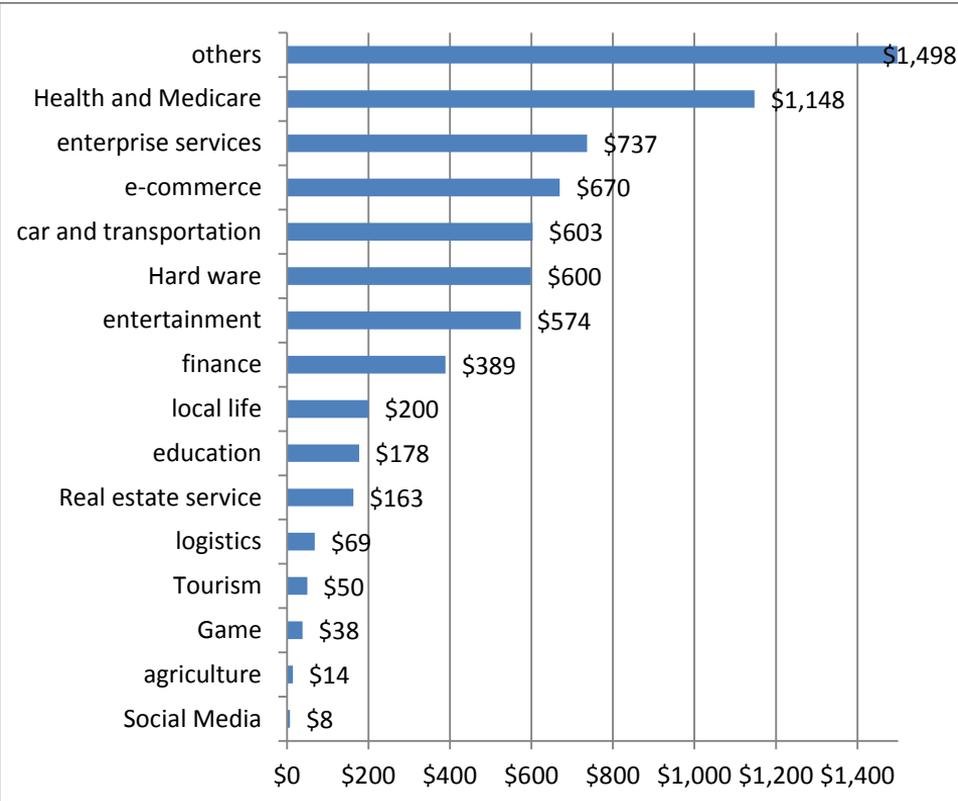
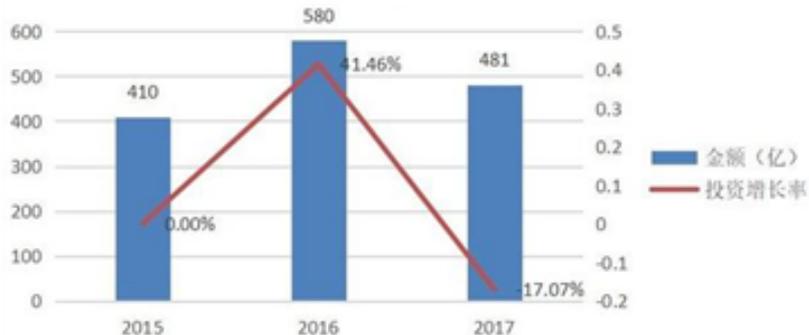
- City with startups
- New startups in software development and multimedia design**

Startup “Nutrients” in Shenzhen: Access to Financing zmado

Angel, VC, PE and Debt Loans

- ❑ Depending on the industry, funding in SZ is accessible but comes with strict T’s & C’s
- ❑ Top VCs are playing the angel fund role. PE funds are playing the VC role.
e.g. Baidu, Tencent and Ali.
- ❑ In 2016, \$9 Billion was invested in Startups SZ
- ❑ Declined by 17% in 2017 to \$7.4 billion.

图表2-1 2015-2017深圳创投行业投资金额及增长情况



There is enough venture capital to support startups in Shenzhen.

Startup “Nutrients” in Shenzhen: Access to Financing zmado

Government Subsidy Programs

- ❑ **Start-Up Enterprise Subsidy:**
¥5,000 ~ ¥50,000.
- ❑ **Office Rental Subsidy:**
80%~20% or < ¥6,000 each year for 3 years.
- ❑ **Social Security Subsidy:** up to 3 years.
- ❑ **Employment Subsidy:** ¥2,000 ~ ¥30,000.
- ❑ **Micro-Financing:** A loan amount of ¥200,000 ~ ¥2,000,000
- ❑ **Hi-Tech company subsidy**
variety of choice from different government levels.

Zmodo Realities

- ❑ Since 2015, we have raised \$85M through private equity
- ❑ ~\$15M Debt loans from Bank are collateralized through personal guarantees or business assets.
- ❑ ~\$1M annually from government subsidies
- ❑ State-level high-tech certified for 10% tax deduction



Startup “Nutrients” in Shenzhen: Human Capital

Shenzhen by the Numbers

		2015/2016			
		Shenzhen	Shanghai	Beijing	Hong Kong
Demographics	Population	11,378,900	24,150,000	21,710,000	7,298,600
	Average Age	33	37	36	44
	Age 15–44 (%)	73%	50%	53%	45%
	New Registered Migrants	160,000	60,000	70,000	N/A
	New Registered Migrants (2017)	500,000			
Quality of Life	Housing Price (RMB/sqm)	4,848	3,097	3,212	15,547
	Housing Price as a % of Income (%)	42%	20%	20%	40%
	Pollution (PM 2.5) (ug/m3)	30	51	81	26
Economy	GDP (RMB, Billion)	1,750	2,512	2,301	2,398
	GDP (RMB, Billion)-2017	2,244	3,013	2,800	2,244
	Growth Rate	22%	17%	18%	-7%
	GDP per Capita (RMB)	197,207	124,762	128,973	307,456

- With 500,000 new registered migrants in 2017, Shenzhen is one of the most diverse cities in China.
- Most new migrants are educated with at least a Bachelor degree.
- Talent with overseas education and/or work experience are accessible
- Diversity contributes to the quality of the talent pool available in the city

Talent in SZ

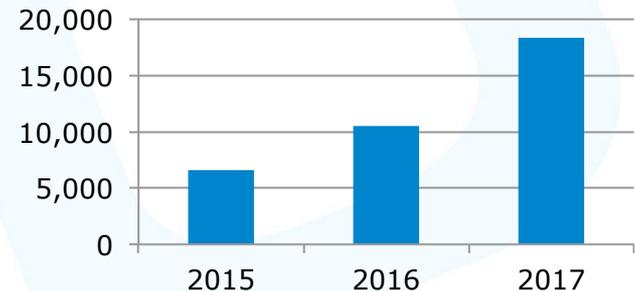
PROs:

- Quality of Life
- Government subsidy program
- Large companies that attract talent
- Highly educated workforce with mobility

CONS:

- The rising cost of living has hurt the incentive to remain long-term in the city
- Need for research experience: talent tends to be concentrated in the development phase

SZ expats available



Startup “Nutrients” in Shenzhen: Human Capital

Zmodo and meShare case study:

Managing Executive talent

- 70 executives
- 19 have overseas education and/or work experience
- Average salary: 30k RMB/month (~\$5k USD/month)

Globalization impact

PROs:

- High level of ambition and confidence
- **Fast execution**
- An openness to think big

CONs:

- Lack of Senior positions with true global experience
- Lack of Sales and Marketing
- Lack of VP level talent with vision

Managing the Technical Talents

- 110 Engineers
- 5 of them with overseas education and/or work experience
- Average salary: 25k RMB/month (~\$4k USD/month)

Globalization impact

PROs:

- Good execution mindset
- Willingness to learn new technologies
- Fewer language barriers

CONs:

- Lack of innovation
- No true meaning of CTO level talent
- **Lack of customer-centric approach**

For the last five years, we have been one of the top-ranked companies with the lowest employee turnover rate in SZ.

Example of fast execution:

Zmodo Yanchen Manufacture Facility construction project with 300 k sqft:

From design to production: 12 month.



Startup “Nutrients” in Shenzhen: Human capital

zmodo

“Nutrients” that build a productive workforce:

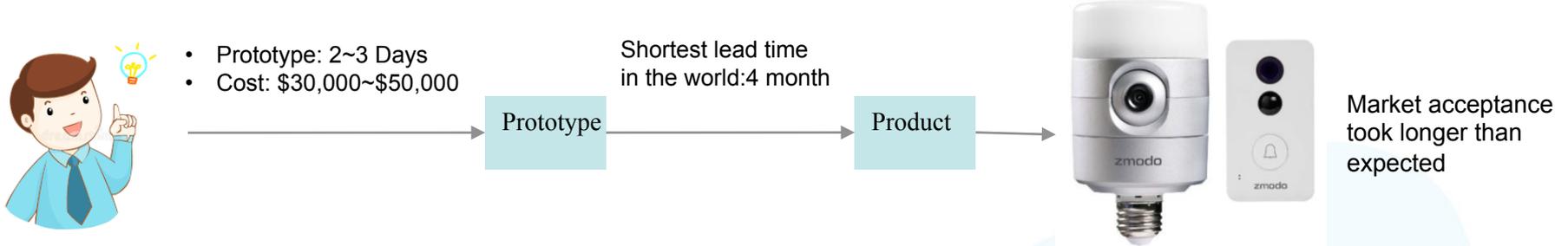
- ❑ Competitive salary, equity and benefits
- ❑ Good work environment
- ❑ Strong company culture
- ❑ Personalized career development plans
- ❑ Opportunities to learn new skills through weekly training sessions



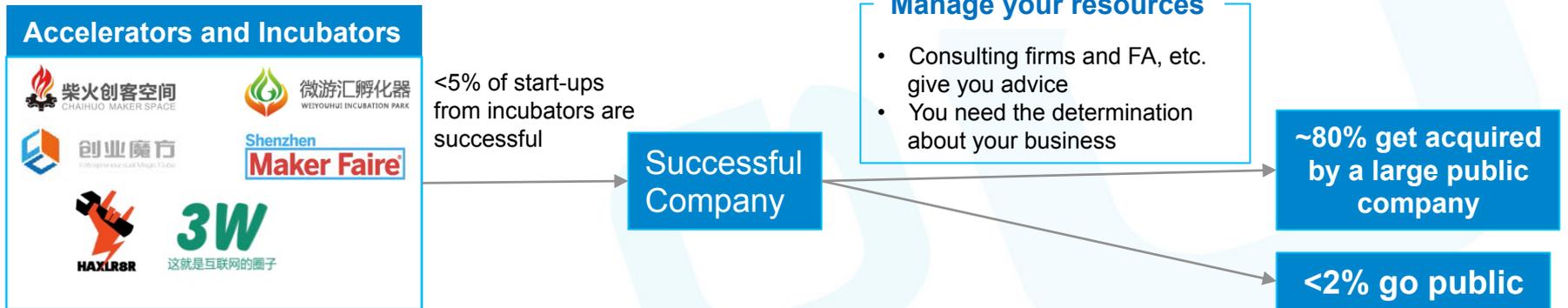
Startup “Nutrients” in Shenzhen: Resources

There are many resources available to new entrepreneurs in SZ:

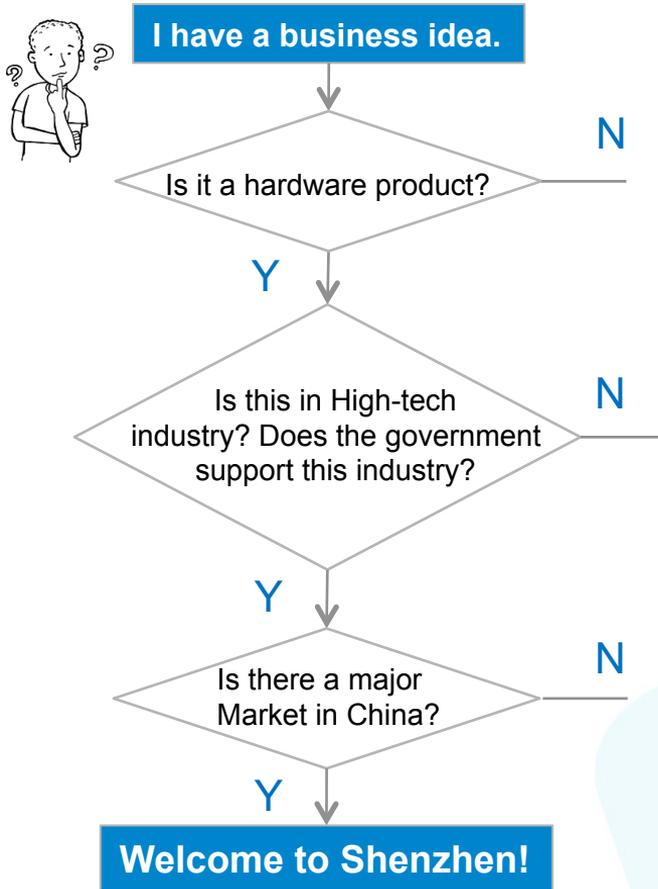
1. Hardware ecosystem to help you quickly implement the idea: Product Idea → Prototype → Product



2. Financial and legal advisors to help you identify your business model: Business Idea → Business



Suggestions for new startups



Questions to Ask:

- What is my exit strategy? Sell the technology? Sell the product? Or sell the company? Or build up a Brand Name company?
- What is my business model? B2C, B2B, B2G?
- Where is the market? Global? In the US? In China?
- What is my purpose for being an entrepreneur?

"I'm convinced that about half of what separates the successful entrepreneurs from the non-successful ones is pure perseverance." - [Steve Jobs](#),

High-level summary

□ Climate

- Large number of new companies every day
- A lot of companies with similar ideas

□ Soil

- More emphasis on hardware
- Having a market in China is preferred

□ Nutrients

- Financing
 - Differences in standard definitions of VC's and PE
 - Government subsidies
- Human Capital
 - Plenty of skilled talent, lack of visionary talent
 - Growing focus on employee wellness
- Resources
 - Fast product innovation
 - Exit plan is important



Questions?

