Globalization in Shenzhen: A Perspective on Business Practices in China

Rick Wan

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Quick Introduction: Dr. Rick Wan

1986~1997
Educated in the US (1991)
- PhD in Physics
- Worked at:
  - University of Wisconsin
  - University of Pittsburgh
  - 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 & 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

- Curtain System
- Smoke Detector
- Irrigation System
- Thermostat
- Pivot 1.5
- Wireless IPC
- Pet Monitors
- sPOE
- Panoramic Bulb
- Pivot 1.0

IOT platform services

Zmodo & meShare
Introduction: Zmodo Products
meShare’s Mission: Create scalable, simple, affordable IoT solutions that simplify your daily life.
Introduction: meShare IoT platform

meShare’s IDC center has over 100PB capacity and is located in Champaign, IL
How to do startups in Shenzhen?

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

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

GDHKMC Bay 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
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.

There is enough venture capital to support startups in Shenzhen.
**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

<table>
<thead>
<tr>
<th>Demographics</th>
<th>2015/2016</th>
<th>Shenzhen</th>
<th>Shanghai</th>
<th>Beijing</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>11,378,900</td>
<td>24,150,000</td>
<td>21,710,000</td>
<td>7,298,600</td>
<td></td>
</tr>
<tr>
<td>Average Age</td>
<td>33</td>
<td>37</td>
<td>36</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>Age 15–44 (%)</td>
<td>73%</td>
<td>50%</td>
<td>53%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>New Registered Migrants</td>
<td>160,000</td>
<td>60,000</td>
<td>70,000</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>New Registered Migrants (2017)</td>
<td>500,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality of Life</th>
<th>2015/2016</th>
<th>Shenzhen</th>
<th>Shanghai</th>
<th>Beijing</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Price (RMB/sqm)</td>
<td>4,848</td>
<td>3,097</td>
<td>3,212</td>
<td>15,547</td>
<td></td>
</tr>
<tr>
<td>Housing Price as a % of Income (%)</td>
<td>42%</td>
<td>20%</td>
<td>20%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Pollution (PM 2.5) (ug/m3)</td>
<td>30</td>
<td>51</td>
<td>81</td>
<td>26</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economy</th>
<th>2015/2016</th>
<th>Shenzhen</th>
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<th>Beijing</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (RMB, Billion)</td>
<td>1,750</td>
<td>2,512</td>
<td>2,301</td>
<td>2,398</td>
<td></td>
</tr>
<tr>
<td>GDP (RMB, Billion)-2017</td>
<td>2,244</td>
<td>3,013</td>
<td>2,800</td>
<td>2,244</td>
<td></td>
</tr>
<tr>
<td>Growth Rate</td>
<td>22%</td>
<td>17%</td>
<td>18%</td>
<td>-7%</td>
<td></td>
</tr>
<tr>
<td>GDP per Capita (RMB)</td>
<td>197,207</td>
<td>124,762</td>
<td>128,973</td>
<td>307,456</td>
<td></td>
</tr>
</tbody>
</table>

## 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

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- With 5000,000 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

![SZ expats available](chart.png)
Managing Executive talent

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

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:**
- 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

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

“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
There are many resources available to new entrepreneurs in SZ:

1. Hardware ecosystem to help you quickly implement the idea: Product Idea → Prototype → Product
   - Prototype: 2~3 Days
   - Cost: $30,000~$50,000
   - Shortest lead time in the world: 4 months

2. Financial and legal advisors to help you identify your business model: Business Idea → Business
   - Consulting firms and FA, etc. give you advice
   - You need the determination about your business
   - ~80% get acquired by a large public company
   - <2% go public

Accelerators and Incubators:
- <5% of start-ups from incubators are successful
- ~80% get acquired by a large public company

Manage your resources:
- Consulting firms and FA, etc. give you advice
- You need the determination about your business

Successful Company
Suggestions for new startups

I have a business idea.

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?
- 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?