

Baidu: The Long March Towards Success

Guanru Li

Northfield Mount Hermon, 1 Lamplighter Way, Gill, MA, 01354
Email: gbruce23@nmhschool.org

ABSTRACT

Baidu.com is currently the top Chinese search engine in the world. Going through three series of funding and IPO, Baidu has faced difficulties and challenges, but also revenues and progress. At its inception, Baidu faced capital shortages and pressure, yet it managed to survive with careful planning and funds. Starting from a lab at Peking University, Robin Li, the founder of Baidu, has managed to turn his dream of creating a better internet browsing experience into a billion-dollar business. Today, the Baidu search engine has around 202 million daily users and continues to bring convenience to people's lives [1].

Keywords: Baidu, Investment analysis, financial analysis, financial reports, decision-making

1. INTRODUCTION

As technology advances, the internet has become our predominant source of information. However, when the internet was first introduced, it was like an ocean full of different statistics, and finding the right information wasn't easy. The task of finding information on the vast internet led to the invention of search engines. As the optimum Chinese search engine company, Baidu has been through three rounds of funding and IPO, emerging to be the dominant search engine company in China and expanding its domain beyond search engines.

Baidu is the largest internet integrated services company in China founded by Robin Li in 2000. Currently, Baidu has a large variety of products including iQIYI (video platform), Baidu Post Bar (forum), Baidu Knows, Baidu encyclopedia, and Baidu Maps [2]. However, Baidu is most known for the Baidu search engine, also known as Baidu.com. Before the creation of the Baidu search engine, most Chinese search engines were directly translated from foreign search engines, leading to an uncomfortable and awkward user experience in China and failing to provide accurate information the Chinese users were seeking [3]. Furthermore, the limitations of technology in China constrained Chinese internet users to these foreign search engines. In 1999, Robin Li, observing this conundrum, decided to create a search engine specially designed for Chinese users, leading to the birth of the Baidu search engine in January 2000. Since 2004, Baidu has been the leading Chinese search engine. According to alexa.com,

Baidu.com is the second most visited website in China and the seventh most visited website in the world, proving its leading position in the internet search engine market [4].

The success of the Baidu search engine can be ascribed to three major factors: users, customers, and Baidu Union Members. For the users of the Baidu search engine, Baidu provides a search engine linked to over 600 million websites and over 80 million image and multimedia files, allowing its customers to pinpoint the information they seek easily. For other customers of the Baidu search engine, Baidu provides a tailored P4P marketing service, an advertising service. For this service, Baidu allows different customers to bid for a prioritized placement of advertisements among the search results and webpages of the Baidu search engines. This allows Baidu users to see the advertisement—including images, links, and videos—while browsing the web. The novel P4P marketing service provided by Baidu is unprecedented in China, and Baidu managed to make huge profits over the P4P service. The Baidu Union is a union formed between Baidu and over 76,000 third-party websites in China. The Baidu Union members, the 76,000 websites, were authorized to use the Baidu search engine technology in their websites, allowing users of their websites to also use the Baidu search engine. This strategy not only generates profits for Baidu, but also advertises it. In return, Baidu shares a portion of P4P revenues with the members and provides the P4P services to them. Baidu has also been a fast-growing company since it was originally founded. The net revenues of Baidu increased from 10.5 million RMB in 2002 (the

year when Baidu started making noticeable profits) to 110.9 million RMB in 2004, which is a 224% compounded annual growth rate in net revenues [5].

Baidu also has a special corporate structure due to its domain of internet technology. According to PRC laws, foreign shareholders are not allowed in Chinese internet technology companies. Therefore, Baidu created Baidu Netcom, a subsidiary company of Baidu that is responsible for all the licenses and technology of the search engine service and other internet services. Baidu Online Network Technology Co Ltd., the headquarters of Baidu in Beijing, is responsible for controlling the actions and decisions of Baidu Netcom.

2. SERIES A FUNDING

In 1999, Robin Li and Eric Xu asked Peninsula Capital, a venture capital firm, before creating his company Baidu for a fund of one million dollars. This initial funding would be used to create the Baidu search engine, the key, and the first product of the company.

After agreeing, Peninsula Capital also invited Integrity Partners, another venture capital firm, to participate in the funding. They asked Robin Li if increasing the amount of funding can speed up the process of making the Baidu search engine, and Robin said no. As a result, the Series A funding of Baidu was a 1.2-million-dollar angel investment by Integrity Partners and Peninsula Capital. In February 2000, only a month after the Baidu company was created, Integrity Partners and Peninsula capitals bought 2.4 billion Series A convertible preference shares with each share costing 0.25 dollars (Figure 1) [3]. The 1.2 million dollars from Series A funding allowed Robin Li and other founding members of Baidu to create the Baidu search engine in May 2000. It also acted as start-up capital and sustained Baidu through its early stages since Robin Li, the founder of Baidu, put in almost no money for start-up capital. The 1.2 million dollars from Series A funding supported the Baidu company through the whole year in 2000, also indicating spectacular planning and money management by Robin Li and other co-founders.

Baidu Series A Funding Percentage

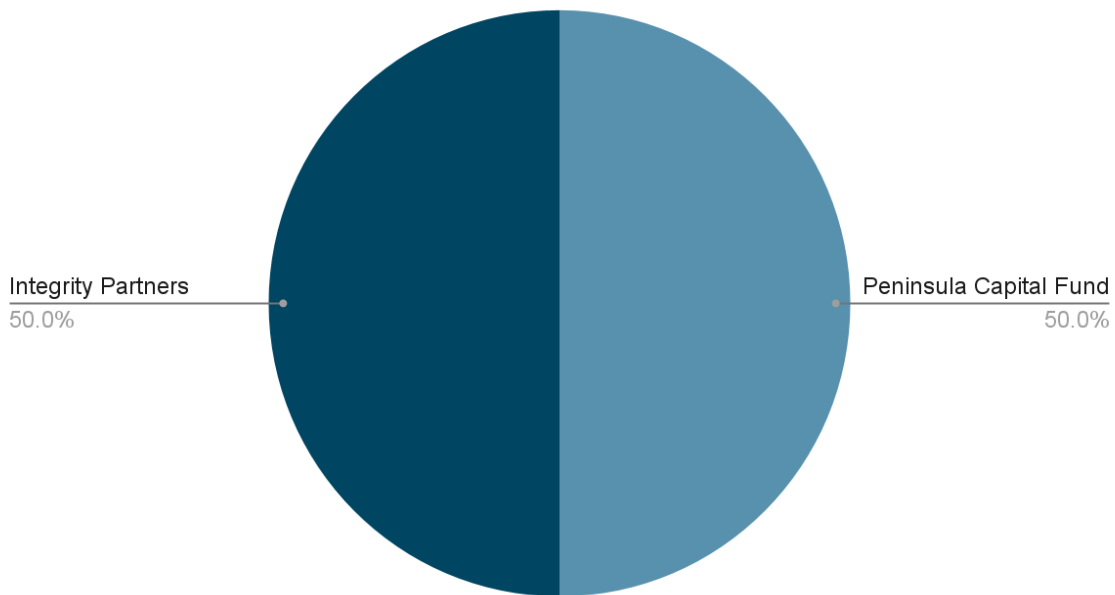


Fig. 1. Baidu Series A Funding Percentage

3. SERIES B FUNDING

The Series B Funding raised ten million dollars for Baidu. In September 2000, several venture capital companies including Integrity Partners, Peninsula Capital, and DFJ Capital, bought a total of 9.6 million Series B convertible preference shares with each share costing \$1.04. DFJ bought the most shares, 7.5 million shares, and became Baidu's top shareholder (Figure 2). The Series B Funding allowed Baidu to perfect its technology and work on the publicity of Baidu [3]. In

March 2002, Baidu launched the lightning campaign, a campaign in which Baidu managed to surpass Google in the Chinese search engine market. A group of fifteen people, composed of college graduates, doctors, Ph. Ds, and Robin Li himself, were in charge of the campaign. Initially, Robin wasn't a part of the group. In August 2002, five months into the campaign, even though the group made huge progress, Robin Li wasn't satisfied with the result and decided to lead the group himself. His participation profoundly accelerated the progress of the group since Robin knew the most about search engines and their technology. With his insights and the hard work

of the 15 group members, the goal was achieved in December 2002 [6]. After the success, Baidu also used the campaign for commercial use, demonstrating the strength of the Chinese search engine. The campaign not only brought success to the search engine but also filled

the company with determination, knowing that China also has the technology to make a search engine as fine as Google. As a result, the series B funding brought Baidu immense commercial success.

Baidu Series B Funding Percentage

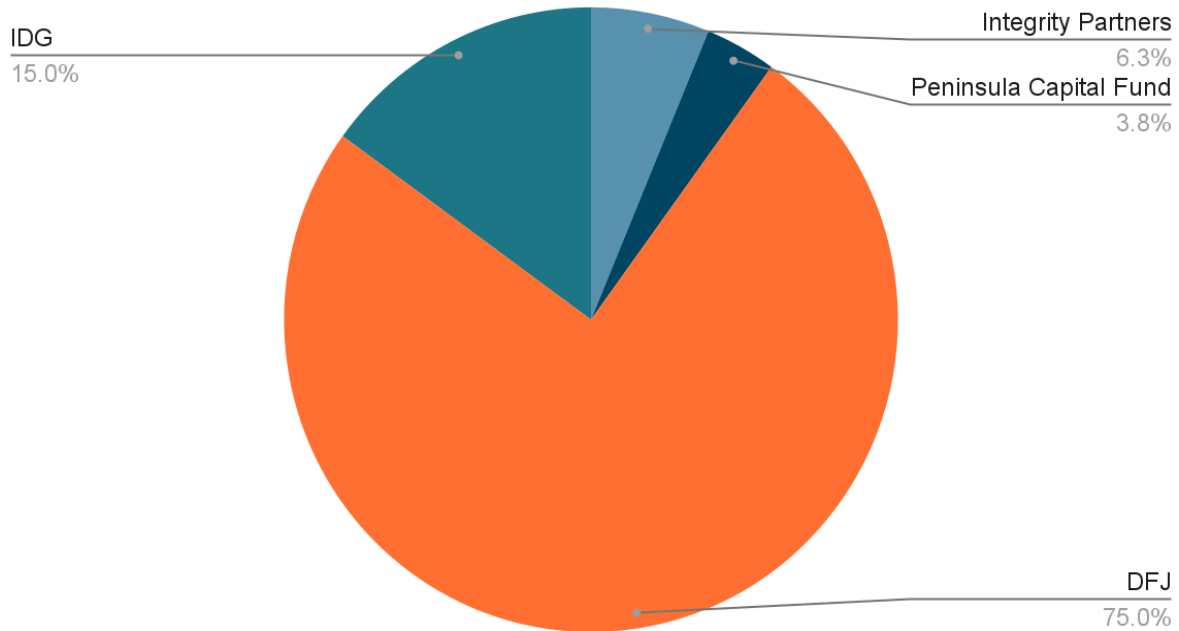


Fig. 2. Baidu Series B Funding Percentage

4. SERIES C FUNDING

The Series C funding was a \$15-million investment by DFJ Capital, Google, Threshold, and Eplanet Capital on Jun 18, 2004 (Figure 3). During Series C Funding, Baidu was bemused with whether they should give Google a part of their share. At that time, Google was the biggest competitor of Baidu in China while Baidu was constantly trying to maintain its leading position in the Chinese search engine market. Google’s purpose of participating in the Series C Funding of Baidu was to

hopefully turn Baidu from a competitor into an ally, thus improving its dominance in the Chinese search engine market. However, as Robin Li stated, “Google’s participation will increase the popularity of Baidu, but Baidu is still an individual company [3].” In Series C Funding, Baidu’s purpose wasn’t to raise money but to form alliances with companies or individuals that can bring value to Baidu’s. As it turns out, Google was one of the lead investors and the participation of Google seems to bring positive outcomes. In 2004, Baidu had commercial success and the profits prepared Baidu for its IPO on August 5, 2005.

Baidu Series C Funding Percentage

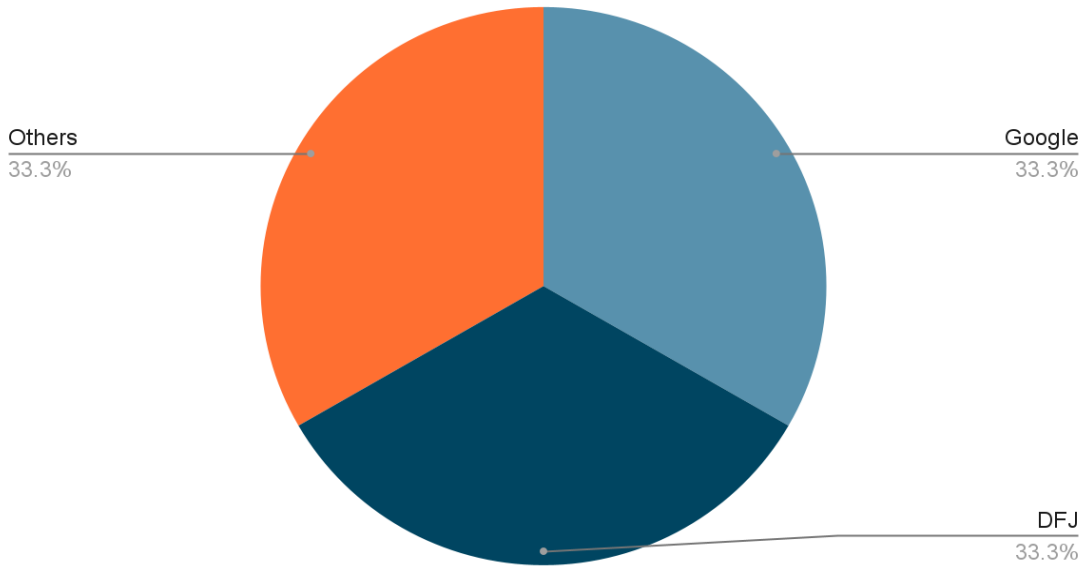


Fig. 3. Baidu Series C Funding Percentage

5. IPO

On August 5, 2005, the biggest Chinese search engine company, Baidu, went public on NASDAQ under the symbol “BIDU.” Over the 5 years since its establishment, Baidu has seen tremendous growth in the financial aspect. The total net revenue of 6,228 thousand dollars in 2000 rose to 13,401 thousand dollars in 2004. This is more than two times the total net revenue in 2000 and an increase of approximately 115%. The exponential increment of Baidu’s net revenue attracted lots of investors and Baidu’s IPO was a success. Baidu offered 3,208,696 American Depositary Shares (ADSs) and selling shareholders offered an additional 831,706 ADSs. Each ADS costs \$27 and is raising approximately 109 million dollars for Baidu. The ADSs were sold by Goldman Sachs L.L.C, Piper Jefferay, and Credit Suisse First Boston [5]. With the money gathered from the IPO, Baidu was able to look away from its search engine and explore different methods to earn revenue other than its P4P product in its search engine. With a sufficient amount of capital, Baidu developed “Baidu Knows”, an online forum where users can ask questions to other Baidu users or answer questions posted there. Baidu Knows is an encyclopedia that allows users to post their questions or answer questions that were posted by other users [7]. In later years, Baidu also developed other products such as Baidu encyclopedia and iQiyi (a video website) [8]. After Baidu’s IPO, its top shareholders were DFJ and Robin Li. DFJ had approximately 7.95 million stocks, which made it the top shareholder of Baidu, holding 25% of Baidu’s stocks. Robin comes in second with approximately 7 million stocks, holding 22% of

Baidu’s stocks. Lots of original shareholders including Robin Li also sold portions of their stocks in the IPO. Robin Li, the founder of Baidu, sold 250,000 shares and Eric Xu, the co-founder of Baidu, sold 150,000 shares in the IPO. The biggest shareholder of Baidu, DFJ, however, didn’t sell any shares during the offering [1][3].

6. OVERALL ANALYSIS

Overall, Series A, B, and C played a significant role in Baidu’s growth from its establishment to its IPO and its present stage. Series A funding provided sufficient start-up capital for Baidu in its first year, which was the toughest year for Baidu. When Robin and his partner Eric Xu first founded the company, they only had the necessary technology but no capital. Therefore, the 1.2-million-dollar Series A funding was the only money Baidu had while starting the company. With the 1.2 million dollars, Robin managed to create the Baidu search engine within 6 months and sustain the company until its Series B funding in September. The Series A Funding was the initial power source for Baidu. Without this money, Baidu wouldn’t have survived.

The Series B Funding is as important as the Series A Funding, providing a boost for Baidu and securing its survivability. Series B Funding provided enough capital for Baidu to promote its search engine to its customers. One of the most important customers was Sina, a popular Chinese website that provides news and other information to Chinese internet users. In November 2000, 2 months after Series B, Baidu made a contract with Sina and started providing search engine services for Sina users [9]. After making deals with several major customers such as Sina, Baidu has enough money to

sustain itself and further developments on its search engine. In 2002, Baidu perfected its search engine and further promoted it in 2003 and 2004. As Robin said, “2003 is a year of usage” and “2004 is a year of merchandise”. In 2003, usage of the Baidu search engine was 8 times greater than that of the previous year, providing Baidu with an annual profit of approximately 30 million dollars [3]. In 2004, the Baidu search engine became the most used search engine in China [10]. Without the Series B Funding, the Baidu Search engine would be an unknown product since there would not be enough money to promote it to different customers.

The Series C funding is different from Series A and B. At the time when Series A Funding took place, in 2004,

Baidu already had a lot of money. Therefore, they are looking for stockholders who can not only bring them money but also spread their influence [3]. They succeeded. Investors such as Google and DFJ boosted Baidu’s performance in 2004 and the participation of Google effectively promoted the Baidu search engine on a more global scale. Baidu’s total net revenue in 2004 also saw a significant increase compared to the total net revenues of 2000-2003, setting Baidu up for IPO in 2005 [11]. According to figure 4, Baidu’s graph for revenue in its first four years before IPO is having both a positive slope and concavity, indicating a healthy and steady growth for Baidu. Therefore, the Series C Funding is like a springboard that provided the sufficient impulse for Baidu to further spread its influences and to “reach” IPO.

Baidu Total Revenue Before IPO (in thousands of RMB)

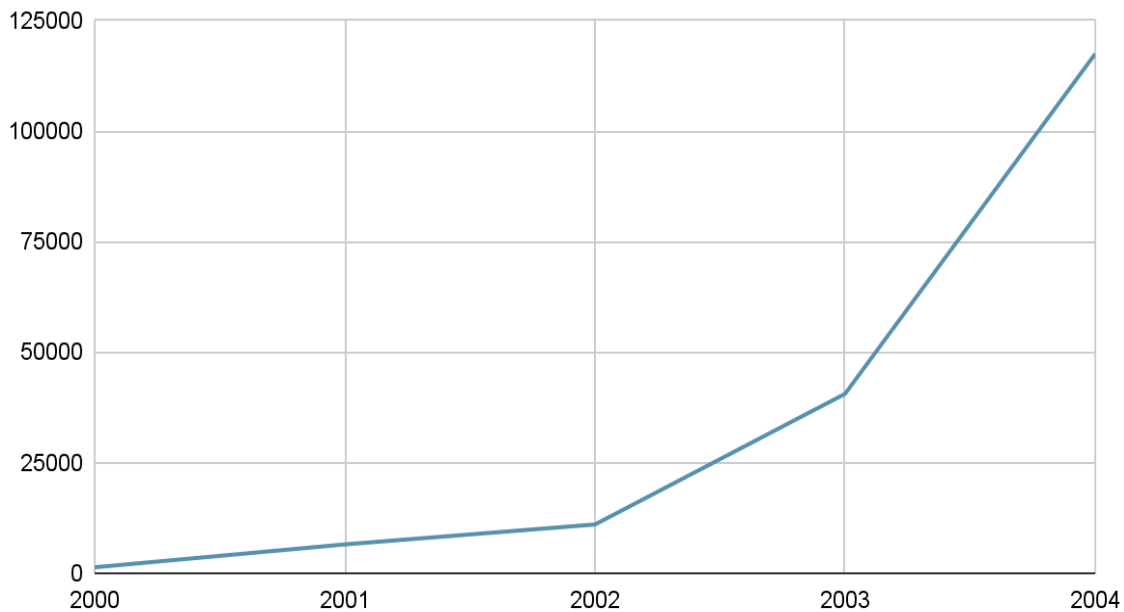


Fig. 4. Baidu Total Revenue Before IPO (2000-2004)

The IPO provided the basis for Baidu’s success in the later years. Baidu’s IPO also signifies the maturity of the Baidu search engine, thus providing Baidu with opportunities with new products. In November 2005, Baidu launched its product “Baidu Knows”, which is a place where internet users can share their knowledge and concerns. In December 2005, Baidu became the best Chinese search engine in China [4]. In July 2006, Baidu revolutionized its P2P product by providing more accurate advertisements. More accuracy means customization. By analyzing Baidu users’ data and searching habits, Baidu can promote advertisements that might be interesting to search engine users. According to Robin Li, the development of more accurate advertisements by Baidu is “a revolution in the field of advertisement” as they are customized and highly flexible [12]. Baidu not only looked into the Chinese

market, but it also looked into markets overseas. Baidu first launched its search engine in Japan in January 2008 and Robin stated that he believes Baidu will become the best search engine in Japan [13]. In March 2008, only two months since the Baidu search engine entered the Japanese market, the Baidu search engine became the fourth most popular search engine in Japan, signifying its dominance and superiority [14]. In January 2010, Baidu Tieba, the largest Chinese forum, came to life [15]. According to figure 5, the development of these products was also followed by an exponential growth of total revenues, especially from 2005 to 2015, when the most products and progress was made. As time progressed, Baidu has expanded on products other than the Baidu search engine, taking a similar path to Google. All this progress is achieved thanks to its successes in its first five years, including series A, B, C funding, and IPO. Other

products were soon developed one by one after Baidu Knows and Baidu Tieba such as Baidu Cloud, Apollo (automatic driving), and DuerOS (AI at home). In December 2019, Baidu became the company with the

most patents in China. Today, Baidu has become the dominant Chinese search engine in the world with yearly revenue of over 100 billion Yuan [16].

Baidu Total Revenues Post IPO (in millions of RMB)

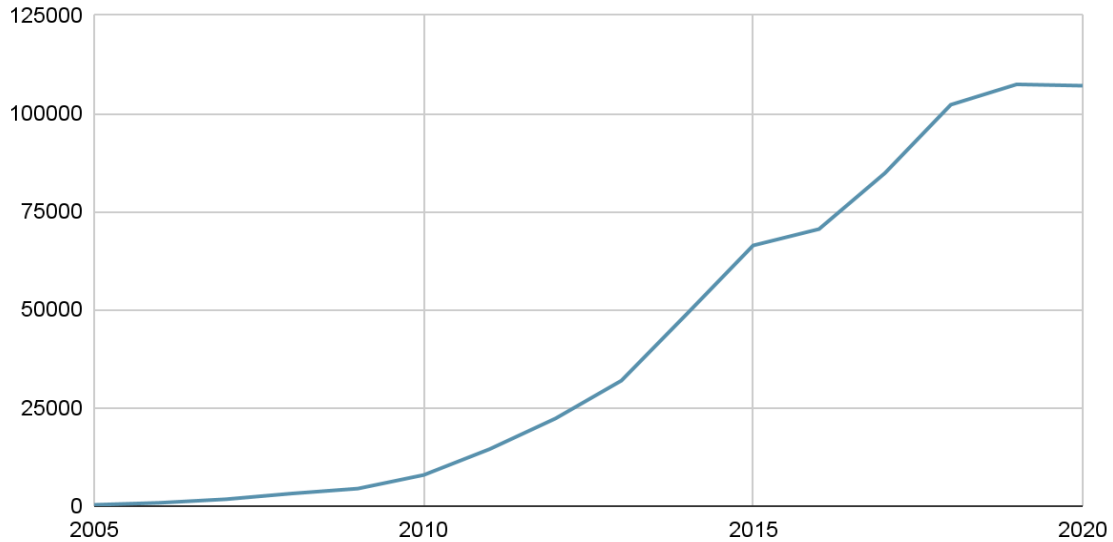


Fig. 5. Baidu Total Revenues Post IPO (from 2005 to 2020)

7. CONCLUSION

Estimated Value of Baidu (in thousand dollars)

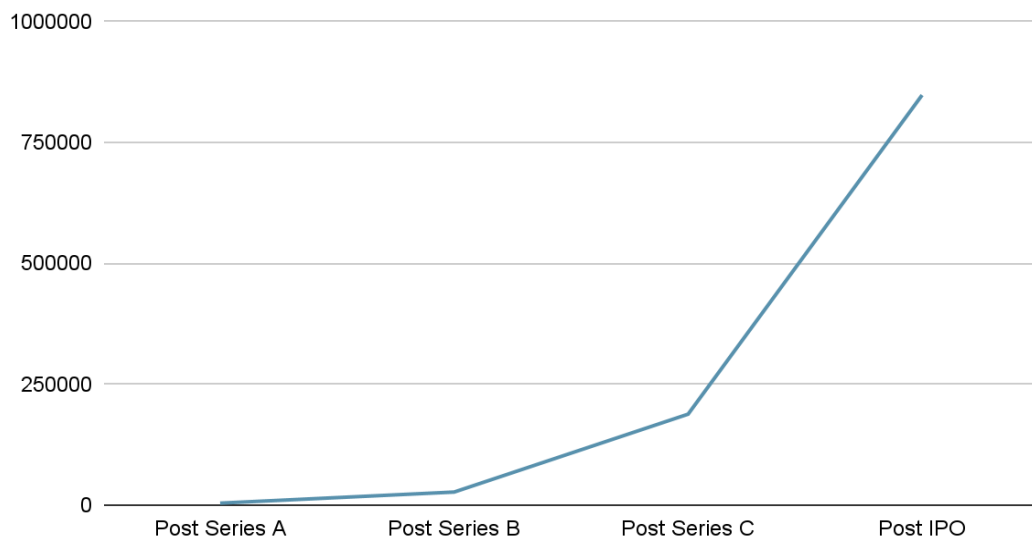


Fig. 6. Estimated Value of Baidu After each Series of Funding

Based on the data on the estimated value of Baidu after each series of funding (figure 6), we can see that the estimated value of Baidu after Series A Funding is approximately 4.1 million dollars. After Series B, C, and IPO, the estimated value of Baidu soared to 27 million dollars, 190 million dollars, and 850 million dollars.

Throughout the first years of Baidu, there has been an exponential growth in its estimated value, and it is still happening now in other aspects such as its growth, popularity, and profits.

REFERENCES

- [1] Thomala, Lai Lin. "Average Number of Daily Active Users of Baidu App from 3rd Quarter 2018 to 4th Quarter 2020." Statista. Last modified June 2, 2021. Accessed August 11, 2021. <https://www.statista.com/statistics/1079983/baidu-app-quarterly-daily-active-users/>.
- [2] "About Baidu." Baidu. Accessed August 11, 2021. <http://home.baidu.com/>.
- [3] " Baidu company's financing history from IDEA to IPO." Mbalib. Accessed August 11, 2021. <https://doc.mbalib.com/view/0056c9665ba7cc6fedd0cc2f581babaa.html>.
- [4] " News about Baidu ". About Baidu. Accessed August 11, 2021. http://home.baidu.com/home/index/news_list.
- [5] "Baidu Prospectus." Sec.gov. Last modified August 4, 2005. Accessed August 11, 2021. https://www.sec.gov/Archives/edgar/data/1329099/000119312505159073/d424b4.htm#rom13000_27.
- [6] " The Lightning Campaign ". Baidu Encyclopedia. Accessed August 11, 2021. <https://baike.baidu.com/item/%E9%97%AA%E7%94%B5%E8%AE%A1%E5%88%92/8927224?fr=laddin>.
- [7] "The official release of "Baidu Knows". Baidu News . Last modified November 8, 2005. Accessed August 11, 2021. http://home.baidu.com/home/index/news_detail/id/17103.
- [8] "All of Baidu's products ". Baidu Products. Accessed August 11, 2021. <https://www.baidu.com/more/>.
- [9] "Baidu for Sina comprehensive search engine to help - Sina Chinese web search using Baidu technology "Baidu News. Last modified November 16, 2000. Accessed August 11, 2021. http://home.baidu.com/home/index/news_detail/id/16960.
- [10] " The Story of Baidu ".About Baidu. Accessed August 11, 2021. http://home.baidu.com/home/index/baidu_road.
- [11] "Financial Reports." Investor Overview Baidu Inc. Accessed August 11, 2021. <https://ir.baidu.com/>.
- [12] "Baidu Revolutionizes its P2P Service by Providing 'Accurate Advertisements'" []. Baidu News. Last modified July 13, 2006. Accessed August 11, 2021. http://home.baidu.com/home/index/news_detail/id/17090.
- [13] "Baidu officially starts business in Japan ". Baidu News. Last modified January 23, 2008. Accessed August 11, 2021. http://home.baidu.com/home/index/news_detail/id/17014.
- [14] "Baidu has become Japan's fourth largest independent search engine ". Baidu News. Last modified March 14, 2008. Accessed August 11, 2021. http://home.baidu.com/home/index/news_detail/id/16999.
- [15] "2010 is the opening year of Tieba, it is expected to create a 1 billion market in 3 years ". Baidu News. Last modified January 21, 2010. Accessed August 11, 2021. http://home.baidu.com/home/index/news_detail/id/17334.
- [16] Macrotrends. "Baidu Revenue 2006-2021 | BIDU." Macrotrends. Accessed August 11, 2021. <https://www.macrotrends.net/stocks/charts/BIDU/baidu/revenue>.