Baidu

Name:    Wang HongLiang

Nr:      230405

Course:  E-Business Technology

Professor: Dr. Eduard Heindl
Declaration

This is to claim that all the content in this article are from the author, Wang HongLiang. The resources can be find in the reference list at the end of each page. All the ideas and state in the article are from the author himself with none plagiarism. And the author owns the copy right of this article.

Wang HongLiang
18/04/2008
Content

1 Background of Baidu
   1.1 Name
   1.2 Foundation
   1.3 Growth

2 Baidu Advantage
   2.1 Chinese population
   2.2 Language
   2.3 Government relationship
   2.4 Localized service

3 Use Baidu
   3.1 Core business(Advertisement)
   3.2 mp3
   3.3 Knows
   3.4 Post bar
   3.5 Space

4 Competition and Future
1. Background of Baidu

1.1 Name

“Baidu” (百度) is come from a poem in Song Dynasty which is around 800 years ago in Chinese history. The poet wrote this poem on a lantern festival. The poem means: “…hundreds and thousands of times, for her I searched in chaos, suddenly, I turned by chance, to where the lights were waning, and there she stood.”[^1^]. Baidu, in Chinese, means hundreds of times. So people will get the hint from the poem that they can hopefully find what they really want from this website.

1.2 Foundation

Jan, 2000 Baidu.com Inc established in the Cayman Islands (USA)
Baidu Online Network Technology Co., Ltd (Beijing)

June, 2001 Baidu Netcom Science and Technology Co., Ltd (Beijing)
Baidu China Co., Ltd (Shanghai)

August 5, 2005 Initial public offering on NASDAQ (BIDU)

The beginning structure of Baidu is as following graph:

The two founders of Baidu are both Chinese American. Their background is as following:

[^1^]: www.baidu.com/about baidu
Robin Li

• Born in 1968 (40 years old)
• BSc in Information Management from Peking University (1991)
• Master in computer science from the State University of New York at Buffalo (1994)
• Dow Jones & Company
• Infoseek/Go.com
  
Robin Li is an expert on technology field.

Eric Xu

• Born in 1967 (41 years old)
• Master in Biology from Peking University (1989)
• Doctor in Texas A&M university (1994)
• Sales in QIAGEN
• Sales in STRATAGENE
  
Compared to Mr. Li, Eric Xu is more in business field.

But the founders are not really the owners. From the beginning of Baidu, it’s built up by different investments including angel investment and strategic investment[2]:

<table>
<thead>
<tr>
<th>Year</th>
<th>Investor</th>
<th>Amount</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>DFJ ePlanet</td>
<td>USD 1.2 Million</td>
<td><a href="http://www.dfjeplanet.com">www.dfjeplanet.com</a></td>
</tr>
<tr>
<td>2000</td>
<td>IDG</td>
<td>USD 10 Million</td>
<td><a href="http://www.idgvc.com">www.idgvc.com</a></td>
</tr>
<tr>
<td>2004</td>
<td>8 companies</td>
<td>USD 15 Million</td>
<td></td>
</tr>
</tbody>
</table>

Integrity Partners
Peninsula Capital
IDG
Google

[2]. Baidu annual report of 2005
As said above, Baidu is actually an American company with majority American stock holders. But for its China market strategy, it setup lots of joint venture in China on different field for its marketing aim. It has been very successful in company growth which is going to be shown as following.

1.3 Growth

From these graphs, you can clear see the dramatic growth of Baidu during less than eight years.

From these two graphs from Alexa[3], we can obviously find that although the traffic of baidu went up and down for some reason, the rank of it has been keeping going up steadily. And up to now, Baidu’s rank in the internet is around 20.

Since Baidu got on Nasdaq[4] in 2005, we can find in the graph on right that it’s price grew from 75USD to 325 USD in less than 3 years. In these 3 years, the value of this company increased more than four times.

[4]. www.nasdaq.com
From the following two graphs, the Total Revenues\[5\] and Active Customer\[6\] chart of Baidu, we can see that Baidu has been keep developing at the speed of more than one hundred percent each year. And the growth speed seems to be increasing in recent years.

2. Baidu Advantage

2.1 Chinese population

Up to 2007, Chinese population\[7\] reached \textbf{1,329,349,388}. And with the strongly economy development, the number of internet users\[8\] has been giantly increasing since 1997.

---

[7]. CPDRC, www.cprc.org.cn
[8]. CINIC, www.cnnic.net.cn
According to the statistic data of worldwide internet users in the end of 2007, the number of Chinese internet user reached 210 million, took approximately 20% of the whole internet world\[9\].
2.2 Language

The system of Chinese language was developed from graph and painting, which is very different from Latin language system. This makes a barrier for many Chinese people to use English. On top of that, because of the big population of China and Chinese users are quite clustered compared to other popular languages in the world\(^\text{[10]}\). Many Chinese people can't speak English or are not really used to speaking English. Therefore, the market for Chinese users is created.

2.3 Government relationship

Baidu has good government relationship. To Chinese government, it compliances with the policies of internet censorship. This helps a lot for its Chinese market development. And with American government, because its big stock holder, DFJ has very good relationship with USA government and Bush family. This helped a lot for Baidu to get into Nasdaq.

2.4 Localization

Baidu has its headquarter in Beijing but its branches located in Shanghai, Guangzhou, Shenzhen, Dongguan, Fuoshan, and Zhongshan\[11\].

Beijing, Guangzhou and Shanghai are big cities but the others are very small cities. The reason why Baidu set offices there is its target customers are small and middle size enterprises. And these small cities are just located in the area of many small or middle size factories and companies. They are usually suppliers for other big companies in China. They can’t afford the advertisement on public media like television. But on internet, with a small paying, they can make the advertisement constantly on a popular search engine in China. So, Baidu becomes their best choice.

Another reason why Baidu put so many offices there will be talked in next chapter.

3. Use Baidu

3.1 Core business

The core business of Baidu, similar as Google, is online advertisement in its search engine. The discipline of this service in Baidu is called P4P, Pay For Performance.

The main difference between Baidu and Google is listed as following:

[11]: www.baidu.com
<table>
<thead>
<tr>
<th></th>
<th>Baidu P4P</th>
<th>Google Adwords</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertisement</td>
<td>Left side, Position depends on Price</td>
<td>Right side, Not very strict</td>
</tr>
<tr>
<td>Open account</td>
<td>€ 60 – open + € 240 – deposit</td>
<td>€ 5 – open + € 0 – deposit</td>
</tr>
<tr>
<td>Payment</td>
<td>Personal service</td>
<td>Online payment</td>
</tr>
<tr>
<td>Response</td>
<td>Several hours</td>
<td>Several minutes</td>
</tr>
</tbody>
</table>

Although both Baidu and Google’s service are based on pay by click, they have different advantage and disadvantage. For Baidu, the paid link will be on left side and mixed with the search result. When the customer pay, the customer will know exactly where his link will be positioned according to the price he gives.

Another advantage of Baidu which comes from its successful localization strategy is the personal service. When the customer register the advertisement user on Baidu, the local sales will contact with the customer and come to the door to offer service. For those people who don’t want to do online payment or get confused in Key words setup, this is very important to give a personal service. This strategy brings lots of SME to Baidu.

3.2 MP3

MP3 searching and downloading service is a main tool for Baidu to attract users’ reaches and advertisement clicks.
But this leaded to a lot of argument on legal issue and copy right. So Baidu came with the solution that it offers only third party links, which is announced by Baidu on it’s website.

[Baidu MP3 warns you:  
At the request of the user, the Baidu search engine system will automatically provide links to third party web pages without human assistance. "Baidu" does not store, control, edit, or modify the information on the linked third party web pages.]

3.3 Knows

Baidu ‘Knows’ is a platform to let people give questions and answers to each other. Up to April 8, 2008, there are Answered question: 28,453,882, and Waiting for answer: 705,102.

From my experience, it’s very useful and efficient system for seeking for something. The advantage of it is you can find out exactly what you want in term of getting lost in hundreds of search results. Especially when you want to find travel information or some knowledge in some special field.

3.4 Post bar

It’s a open BBS system. The difference of it from normal BBS is every user can start a new topic and be the administrator. So, it’s very common used by schools to setup classmates’ BBS, or fans clubs for singers or football teams, and so on.
3.5 Space

It's a blog system. Users can start their own homepage including blog, photos and link with their friends' pages.

4 Competition and future

Baidu’s main competitor is Google which is well known search engine company. In the following graphs, I will give some statistic data to compare these two companies from the view of ‘Company Value’, ‘User Feeling’, and ‘Market Share in China’.

This chart shows the stock value growth of Google and Baidu since 2005 to 2008(32 months) [12]. From this chart, we can see that in the three years, Baidu made 240% growth while Google at 160%.

This two charts\textsuperscript{[13]} shows the results of a market research on Google and Baidu.

From the chart on the left, we can get to know the different attitude to both search engine based on different gender, age and education.

We can get the answer that older people or people with higher education will prefer Google more. Because young people and less educated people will face more language barrier when they use google. They will more trend to use Baidu. But we can also see there is not a big distance between two search engines.

From this graph, we can see more people (test on Chinese users) are satisfied by Google in the blind test. But from the chart below, we can see the market share is just the opposite.

\textsuperscript{[13]} Chinese Internet Users Prefer Google Results, Gemme, www.searchenginejournal.com
<table>
<thead>
<tr>
<th>September, 2007</th>
<th>Zheng Wang Consulting$^{[14]}$</th>
<th>Reuters$^{[15]}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baidu</td>
<td>69.5% ($Blue$)</td>
<td>58.1% ($Blue$)</td>
</tr>
<tr>
<td>Google</td>
<td>23.0% ($Red$)</td>
<td>22.8% ($Red$)</td>
</tr>
</tbody>
</table>

These two research results are given by one Chinese consulting company and one western news company. So we can get the situation that although Google owns higher technology and gives better user feeling, Baidu, based on its advantage of language barrier and localization strategy, takes high market share in China.

In conclusion, I think Baidu can be said to be a Chinese Google. At least it was copying Google’s ideas in the beginning. But with its development, they found more and more advantage of Baidu in China internet market and used these advantage to get higher market share than Google in China. In the future, Baidu will face more and more pressure from Google (Google China) because Google has strong technology power and international background. On the other hand, it’s not easy for Google to take the place of Baidu. For users, it’s good to have two companies in competition in the same field. They offer more choices for people.

Wang HongLiang
April 18, 2008

$^{[15]}$ Reuters, www.reuters.com