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China's most successful startup?

Ask people in China to name the country's most successful and innovative new mobile phone brand and most will immediately declare Xiaomi. Ask tech savvy Americans and Europeans and they will just as quickly suggest OnePlus.

Though largely unknown in China, OnePlus, established less than 18 months ago in the southern city of Shenzhen, has achieved more success more quickly in U.S. and European markets than any other Chinese mobile phone maker. It is also possibly China's most successful startup since Xiaomi was established five years ago.

OnePlus, by my estimate, has now joined the most exclusive club in the technology world as a "unicorn", those technology startups with a valuation of at least \$1 billion. Aside from Xiaomi, other Chinese unicorns include Kuaidi Dache, China's Uber, and group buying site Meituan.

Unlike those companies, OnePlus has not yet raised any money from venture capitalists and is one of the only ones to generate most of its sales abroad.

With just a tiny amount of seed capital, OnePlus began selling phones in April 2014. Its revenues last year reached \$300 million, well behind Xiaomi's \$12 billion.

While Xiaomi and OnePlus are going head to head in India, OnePlus has otherwise focused its efforts on the U.S. and Western Europe. In these markets, OnePlus is now considered a legitimate competitor to major international Android phone brands like South Korea's Samsung, Taiwan's HTC, Japan's Sony and Google Nexus of the U.S. OnePlus is cheaper than those but that doesn't seem to be the main reason it's winning customers and market share as well as enthusiastic reviews from experts.



It's mainly because of the quality of OnePlus's hardware and software. A reviewer at the Wall Street Journal said the OnePlus One phone "beats Apple iPhone 6 and Samsung Galaxy S5 in many ways." The New York Times called the handset "fantastic, about the fastest Android phone you can buy, and its screen is stunning ". Engadget, a widely read U.S. technology blog, put OnePlus One at the top of its list of the best phones to buy, a first for a Chinese brand.

In my seven years as an investment banker in China and before that as CEO of a California venture capital firm, I've never met quite such a mold-breaking company. OnePlus set out to achieve what no other Chinese company has done: to excel not just at making low-cost, fast-to-market products but making ones of the highest quality, in engineering and design, hardware and software.

They next did something else very few Chinese or American companies have done successfully: use social media sites Twitter, Facebook and YouTube to market its products at almost zero cost and build a brand with a high reputation and a growing band of loyal customers and followers in the U.S. and European markets.

Both Xiaomi and OnePlus say they plan to make most of their money from selling services and software, not from selling phones. Xiaomi has the advantage of a much larger user base. But OnePlus may actually do better with this strategy and make more money for the simple reason that Americans and Europeans are more accustomed to paying for mobile software and services than Chinese are.

OnePlus sold over 1 million phones between May and December last year, mainly in the U.S. and Europe. It spent about \$10,000 on advertising. Samsung Electronics, by contrast, spends over \$350 million a year in the U.S. advertising its mobile phones and sold something like 30 million phones there last year. Worldwide, Samsung is spending over \$14 billion a year on advertising and its mobile phone market share has been declining since 2013.

On many fundamental levels, OnePlus thinks and acts differently than any other successful startup in China. Start with its two founders, Pete Lau and Carl Pei. They met while working at Oppo, a Chinese domestic mobile phone and Blu-ray player manufacturer which maintains links with and handles some contract manufacturing for

OnePlus. Lau is responsible for OnePlus's manufacturing and product engineering, including overseeing a network of suppliers and manufacturers in and around Shenzhen.

"We want to tell the world: Chinese products are great," Lau said.

Pei's background is more unusual. He is responsible for the company's international growth and unique marketing strategy. Everything about Pei - his background, his way of thinking and his approach to selling mobile phones successfully in the U.S. and Europe - sets him apart from other Chinese tech entrepreneurs I've met.

Pei is ethnically Chinese, but before coming to Shenzhen three years ago, he had never lived or worked in China and his Chinese language ability, by his own admission, is so so. Now 25, Pei was raised mainly in Sweden.

To understand Pei's approach to business, it's useful to understand something about business and culture in Sweden. It's a small country, with less than 10 million people, but it has arguably produced more innovative, world-changing companies per capita than any other country, including furniture retailer Ikea, milk packaging company Tetra-Pak, bearing manufacturer SKF, fashion retailer H&M and music streaming company Spotify.

Sweden's last attempt at success in mobile phones ended badly. Ericsson once had a decent business selling basic phones, but the birth of smartphones was the death of its mobile business.

OnePlus stands a better chance, in part because it's a mix of a Swedish focus on targeting the mass customer market together with Chinese speed and adaptability. I expect to see more of these "mixed blood" companies emerging in China as the country becomes more globalized and more welcoming to non-natives immigrating to start businesses.

By basing itself in Shenzhen, OnePlus sits inside the world's most densely-packed ecosystem of component, chip and contract manufacturing companies. It's hard to imagine OnePlus could have been built as successfully anywhere else in the world. Foxconn, known for its work assembling iPhones, is among the companies with its China base in Shenzhen.

Manufacturing smartphones in Shenzhen is comparatively easy. Far harder is convincing Americans to buy a mobile phone that isn't subsidized by a network provider like Verizon or AT&T.

Yet OnePlus is so far succeeding. Other companies that tried this ended up spending millions of dollars on advertising to explain the merits of buying a phone directly. OnePlus spent nothing on advertising but used social media to build up a group of early adopters who then went out and evangelized to their friends.

OnePlus has 1.1 million "likes" on Facebook, double Xiaomi's count, along with four times as many followers on Twitter. On YouTube, the OnePlus channel has five times more subscribers than Xiaomi's.

Keep in mind YouTube, Twitter and Facebook are banned in China. OnePlus has become an expert at selling and brand building using websites its China-based staff aren't supposed to even be looking at.

Ask Pei how he figured out how to do things in the U.S. market that American companies, including hundreds with millions of dollars in venture capital funding, weren't able to do and he just shrugs, like it was all pretty easy.

OnePlus still has no office in the U.S., no staff there, no repair centers, nothing. In the beginning you could only buy a OnePlus One in the U.S. or Europe with an invitation. Even with one, OnePlus only accepted orders from new customers one day a week. As OnePlus's reputation grew, the invitations themselves became valuable commodities. They still sell on eBay for \$10-\$20 each. OnePlus is now gradually loosening up and letting those without an invitation buy its phones, but again, only one day a week.

Selling only by invitation may seem counterproductive. But it's proved vital to OnePlus's success. The reason? Making mobile phones is a cash-intensive business, since you need to have huge amounts of working capital to buy parts, build phones, get supply to retail channels and then wait for cash to return. OnePlus didn't have a big pot of working capital, so they basically built phones to order after a customer paid.

One-third of OnePlus's 400 staff are dedicated to customer service, which in this case means answering emails and responding to comments and questions on the company's website and forums.

This is another key thing OnePlus does better than any company I've seen in China. It's establishing a new idea in the U.S. and Europe about what a Chinese company can be: not just a source of cheap manufactured goods, but the owner of a clear and powerful brand identity which knows how to communicate well and sell things to college-educated, young adults living in San Francisco, Berlin and London.

Success has come quickly, but Pei is certainly not complacent. Well aware of the rise and fall of other mobile brands like Nokia and BlackBerry, Pei sees risks everywhere. Apple remains very powerful. It and Google own a lot of the key intellectual property patents for mobile phone signal processing, software and chip design. If either chooses to sue OnePlus, they have plenty of money to fight a U.S. patent case, regardless of the merits. Legal fees could easily top \$20 million, money OnePlus does not now have.

Pei's burning concerns are that OnePlus fails to attract enough talented global executives to join the company, loses its edge in designing hardware and software, or grows too large to maintain its quirky brand image and identity. OnePlus is in the process of moving some senior staff to new offices in Bangalore and Berlin because Pei believes it will be easier to find talented staff there.

Another worry, surprisingly, is how and when to bring in venture capital investors. OnePlus will likely try to raise money from a famous Silicon Valley venture capital firm. Such firms have the most experience investing in disruptive businesses and helping startups like OnePlus to grow, especially in the U.S. market, and they also can provide lots of help finding top executives and distribution partners.

But Silicon Valley venture capital funds have not seen anything like OnePlus before, a Chinese startup with operations in India and a magical ability to sell to Americans without having any Americans involved. If successful, OnePlus could have one of the largest initial venture capital fundraising rounds in history, raising perhaps \$100-\$200 million.

OnePlus's revenues are on track to more than triple this year to over \$1 billion. But there are lots of places where OnePlus could stumble and fall. The launch of its upcoming OnePlus Two model or software upgrades could get delayed. Cost pressures could force it to raise prices in the U.S. as it recently had to do in Europe because of steep fall in the euro.

Also, U.S. and European early-adopters are a fickle bunch. They could start throwing bricks at OnePlus instead of kisses. In less than two years, Taiwan's HTC went from the most talked-about and fastest-growing company in the industry to an also-ran.

China's mobile phone industry, as well as much of its tech sector, have a reputation for being not much more than a bunch of knock-off artists, with no real innovation worthy of the name. OnePlus and Xiaomi both point the way towards a different and better future for Chinese industry.

Yes, OnePlus is good at assembling components cheaply. But its core strengths as a company are too rarely found in China: an obsessive focus on product design, product quality, branding and customer engagement. These are what determine a company's value as well as competitive strength. OnePlus is the first Chinese company to gain a large number of buyers and fans in the U.S. and Europe by being simultaneously good at all these.

China's long-term economic competitiveness requires that more companies like OnePlus emerge. But, until it came along, China didn't have a single one. It's the most concrete sign that China may transition away from being a source of copy-cat products sold cheap and begin to play in the global big leagues, generating buzz while competing and taking market share from large rich incumbents like Google and Samsung.

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