The Shenzhen unicorn

Peter Fuhrman, a tech investment banker in China, analyses OnePlus

A sizeable quotient of the techno-hip crowd in the US and Europe is counting down the days to the launch next week of the newest Android mobile phone by China's OnePlus. It's called the OnePlus 2 and follows a little more than a year after the 18-month-old company's first phone, the OnePlus One, went on sale in the US and Europe.

With barely a nickel to spend on marketing and promotion, OnePlus insouciantly dubbed its OnePlus One a "flagship killer", claiming it delivered similar or better performance than Samsung, LG and HTC Android phones costing twice as much. The tech media swooned, and buyers queued online to buy one from the OnePlus website, www.oneplus.net, the only place that the phones are on sale. In little more than six months last year, OnePlus sold over one million of them.

The new OnePlus model is rumored to be built around a new top-of-the-line Qualcomm processor, and features a larger screen, an upgraded in-house version of Android software, and fingerprint recognition. Price? Around $300. It will be available to prospective buyers, as was the OnePlus One for most of the last year, on an "invitation-only cash-upfront" basis. How to get a coveted invitation remains something of a dark art. New OnePlus owners are given a certain number of invitations to send to whoever they please.

The July 27 launch will be broadcast as an online event. OnePlus has manufactured and is giving away a cardboard virtual reality viewer said to be as good or better than the ones sold by Google for $20. The viewers have been flying out the door for the last month.

But in OnePlus's home market of China the launch will largely go unnoticed. Its market share there is too small to be accurately measured. China has too many mobile phone brands, both global and domestic. All but Apple must beat each another to a pulp to get sales. So OnePlus has mainly stayed away: the company is largely unknown, not only to phone buyers but also among the huge venture capital investment community.

For the China VCs, missed investment opportunities are rarely this glaring. Despite having hundreds of firms managing billions of dollars and employing thousands of people supposedly out scouring China for the next big thing, the venture capital industry has not only failed to invest in OnePlus, arguably the single-most successful startup in recent Chinese history, but also been largely unaware of the company's existence.

Made to order: OnePlus

Since its founding, OnePlus went from bootstrap startup to likely 'unicorn' (a billion-dollar-plus valuation) faster than any company in Chinese history.

And unlike China's other unicorns – Xiaomi, Meituan, newly-merged Kuaidi and Didi Dache and drone maker DJI Innovations – OnePlus is yet to raise a penny of VC or private equity money.

OnePlus has racked up a rate of growth and brand awareness in Europe and the US never seen before from a new Chinese electronics manufacturer. Revenues last year from May through December were $300 million. This year, sales are on track to surpass $1 billion, mainly in the highly-competitive US and European markets.

Over roughly the same period, China PE and VC firms invested over $15 billion in 1,300 Chinese firms, many operating in the mobile industry, either as manufacturers or service providers. Needless to say, not a single one of these startups has performed as well as OnePlus, nor created half as much buzz.

If China venture capital has a big

fat blind spot, it's for companies like OnePlus. That's because the industry – which now trails only the US in the number of firms and capital raised – is most comfortable backing local companies that copy online business models from America and then tweak them around the edges to make them more suitable for the China market.

OnePlus couldn't be more different. It is disruptive, not imitative. And it takes a special kind of venture investor to recognise it and then throw money behind this kind of business.

OnePlus's bold idea was to compete globally, but especially in the US and European markets, against very large and very rich incumbents – Samsung, Google, LG, Motorola, HTC – by building a phone that targets their perceived weak spots. As OnePlus sees it, these competitor phones are too expensive, too slow and of middling quality, with Android software that is too difficult to customise.

At the same time, OnePlus has sought to turn the sales model on its head: no retail sales, no carrier subsidy, and phones built-to-order after the customer had paid.

Nothing quite like it had ever been attempted. But will OnePlus continue its ascent or eventually crash-and-burn along with other once-high-flying mobile brands like Blackberry and Nokia? Whatever happens, it has already achieved more with less than any Chinese company competing for market share in the US and Europe. That augurs well.

From my discussions with OnePlus's 25 year-old co-founder Carl Pei, it seems few China-based venture firms sought out the company and those that did failed to make much of an impact. Instead OnePlus opted to run on a shoestring. It cut the need for working capital by building phones only after the customer paid. And it economised on marketing and advertising, typically where much venture money gets burnt.

Xiaomi has a smaller presence than OnePlus on Facebook and Twitter

Photo Source:

OnePlus spent a total of about $10,000 on advertising. Instead, it poured its efforts and ingenuity into building a mass following on the three major US social media platforms, Youtube, Twitter and Facebook. There's no better, cheaper or more difficult way to establish a brand and build revenues than getting lots of praise on these social networks. OnePlus's success at this dwarves anything previously achieved by other Chinese companies. Compared to Xiaomi, OnePlus has double the number of Facebook likes, four times the Twitter followers and five times more YouTube subscribers. All three [Facebook, Twitter and YouTube], of course, remain blocked inside China itself.

Sales of OnePlus phones also got an immeasurable boost from a string of flattering reviews in some of the most influential newspapers and tech blogs in Europe and the US.

According to the Wall Street Journal, the One Plus One phone is "exceptional" and it "beats Apple iPhone 6 and Samsung Galaxy S5 in many ways". The New York Times called the OnePlus One "fantastic, about the fastest Android phone you can buy, and its screen is stunning". TIME Magazine chimed in that OnePlus is "exactly how a smartphone should be", while Engadget, the widely-read US technology blog owned by AOL, recently rated OnePlus the best phone to buy in the US. That's likely a first for a Chinese brand.

In Europe, the praise was no less uniform and the free publicity no less valuable. Sales of OnePlus barely skipped a beat when the company raised prices earlier this year to compensate for the sinking value of the euro.

While OnePlus intends to keep its focus on the US and Europe, it has also launched its phones in India, the world's second-largest mobile phone market. Typically, though, it's done it with a promotion budget only slightly above $0.

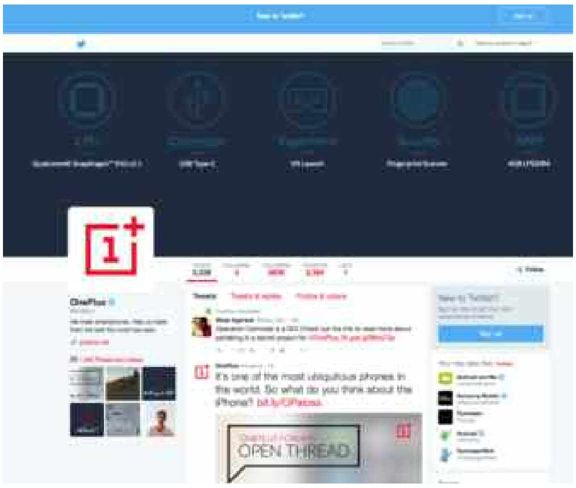
Xiaomi, too, has made success in India a priority and is burning money like there is no get-out. Unlike OnePlus, it has opted to stay out of the US and European markets.

But in India, it has stumbled, and is now relegated mainly to the lower end of the market than OnePlus. As of now, OnePlus is handily outselling Xiaomi.

To a lot of Indians, Xiaomi is a Chinese device repackaged to look global, while OnePlus looks and behaves like the opposite. For that, no small credit should go to co-founder Carl Pei. Of the successful entrepreneurs I've met in China, Pei genuinely is *rara avis*. Ethnically Chinese but raised mainly in Sweden, he first came to China three years ago. From the beginning, he saw the opportunity to enter the American and European markets with a competitively-priced phone with top-of-the-line features and strong build-quality. Remember the way Sweden's Volvo used to seduce car buyers by offering a high-quality car with not a lot of flash but lots of value-for-money? OnePlus is trying something not dissimilar in mobile phones.

One-third of OnePlus's 400 staff, including about 50 non-Chinese, are dedicated to customer service, which mainly means answering emails and responding to comments and questions on the company's website and forums. This is another core thing OnePlus does better than any company I know in China, helping to establish a new sense in the US and Europe about what Chinese firms can do. Not just a maker of cheap manufactured goods, OnePlus has a clear and powerful brand identity, and it knows how to create a zealous following among college-educated, tech-savvy 20-30 year-olds in San Francisco, Berlin and London.

While unknown in China, OnePlus almost certainly wouldn't have gotten off the drawing board anywhere else. Its home base of Shenzhen is the manufacturing base for many of the world's mobile phone manufacturers and component suppliers. It's easier in Shenzhen than anywhere else to find the parts, the people and the assembly lines to bring a mobile phone to market quickly and cheaply. OnePlus got a big boost when a Chinese domestic mobile phone company named Oppo agreed to act as its contract manufacturer. Pei and his co-founder Pete Lau met originally as employees at Oppo and some of Oppo's shareholders also put seed capital into OnePlus.



OnePlus relies on online sales channels

Photo Source:

Unlike many other young Chinese tech companies, including most of the thousands of start-ups backed by China's VCs, OnePlus also neither sought nor received any kind of help from the local, provincial or national government. Just about any young company with a five-page business plan in Shenzhen can apply for free or discounted office space, cash grants and other handouts. It makes getting into business easier, but can often dull the appetite to live by one's revenues rather than government favours. But I've yet to meet a senior government official in Shenzhen who's ever heard of OnePlus, let alone one that knows that it's a local company on track for $1 billion in revenues this year.

Having reached a likely billion-dollar-plus valuation and billion-dollar revenue run-rate as a very lean outfit, OnePlus is now near to closing its first round of venture finance. But it is planning to raise money in Silicon Valley, and not from a VC firm in China. DJI has opted for a similar strategy, raising $75 million from Accel Partners of Palo Alto at an $8 billion valuation to expand sales and production of consumer and commercial drones. DJI, like OnePlus, is based in China's high-tech hub, Shenzhen.

One can see a pattern here. Many of the country's more successful and globalised companies prefer to raise money outside China, either by listing shares abroad, as Alibaba did last year, or raising money direct from US venture firms. US-based venture firms were early investors in Baidu, New Oriental Education and Ctrip, all of which went on to become multi-billion-dollar market cap companies listed in New York.

Why do so many of China's best companies choose to raise money outside China, despite the fact there's so much money available here, as well as valuations that are higher than elsewhere? I have my theories. But one thing is indisputable: being local hasn't conferred much (if any) advantage to China's venture capital industry.

Being China's "hidden unicorn" clearly hasn't done OnePlus much harm. It has revealed, though, some of the blinkered vision at China's venture capital firms.

Peter Fuhrman is chairman and founder of Shenzhen-based investment banking and advisory firm China First Capital (he's also a WiC reader). He and his firm have no business relationship with OnePlus, although he uses a OnePlus One phone. He's hoping to land an invite to buy a OnePlus 2... ■