



# Week in China

Chinese Character

Under the radar

## Dubbed ‘the Chinese Buffett’, he may be one of China’s richest men

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When Google launched its email service in 2004, only people who had been invited to join the network could open Gmail accounts. The invite-only system made Gmail appear exclusive, so naturally more people wanted in. But it wasn’t a marketing ploy. Gmail had to limit membership because it didn’t have sufficient infrastructure to provide the service for everyone.

When OnePlus, a fast-growing Chinese smartphone brand, debuted in 2014, it adopted a similar tactic. Co-founder Carl Pei explained: “The invite system allowed us to scale our operations and manage our risks to help us grow more sustainably.” Essentially, it meant the four year-old company avoided overstocking. But, as with Gmail, by keeping the phone ‘exclusive’, it helped generate buzz.

This week OnePlus launched its seventh iteration, the OnePlus Six. Although it ditched the invite-only sales system in 2016, the company still keeps tight control over its distribution, forcing most purchases to be made online. But in India, where OnePlus made 35% of its total \$1.4 billion in sales in 2017, the company has opened 10 physical stores to help sales and aftercare.

Vikas Agarwal, general manager at OnePlus India, claims OnePlus is now the “biggest Android premium smartphone brand” in the country. According to Counterpoint Research, the third and fourth most popular brands in India last year were Vivo and Oppo. Despite being competitors, the three brands are all linked to one man: Duan Yongping, the founder of BBK Electronics.

BBK (or Bu Bu Gao) was set up by Duan in 1995. It was the second household name Chinese brand Duan has created.

Born in 1961, Duan joined Zhongshan Yihua Group in Guangdong province in 1989 as the manager of a small factory. He used his position to establish a unit called Subor, which produced video game consoles in competition with Japan’s Nintendo.

The most memorable product made by Subor was an educational console, which featured a computer keyboard with ports for data cartridges and a couple of adjoining game controllers. The cartridges stored video recorded lessons to enable students to learn the English language by responding to prompts using the controllers.

The cheap console gave many young Chinese an introduction to computing and its popularity was reflected in Subor’s finances. When Duan joined Yihua it was Rmb2 million in debt, but by 1995

annual profit had exceeded Rmb1 billion (\$157 million).

Despite the success Duan was only earning a meagre salary. He had lobbied Zhongshan Yihua to spin off Subor and give him a stake in the new enterprise, but he was rejected. It became a very public business dispute. The outcome: Duan left and founded BBK, taking a few promising team members with him.

Given his frustrations at Subor, Duan made sure he carved out a sizeable 70% stake in BBK for himself. The company began producing audio-visual products such as VCD and DVD players.

In 1999 and 2000, Duan became the highest bidder on state broadcaster CCTV's annual auction of its prime-time advertising slots, splashing out Rmb300 million. The huge gamble paid off. BBK became a household name and subsequently the leading maker of VCD players.

Duan was quick to see the potential of mobile phones and later the mobile internet. BBK's Oppo and Vivo were initially derided as cheap imitations of Apple's iPhone. But through smart marketing the pair became amongst the country's best-selling smartphones (see WiC358 for our analysis of Oppo's rise). In 2016, sales of the two brands actually bumped the iPhone out of China's top three positions.

More than a decade earlier Duan had spoken to Harvard China Review about his business philosophy: "I am never afraid to follow others. Actually my business has never been an initiator of an industry. Instead, we analyse vulnerabilities of the leading companies in a certain industry and then try to establish our own stronghold."

This ethos likely contributed to the establishment of OnePlus, which was co-founded in 2013 by Oppo's former vice president Pete Lau. The company drew comparisons to Xiaomi at its launch, because both produced low-price premium smartphones with sales made exclusively online.

Lau was an early BBK employee, joining in 1998. According to Medium, Lau paid a visit to his mentor and former boss Duan to seek advice before initiating OnePlus. Duan's pedagogical stature is one of the many reasons he's sometimes dubbed "the Chinese Warren Buffet" and why Lau looked for his backing.

Peter Fuhrman, founder and chairman of Shenzhen-based advisory firm China First Capital, has followed Duan's business career and admires what he has achieved. As he points out, "No one has succeeded for so long, or so well, in such a brutally tough global industry as Mr Duan. He's earned a spot among the business immortals of the past century. Only he and Samsung managed the transition that left Blackberry, Nokia, Sony Mobile, Motorola as roadkill. He rose to the top originally by making simple, cheap feature phones, then more or less chucked that whole business away to create and back three new companies for the smartphone industry, Oppo, Vivo and OnePlus. All are doing outstandingly well. Their success is built on another aspect at which Duan excels as few, if any ever have – creating a hugely-efficient, high-quality manufacturing base in Dongguan turning out phones for all three, backed by what may well be the world's most efficient global electronics supply chain."

Duan is evidently happy to be compared with Buffett. In 2006, he paid \$620,100 to have lunch with the Sage of Omaha. Duan told media after the charity luncheon, "I had already learned a lot from Buffett, so I was hoping for a chance to thank him."

Having emigrated to the US in 2001, Duan has been taking a more active interest in managing his own money, rapidly growing his equity portfolio.

An initial investment was a \$2 million cash injection into NetEase. The firm had almost gone bust following the dotcom crash and its share price had plummeted to just \$0.80. According to China Investor, Duan determined that the company still had potential, so he took the plunge. Within two years he'd made a return of 100-times on his investment.

Duan also made a large investment in GE after its shares slumped following the 2008 financial crisis, buying shares at \$6 each and quickly doubling his money.

His steely nerves ensured he held onto his stake in Kweichow Moutai when the baijiu maker's stock price halved in 2014. Duan entered at Rmb180 in 2012; today Moutai trades at over Rmb700.

“The money I've earned on the back of investments is so much more than what I earned from 10 years of doing business,” he surmised. According to the latest Hurun report, Duan is now worth \$1.3 billion – but there are some in China who think his wealth could be many multiples of that Hurun estimate, and he might even be one of China's richest men.

It's hard to know: many of his investments aren't public. But in Chinese business circles few would disagree that he is shrewd at finding and backing talent.

For instance, also present at the 2006 Buffett lunch was Colin Huang Zheng, who would later found Pinduoduo, one of China's 164 unlisted unicorns. The e-commerce platform has been described as the fastest growing app in the history of the Chinese internet (see WiC404), and Huang has long been viewed as a key Duan protégé.

“He is above all a great manager and motivator of people, of putting strong people in leadership positions and then letting them get on with their business, with minimal intervention from him at the top,” comments China First Capital's Fuhrman. “From hands-on executive to hands-off semi-retired chairman, Duan has excelled across his career in very different roles.”

Despite his successes in the business and investment fields, it seems Duan would rather be remembered for his altruism, claiming “Charity is my business, investment is my hobby.” In 2005, Duan and his wife established the Enlight Foundation, through which they've provided scholarships to their respective alma maters. In 2006, Duan and NetEase founder Ding Lei made a \$40 million donation to Zhejiang University.

But surprisingly the two people who likely won't be receiving handouts from the magnate are his children. According to Phoenix News, Duan has said: “So much of my happiness in life has come from the process of earning my wealth. I don't want to deny my children that same happiness.”

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