

The Queen Building Brands, Xu Xin, Founder and Managing Partner of Capital Today

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Xu Xin (also known as Kathy Xu), graduated from Nanjing University in 1988. Now serving as Managing Partner of Capital Today, as well as Chairwoman of the Board of ChinaHR.com, she has 10-year experience of PE and VC investment in China. Once appointed as a Director and President of Baring Private Equity (Asia) China, she was in charge of the Group's investments in the Chinese Mainland since she joined in early 1998 until she quitted in February 2005.

Ever since her entry into the direct investment sector in 1995, Kathy, as the Founder and Managing Partner of Capital Today, has maintained a bias toward "the consumer products industries relevant to middle-class lifestyle". She is sometimes called "the Queen who levers up consumptions".

She invested in Wahaha during her career in Peregrine Investments, financed Netease during her career in Baring PE Asia, and participated in ChinaHR.com as a business angel ... In 2005 she established with Wen Baoma from AIG and Yu Zhonghua from Baring PE Asia the VC fund Capital Today, which then raised as much as RMB 2.3 billion.

Kathy wishes to see 8 of her investee companies becoming the top brand in their respective industry over the following two years. Such an objective is absolutely achievable in her eyes, since nowadays KUNGFU, TUDOU.com, ChinaHR.com and JD Media have become their respective industry leaders.

Never staying too far from the wallets of consumers

As Kathy's biggest concerns, the middle-class consumption-related industries are where huge opportunities will burst in the future according to her prediction. And to help these industry players grow fast not only requires resolution but also is an art.

Chinese Venture (the “Q” hereinafter): which industries and which kinds of companies are your biggest concerns?

Kathy (the “A” hereinafter): the industries relevant to the middle-class lifestyle are always my biggest concerns, which mainly relate to daily consumptions such as education, recreation, food, clothing and other everyday expenses. Enterprises shall never stay too far from the wallets of consumers so as to maintain their pricing power as well as the space for the creation of a top brand.

For example, we invested in an enterprise specialized in green eggs production because their products are sold in large supermarkets without anyone else sharing profits between the producer and the end customers. Take ChinaHR.com as another example. It is a job-searching platform for white collars which carries out direct dialogues between both vendors and subscribers. Therefore, it has its own pricing power and shows the potential to become the top brand in the industry.

Moreover, we are also interested in the business shifting from "made in China" to "created in China". We'd like the companies to fight a way into the global market by means of their own

excellent brands instead of OEM. China boasts of an extreme hinterland advantage where an enterprise that ranks among Top Three in China is highly likely to make its entrance into the Top Ten worldwide. There is enormous space for the development of Chinese enterprises.

The Launch Tech Co., Ltd., in which Capital Today invested in 2003, is mainly engaged in the production of after-sales fault diagnostic instruments for automobiles, and is promoting its self-owned brand across the world. With strong technical competitiveness and the unshakable determination to evolve into the No. 1 worldwide, President of Launch Tech has even decided not to get married until the company defeats the German-based industry leader Bosch. Recently Launch Tech has indeed exceeded Bosch in Europe in terms of sales volume.

Q: which project has impressed you most over your 12-year investment career?

A: The investment and management experience in ChinaHR.com has taught me a lot and brought me the greatest progress.

I used to visit 51job.com and Zhaopin.com and ask them about their matchable competitors while they both mentioned ChinaHR.com. I had supposed that it's a big company and later found that it's so small as to hold a staff of only five including two casual employees. At that time the website made no revenues and was fed by headhunting.

After the investigation into the company, my partners thought it too risky due to its small size and non-profitability in cash, and refused to make any investments therein. However, I was holding a different opinion. I felt Zhang Jianguo, President of ChinaHR.com, is reliable. More importantly, I was highly bullish of the company's business model. ChinaHR.com is engaged in information flow, with platform maintenance as its major costs. Furthermore, the vendors are automatically matched with the subscribers so that not too much manpower or material is to be necessarily allocated for contents maintenance, which makes the model reproducible.

On this account, I made an investment as a business angel after which I joined ChinaHR.com as the Chairwoman thereof. Later some of my friends were persuaded to invest therein.

The year 2000 is a winter for the internet, and ChinaHR.com could raise hardly any more fund to such extent that even the employees' salaries were almost unaffordable in several months. My lifestyle completely changed during the period. My husband and I had usually spent our spare time playing golf or going on vacation before. During quite a long time that year, however, we had not the least relief and were often looking at each other in gloomy at home worrying about how to explain to my friends and employees who had trusted me in case the company goes bankrupt with no more investments.

It was even more difficult for me to convince my staff in a confident tone that bread and everything else would be there, despite running out of money.

Hence I'm fully aware of the difficulty for entrepreneurs and will value their equity as satisfactorily as possible in an investment. Besides, I'd rather leave the majority ownership to the entrepreneur.

I'm holding a considerable share among the total equity in ChinaHR.com despite that I have partially sold it before. It is an eight-hundredfold return now.

Q: what do you consider first in an investment?

A: I have formed a philosophy over the past 12 years of direct investment that is to consider

which industry to invest in.

Some highly-talented people are working hard but undervalued in some fiercely-competitive industries. The air is very harsh in the traditional home appliance market. The sales directors of Huawei, Haier and Changhong are all very smart with excellent sales and management expertise, and can achieve even more amazing success in internet-related industries. For example, ChinaHR.com was growing 30%~40% annually in terms of market performance at early years, but achieved a leap to over 100% in the year immediately after Huawei's sales team was introduced.

Q: how was the 100% growth rate achieved?

A: we introduced the "Wolf Culture" in the management of the company. Specifically, the Wolf Culture features:

- **A killer's instinct**, which is mainly embodied in product-based innovations. Online recruitment featured severe homogenization given so many "monthly memberships" and "quarter memberships" at that time.

I advised the management to follow the product strategy adopted by the McDonald's, who sells the same chicken or beef hamburgers as its competitors but injects something new thereinto so as to provide the customers with a brand new feeling. We could do the same. For example, the Zhaopinbao was essentially differentiated from most competitors' products so that the homogeneous competition was avoided.

- **Teamwork.** The primary element of The Wolf Spirit is teamwork, which leads to a corporate culture of diligence and selflessness. Most of our meetings were held at weekends but our team members still attended conscientiously. That is a corporate culture.
- **Performance assessment.** I have made investigations into most consumption-based industries ranging from home appliance, jewelry, apparels to hairdressing and foot massage, and have found the key assessment indexes that reflect the quality of products and management should grow year on year. The indexes may grow 10%~20% YoY in well-performed enterprises while declining in underperformed ones, which essentially results from the performance assessment.

Corporate management is to be fully standardized so that everyone knows what to do. Information is to be exchanged in a timely manner among different regional branches and different departments. Within a department, how each employee is performing shall be monitored and controlled in a timely manner, and the performance-related figures shall be collected for statistics as soon as possible on a monthly or even daily basis. Contests may be carried out within a team as well as among different teams, and those making outstanding performance will be publicly praised immediately. In this way, each team and each employee knows very clearly what to do, and is effectively motivated given their individual benefits closely pegged to his/her performance.

The top brands are Kathy's favorites

Kathy has a bias toward the enterprises that show the potential to become the top brand in their respective industry. In addition to setting an objective to build her investee into the top brand, she plans to make her Capital Today outperform all other players in the China's VC industry, be the No. 1.

Q: as you always emphasized the importance of brand, how do you think to build up a brand?

A: Building a brand is something systematic and requires adequate budget. Market share is primary for a growing consumption-oriented company.

Whether a brand is being built effectively goes with the invested costs. I once advised my investee companies to appropriate 20%~30% of their business revenues for brand building, which has been proved to be a success as these companies are now growing rapidly toward the top brands in their respective industry.

Some industry leaders shall build themselves into the top brands in their respective industry as soon as possible, otherwise they have to make doubled efforts to win the market share over once overtaken by their competitors. According to a foreign survey, it is not secured enough for an industry leader until it boosts its market share to more than double of that taken by its immediate follower at the early domain-enclosing stage.

Q: it is not difficult to find a fast-growing enterprise but rather difficult to sustain its growth. How to sustain the growth of an enterprise to build it into the top brand of its business industry?

A: I prefer to contact with small and medium-sized enterprises as I do think I can help them indeed.

Of course, brand is still the primary factor for consideration. The middle class is being formed in China and is seeking increasingly better quality of life, which is symbolized by the focus on brand. In the past Chinese people lived to feed themselves sufficiently while nowadays our families can go out for some fast food if they get worn out in work or study. Then which brand of fast food will they prefer? It must be something reliable. A reliable brand means reliable taste, sanitation and service. That's why Wahaha sells better than other water brands in spite of its even higher price. Its brand has rooted in the heart of consumers.

The middle class is just rising in China. The middle-class-oriented enterprises have taken only a slight market share compared to the total volume likely to be achieved in the future. Therefore, an enterprise has to keep riding and enclosing its domain around the market to realize or maintain the leadership; otherwise it will be soon overtaken and eliminated by others. It is of utmost urgency for mass-consumption-oriented enterprises to build up their own brands.

The secondary factor for consideration is the improvement of the management essentially based on performance assessment.

And the third is corporate culture. It was no other than the perfect completion of the above three that brought ChinaHR.com the 150% YoY growth last year.

Long-term investment

Investing in an enterprise is essentially investing in an entrepreneur. Kathy has not only keen intuition but also a set of standards for evaluating a person. Once making the decision, she sticks to the unshakable principle of long-term returns.

Q: how do you select an entrepreneur?

A: To select the right entrepreneur is the key to success. It is of primary importance for an entrepreneur never to give up. Those internet-related enterprises which didn't give up in the winter have survived eventually and are all well-developed nowadays so long as they have good business models. Any enterprise will inevitably undergo some difficult times throughout its growth, particularly a privately-owned one who can hardly receive any external support. Hence an unshakable self-belief is the most powerful support.

The entrepreneurs who are good at learning are promising. Entrepreneurs are by no means perfect, each of them has different disadvantages, and only those who are good at learning will make their business sustainably growing. As an investee of Capital Today, KUNGFU has opened more than a hundred directly-managed restaurants. Its boss Cai Dabiao, who is very good at learning. He studied at the China Europe International Business School meanwhile shared the knowledge he just learned with his management team for immediate use. Someone cracked a joke on him that his tuition is the most cost-effective as it is paid for the benefit of his entire company.

Another factor for consideration is the ambition for No. 1. Still taking Cai Dabiao as an example. His ambition is to become the top brand of fast food in the Chinese world. And Ding Lei, the founder of Netease, has a similar ambition as he once encouraged his employees during the staff training to be "the Best or Nothing".

Q: when do you think is the best time point to exit from an investment?

A: Many VCs usually ask the investees what their revenues and profits are and when they are to go public. I'd rather like to ask them how much time and money they need to become the top brands in their respective industry.

There is a concept of the Power of Compounding, i.e. with regard to a compounding growth investment its returns grow increasingly faster as the time goes by. The longer you hold it, the faster its returns grow. It is so far more than 8 years since my initial investment in ChinaHR.com in 1999, and I'm going to hold it even longer in spite of the eight-hundredfold returns received.

My investment in Netease is another similar example. I firstly invested in it in 2000 and exited five years later with an eightfold return. Hardly any of the other investors who participated therein at the same time with me held on their investments to the end.

In fact it is very difficult to understand an enterprise and an entrepreneur. There is no reason for you to exit halfway from your investment in an enterprise which you have well understood and been bullish of, only to participate in another one which is strange to you.

Our strategy to hold on investments longer without a hurried exit is based on our adequate control over the funds managed. The RMB 2.3 billion capital of Capital Today has been raised mainly through the road shows my team and I conducted to overseas institutional investors, where we introduced our experiences of success and finally won the trust of the World Bank, the International Monetary Fund, the UK Government Investment Fund and other similar institutions.

We never urge our investees to go public as soon as possible. In my opinion, an enterprise should focus on its own competitiveness and shall not go public until it grows strong enough. Generally speaking, the IPO is to be included into consideration when an enterprise increases

its annual business revenues up to over USD 20 million.

Some of Kathy Xu's investment cases				
Name of project	Core business	Time of investment	Money invested	Exit approach
Wahaha	Beverage	1995	Not available	Not available
Netease	Internet	1999	USD 5 million	IPO
Comba Telecom	Communications equipment	2003	USD 7 million	Still holding
Launch Tech	Fault diagnostic instruments for automobiles	2003	USD 10 million	IPO
NoahEdu	E-dictionary	2005	RMB 130 million	Still holding
ChinaHR.com	Online recruitment	1999	RMB 50 million	Still holding
KUNGFU	Fast food chain	2006	Not available	Still holding

Source: Capital Today