

How

Robin Li banged heads to beat Google and make his search engine No. 1 in China. His next target: The rest of the world

Won



Li gets prepped for his speech at the annual Baidu World conference in Beijing



Baidu

China

By Brad Stone and Bruce Einhorn
Photographs By Andrew Rowat

Many CEOs have admirers.

Robin Li—the 41-year-old, American-educated chief executive officer of the Chinese search engine Baidu—has a fan club.

And each year at the Baidu World conference in Beijing, the members of the Robin Li fan club come out to get close to the object of their worship.

On a late morning in September, about 30 college-age kids wait expectantly outside the China World Hotel in downtown Beijing. When Li emerges from a dark blue sedan, the fan club mobs him, waving signs and screaming his name while Li poses for pictures with a tight, uncomfortable smile before darting into the building to rehearse his keynote address. “Robin Li is my idol,” says Yan Hui Feng, a student from Sichuan University in Chengdu. Liu Zhiqiang, a student at Beijing’s Renmin University of China, says: “He is handsome and very intelligent and outstanding.”

Like much about the 10-year-old company, the Robin Li fan club isn’t quite what it appears to be. The exuberance, club members say later, was coordinated by Baidu, which Yan says flew her into town and paid for her hotel. The students all say they admire Robin Li, but their loyalty to the company he founded has its limits. “If I want to know about what happens abroad, I will use Google,” says one of the students. “Baidu’s information is influenced by the government so much.”

The world knows Baidu as the search engine that kicked Google’s butt out of China, with an assist from the Communist Party. The company has a 73 percent share of the world’s largest Internet market by users, and has the fifth-largest market capitalization (\$38.3 billion) among the world’s pure-play Internet companies, trailing Google, Amazon.com, Tencent (an instant messaging and gaming company based in Shenzhen), and only narrowly, eBay. It’s now 57 percent bigger than Yahoo!—and with significantly brighter prospects. Baidu “has the best business in the world,” says Gene Munster, an analyst at Piper Jaffray. “It’s hugely profitable, with massive growth ahead in the population of Chinese Internet users, and the government backing it up. Essentially it’s a state-sponsored monopoly.”

Baidu’s stock price has more than doubled since January, when Google first disclosed that Chinese hackers had targeted its mail servers and announced “a new approach” to China, with the company saying it would no longer censor search results. The highly public stance ultimately led Google to begin redirecting all searches to a Google site in Hong Kong. This allows the company to avoid the strict censorship rules that Baidu and others in mainland China must follow, while also

putting it at a major disadvantage in the huge Chinese market. “Every once in a while a gift is handed to you. We handed one to Robin,” says Eric Schmidt, Google’s chief executive officer. Schmidt argues that the playing field in China has always been unfairly tilted in Baidu’s favor, though he goes out of his way to stay eligible for membership in the Robin Li fan club. “Robin is an example of a clever entrepreneur,” Schmidt says. “He’s navigated the conflicts within China—which are ferocious.”

While Li has earned the grudging respect of Google execs, Baidu’s tactics are a sharp contrast with the Google founders’ sincere, if not always sincerely observed, slogan: Don’t be evil. If crawling the Web empirically and without commercial bias is the moral duty of a search engine, Baidu is, at least in the eyes of its competitors, not a moral company. For years legions of advertisers have complained on Chinese Web forums that Baidu secretly penalizes the search rankings of websites that decrease their spending on Baidu. Archrival Chinese Internet company Alibaba, Jack Ma’s Internet conglomerate that runs the Taobao e-commerce site and is 40 percent owned by Yahoo, says Baidu unfairly penalizes the search ranking of companies that accept ads from some Taobao merchants.

Robin Li disputes these allegations, saying the company never links search results and advertising. “We have a Chinese wall within the company” between the search and ad teams, he says, without irony. “These are all conspiracy theories. In reality we have no incentive to do that. Paid search is proven, and we are very confident we will be able to make

“Every once in a while a gift is handed to you,” says Eric Schmidt, chief executive officer of Google. “We handed one to Robin.”

Li poses with members of the Robin Li fan club, some of whom were flown in by Baidu



a lot of money by doing the right thing for users and advertisers.” Many Chinese are nonetheless quick to believe the worst about Baidu: In 2008 the company quickly denied Internet chatter claiming it had taken money from Sanlu Group, a dairy producer that had sold milk powder tainted with the toxic chemical melamine, to keep the scandal out of search. At least six children died and more than 54,000 were hospitalized. Baidu has conceded that it has sometimes been too lax in policing its advertisers. In late 2008 the company acknowledged it had prominently listed ads from medical companies that weren’t properly licensed, though Greg Penner, an early investor and Baidu board member who also serves on the board of Wal-Mart Stores, points out that no one in the Chinese search industry was vetting these advertisers.

One more denial: Baidu says it is not a kingdom built on Internet piracy, though music companies say its popular MP3 service allows users to download just about any song ever recorded for free. The recording industry sued in 2005, but Chinese district and appeals courts sided with Baidu, which says it’s merely giving users the content they want by linking to popular music websites.

For many people outside China, these issues are minor compared with censorship. Like all Chinese Web companies, and Google’s Chinese language site until this year, at the behest of the Chinese government Baidu blocks pornography or references to topics such as Taiwanese independence, the Dalai Lama, and the 1989 Tiananmen Square massacre. The practice is called *zi lu*, or “self-discipline,” and Baidu does it well. Last year the

company accepted one of 20 awards from the Internet Society of China, given for what the group calls “industry self-regulation.”

Li, the fourth of five children born to factory-worker parents in Yangquan, a city of 1.3 million in northern China, received his bachelor’s degree from the prestigious Peking University in 1991, and got a master’s in computer science from the State University of New York at Buffalo in 1994. He has spent years in America, and speaks flawless English. His fidelity to China is nevertheless unquestioned. Li says that Baidu manipulates search results to obey the law of the land and that failing to comply would risk its license to operate in China and let down users and investors. “If the law clearly prohibits certain types of information, be it porn, or anti-government information, then I’m sure there’s a reason for it,” he says a few days before the Baidu World event, while sitting in the rooftop rock garden at his company’s new headquarters, a 91,500-square-meter building (complete with a gym, yoga studio, and nap rooms) in the city’s bustling Shangdi district. Of censorship broadly, Li says: “I’m an entrepreneur. I’m not a politician. I should not be in a position to make this kind of a call.”

Instead, Li is focused on the future: expanding into games, e-commerce, and online payments, establishing a Hulu-like video site called Qiyi, and exporting the Baidu brand abroad. He says engineers are translating the site into a dozen languages. “I hope in ten years, Baidu will become a household name in 50 percent of the world. Sooner or later you will see a China-based company that really has a global impact and

I think Baidu has a chance to become one of those companies. We should be able to compete on a global basis.”

Before Baidu expands, however, it needs to answer an obvious question in an age when even the most transparent of Internet companies are struggling to maintain the faith of their users. “Why should I trust Baidu?” asks Rebecca MacKinnon, a senior fellow at the New America Foundation who writes about the Chinese Internet. “For the same reason nobody trusts the Xinhua news agency when it tries to expand into global readership, it’s going to be very difficult for any Chinese companies that deal with content to get anyone to trust them outside of China.”

This past June, Baidu hired Kaiser Kuo, an Internet pundit and former guitarist of the '90s Chinese metal band Tang Dynasty, to fill the new position of director of international communications. Kuo’s role, in part, is to help tell Baidu’s story to the world. “This is a company that looks a lot better on the inside than it does on the outside,” he says.

Baidu says it’s not evil, just misunderstood. And because it’s expanding into fields like e-commerce and video games, and plans to get into markets outside of China, the company wants the world to know it better. And to trust it.

Key to the rollout and renovation of the Baidu brand is the selling of Robin Li. Once a Silicon Valley cubicle jockey earning around \$45,000 a year at Infoseek, a forgotten portal from the Web’s past, Li is now the second-richest man in China, with a fortune valued at \$7.2 billion according to *Forbes* magazine.

Li is a poised but uninspiring public speaker and guarded in conversations with the press. Friends and colleagues say he is still essentially an engineer, and that his devotion to Baidu defines him. They tell stories of countless nights Li worked straight through, and of the times he fell asleep in his car after the drive home because he was too tired to walk to the front door. As for his faith in Baidu’s future, there’s this: According to public financial records, Li has never sold a single share of Baidu stock.

Recently, Li has begun cultivating an international profile. In July he attended Allen & Co.’s annual conference in Sun Valley, Idaho, for the first time and found a natural ally in Facebook founder Mark Zuckerberg. The two have talked several times, both executives confirm. On Nov. 15, Li will participate in a Silicon Valley public forum for the first time, at the Web 2.0 Summit in San Francisco.

Li’s biggest boosters are his U.S. investors. A decade ago they backed an introverted search engineer and never anticipated he would take them on such a lucrative ride. “He had all the ingredients to be a good entrepreneur,” says Hugo Shong, a founding partner at IDG Capital Partners, a firm with deep roots in China that invested \$1.5 million in Baidu in 2000—a stake worth \$170 million at Baidu’s IPO in 2005. “We were worried about his marketing skills. He was so quiet.”

Scott Walchek, an Alamo (Calif.)-based angel investor who put \$1.25 million in Baidu and made hundreds of millions as a result, said that during the early years of the company he and other U.S. investors disagreed with Robin Li at almost every turn. “Nearly everything we said he should do, Robin disagreed. And he was always right.”

Baidu is proudly Chinese, but its origins are in Silicon Valley. In 1998, Li’s co-founder, Eric Xu, was a sales rep for a U.S. biotech firm who decided he wanted to make a documentary about

Baidu’s new headquarters in Beijing’s Shangdi district, complete with gym, yoga studio, and nap rooms



When Brin and Page visited Baidu, the company scheduled the meeting during a Chinese holiday when the office would be empty. That way the Google founders couldn't see how many engineers Baidu employed.

American innovation. Enlisting well-known Chinese American documentary filmmaker Ruby Yang, Xu got interview sessions with the British-American venture capitalist Michael Moritz and future Stanford University President John L. Hennessy. When Xu landed a chat with Jerry Yang, the Taiwanese born co-founder of Yahoo, he brought two friends to the taping: a fellow sales rep named Melissa Li, and her husband, Robin.

Xu conducted the interview while Li and Melissa looked on quietly. "I got inspired," Xu says more than a decade later. "I'm sure Robin got inspired, too, seeing an ethnic Chinese who created such a powerful company."

At the movie's debut on Stanford University's campus in 1999, Xu says Melissa pulled him away from the screening and declared that she would like her husband to be an Internet company founder.

Li was already a true believer in search. In 1996 he received a patent related to what he called link analysis, a way to rank search listings by the number of incoming links to sites. Stanford doctoral students Larry Page and Sergey Brin would separately come up with the similar PageRank algorithm. Inspired by Yang and pushed by Melissa, Xu and Li decided to use Li's research to build a search engine for the slumbering Chinese Internet market.

Looking for seed money, they brought their business plan to Bob King, a stalwart of the Silicon Valley investment community who put early money in Oracle and Intel and had appeared in Xu's documentary. Greg Penner, King's partner at the time, recalls that Li "wanted to create a major media company. That was his vision from day one. We weren't convinced that this was absolutely going to happen. We felt like if it did happen, he was the right guy to back."

With \$1.2 million in seed money from King, Penner, and Walchek, Xu and Li left their wives in America and moved to a single hotel room near Peking University in Beijing. They stayed for over a year, working 15-hour-days in a nearby office. Later that year they scored an additional \$10 million from

IDG and ePlanet Ventures, an affiliate of Valley venture capital firm Draper Fisher Jurvetson.

In its early days, Baidu wasn't modeling itself on Google. Li and Xu were much more interested in being the next Inktomi, a U.S. firm that powered search on other Web portals and was eventually acquired by Yahoo in 2002 for \$235 million. Rather than host an independent site, Baidu licensed its search index to Sina and Sohu.com, then the dominant portals in China, and charged them each time a user conducted a search. Busy copying Yahoo's portal business model, those companies didn't realize search's potential, concedes Charles Zhang, chairman and CEO of Sohu. "That's how Baidu captured this opportunity while [we] were not paying attention," he says.

Those relationships frayed immediately, however, since the number of search queries—and licensing fees owed to Baidu—were constantly growing. Two people involved in Baidu's early operations recall that Sina delayed a payment while demanding to renegotiate its search deal. Warming to Baidu's power, Li temporarily cut Sina off, infuriating the larger portal.

With its partnerships imperiled by its own success, Baidu began hedging and developed a website of its own. Finian Tan, then a Hong Kong-based partner at ePlanet, says he was so worried about the company's prospects that he contacted Jerry Yang, an ePlanet investor, and offered to sell Baidu to Yahoo for \$40 million. It's not clear whether Yang remembered Li from the documentary shoot; he referred the matter to a Yahoo colleague, who did not respond. (Yang declined to comment for this story.) Baidu had no choice but to devote its energies to its own website. "We became Baidu.com because we were forced into it," Tang says.

By 2004, Baidu was allowing advertisers to pay to appear at the top of related search results, mimicking a model pioneered by a Pasadena (Calif.) company called Overture. Baidu was newly profitable and its traffic, along with China's Internet population, was skyrocketing. That year, Google contributed \$5 million to Baidu's \$15 million third round of financing, aiming to strike up a relationship with the Chinese startup. Although Google had offered search in Chinese from its servers abroad since 2000, the Baidu investment was meant to lay the groundwork for a possible acquisition and ward off the possibility that rivals could buy it, according to former Google executive James Mi, now a venture capitalist in Beijing.

From the beginning, Baidu and Google didn't trust each other. In late 2004, Brin and Page visited Baidu's offices during a visit to China. Xu says the Baidu team scheduled the meeting during a national holiday when the office would be empty, so the Google executives couldn't see how many engineers Baidu employed. Brin and Page declined to eat the Subway sandwiches Baidu served for lunch. (James Mi recalls that this was because the Google founders had recently gotten sick from uncooked food in India and were being cautious.) When Brin asked whether the Baidu logo was a dog's paw, Li corrected him brusquely. (It's a bear paw.) "We respected Google, but as a company we were competitive and we wanted to make sure they respected us," says Xu, who left the company in late 2004 and founded a venture capital firm that specializes in biotechnology.

As Baidu filed to go public in July 2005, acquisition and investment offers poured in. The story of those offers has not been told before. According to several people familiar with the submissions, Masayoshi Son, founder of SoftBank, the



Japanese Internet giant, wanted to keep Baidu private and offered to invest \$100 million at a \$1 billion valuation. Yahoo and Microsoft made acquisition offers at a little over \$1 billion. Google kept a close eye on the proceedings. Its China-based brain trust wanted the U.S. search company, valued at \$27 billion in its own 2004 IPO, to bid \$2 billion for Baidu. Google management in Mountain View, Calif., ultimately made a \$1.6 billion bid.

Baidu's board of directors was split, with the U.S. partners of ePlanet's affiliate, Draper Fisher Jurvetson, aggressively lobbying for the sale to Google. "It was certainly a very stressful period for me," Li says. "During the day I would talk to potential investors and tell them why they should buy Baidu stock. At night, I picked up the phone and called the directors and explained why they shouldn't sell the company so early."

Weighing the possibility that the impassioned Li might resign and scuttle an acquisition, the board voted unanimously to go public. Asad Jamal, the founding partner of ePlanet and a Baidu board member, thinks a \$2 billion bid would have cemented an acquisition. "I personally think that was a missed opportunity for Google," Jamal says.

Baidu stock hit the Nasdaq on Aug. 5, 2005, and jumped from \$27 to \$122 in a day, briefly valuing the company at more than \$4 billion and showering hundreds of millions on Baidu's early investors. News of the offering also imprinted Baidu on the minds of Chinese consumers and advertisers, and made Li China's first billionaire Web prodigy.

Google responded to Baidu's success by hiring noted computer scientist Kai-Fu Lee from Microsoft and opening a research and development center in Beijing. "At that time I had concerns. Google had a lot of money," Li says.

Yet Google never materialized as a threat, for reasons that no one can agree on. What's clear is that Google's China service was mysteriously unreliable, particularly when the Chinese government was angry with the U.S. Google also documented several instances when it was the victim of what's called domain name system poisoning; users typed in Google.cn and found themselves at Baidu instead.

Some Google executives privately say they think the Chinese government was never going to let Google succeed. MacKinnon, at the New America Foundation, says the opaque Chinese regulatory system makes it difficult to prove there was

official discrimination. "Did Google face a very poisonous atmosphere in China? Sure," she says. "Whether this was the result of top down policy or the fact that Baidu's government relations were simply better is impossible to say."

In November 2009, Kai-Fu Lee announced he was leaving Google to start a Web incubator, throwing the company's regional leadership into disarray. Two months later, Google suffered the attempted hack on its e-mail servers, and after a debate in which Schmidt tried to persuade Brin and Page to stay in China—and was overruled by the founders—Google relocated its search servers to Hong Kong, declared itself not evil, and departed the field. "We understand from a commercial standpoint that this isn't the ideal state of affairs to compete in that market," says David C. Drummond, Google's chief legal officer. "But after a couple of years observing these content laws, we decided they weren't consistent with our values."

Google may have lost its battle with the Chinese government, but it was defeated first in the marketplace. Li says his original impulse when facing off against American competitors was to downplay Baidu's heritage as a Chinese company, because "in most consumer's minds, Chinese products are low quality." But in a widely televised ad campaign that referenced a popular Hong Kong film, Google was depicted as a clueless Caucasian who could only interpret a complex Chinese sentence in a single way. A scholar representing Baidu handles the sentence correctly; the Google character ends up spitting blood. "It was the easiest way to tell them Baidu knows Chinese better," Li says of the ad.

For years, Baidu really was better able to parse sentences in Chinese. Baidu also put more sales people on the ground to talk to advertisers, and demonstrated a better grasp of Chinese tastes. Baidu's home page has 11 links, in underlined blue, to various services such as Baidu Knows, a Q&A service; Baidu Post-Bar, a popular bulletin board; and Baidu Encyclopedia, a made-in-China alternative to Wikipedia. Like Google, Baidu is a verb: To search, users click on a box that says "Baidu It." "Robin took the best of everything that was happening in the U.S. at the time and added Chinese characteristics," says U.S. venture capitalist Tim Draper.

Baidu MP3 proved a particular draw for Chinese Internet users, and no wonder, since it helps users download for free.



Li (fourth from left) with his crew in 2000, and jotting notes in a hotel suite Baidu rented as an office in 2002



In its IPO prospectus, Baidu said its music service accounted for about 40 percent of its traffic. (It now claims that number is down to around 5 percent as interest in digital music has waned.) Baidu says it is trying to reach an accommodation with record labels and in 2008 hired Catherine Leung, a former executive at Universal Music Group, to lead the discussions. Still, Li says piracy is not his problem. “If [users] are looking for certain type of content that is publicly available, we cannot say, in order to make sure record companies are happy, let’s completely block out this type of service. We choose not to do that.” Sohu CEO Zhang says such an argument “is the official line. They’re not conducting evil, just spreading it.” Of course, Sohu also links to free tunes, and Zhang says he won’t clean up his act until Baidu does. “We will just follow the big fish,” he says.

Google, because of its need to forge strong relations with the entertainment industry in the U.S., could never facilitate copyright infringement in the same way. Only in 2009 did Google introduce a free, ad-supported music service in China, in conjunction with music labels. By then it was far too late. Baidu was the fun option for the masses, while Google was viewed as the search engine for the coastal intelligentsia, who admired its brave resistance and then loud rejection of government censorship requirements. Robin Li heard about Google’s threatened withdrawal from China in his car on the way to the office, via a congratulatory text message from a friend at a Chinese Web portal. “I certainly don’t agree with the way they framed the issue,” he says of Google’s exit, noting that despite the censorship, there are millions of Chinese websites only because there is a search engine to help people find them. “There are people who don’t like us. I think for a service with hundreds of millions of daily users, it’s probably normal, especially when you have a competitor that claims they are anti-government, that they don’t like censorship.”

A few hours after greeting his fans, Li addressed the Baidu World conference. He spoke in Chinese to an audience of developers and Communist Party officials, and announced that Baidu would start placing games, videos, and maps directly within search results. Li then praised Wan Gang, China’s Minister of Science and Technology, for articulating the need for such functionality.

It was a moment that revealed a truth rarely visible to non-Chinese. Despite the perception of Baidu as a preferred vendor of the Communist Party, company executives say they must constantly curry favor, particularly as the Party asserts greater control over the media. “One of Baidu’s biggest challenges is keeping its copybook clean with the government,” says Duncan Clark, chairman of BDA China, an investment advisory and consulting firm in Beijing. Kaiser Kuo puts it less delicately: “We get smacked as hard as anyone.”

The blows, particularly in the last two years, have left several marks. In November 2008, government-operated China Central Television aired several in-depth investigations about Baidu surrounding allegations that the company earned millions on ads from unlicensed medical providers, and prominently displaying these ads when users typed health-related queries. The first story ran on Li’s 40th birthday, timing that no one at Baidu dismissed as coincidental. The following quarter, Baidu boosted its ad spending by 41 percent, with the bulk of the increase going to CCTV. Few Chinese Internet watchers thought it was a

An Alibaba spokesman says of Baidu: “These guys are like hoodlums.” Baidu’s communications chief responds by calling Alibaba “whiny little bitches.”

coincidence when the negative coverage ceased.

In August the Xinhua News Agency announced it was developing a competing search engine in conjunction with China Mobile, one of the country’s state-owned mobile carriers. In September the *People’s Daily*, the Communist Party mouthpiece, appointed a former Olympic Ping-Pong player to run its new search engine, Goso. The idea of government-backed entities developing something as technologically complex as a search engine doesn’t concern Baidu much. To observers familiar with how business is conducted in China, though, the announcements were a strong message aimed at Baidu: Don’t get too comfortable. “The experience with Google made it very clear to the government that sometimes a commercial company will not play by the rules,” says Mark Natkin, managing director of Marbridge Consulting in Beijing.

With Baidu assured of nothing from the government, and Google fading from view, Baidu is now fighting Alibaba and Tencent in a three-way skirmish to be China’s preeminent Internet company. Alibaba has blocked Baidu’s search engine from cataloging products from its marketplace and is developing its own shopping-oriented search engine. Tencent has been cherry-picking engineers from Google and Baidu and vowing to improve its Soso.com search engine. “It’s real war,” says Tom Melcher, a U.S. entrepreneur who has lived in China for eight years. “It makes Ellison vs. Gates look tame.” Proving the point, John Spelich, an Alibaba spokesman, said of Baidu in August: “These guys are like hoodlums.” Kaiser Kuo responds by calling Alibaba execs “whiny little bitches.”

During rehearsal the night before his Baidu World speech, Li is asked whether he’s satisfied that Baidu has struck the right balance between loyalty to the Chinese government and service for its users. “At the end of the day,” says Li, “if users don’t find what they want, they won’t use you. If they find what they want, they come back again.”

Of course, if you believe Baidu has always had a unique home-field advantage over rivals like Google, that proposition has never been seriously tested. With other Chinese Internet firms rushing to build search engines, and with Li’s ambitions to move overseas where Western rivals are entrenched, Baidu is about to face more serious competition than ever before. The world’s Internet users will finally get to decide for themselves whether they can really trust Baidu. **B**