# Interview with Nick Yang from KongZhong Corporation



**Adrian Bye:** So, today I'm here with Nick Yang. Nick has founded and built a couple of companies. I'm in his offices just I guess in Beijing but just a little bit outside of Beijing. Nick, maybe you can just tell us a little bit about who you are and where you come from.

**Nick Yang:** I consider myself a professional entrepreneur and that's my job, as an entrepreneur. Currently, we are in the office of my third company. I'm 34 years old and I'm starting my third company. The first company I started is in 1999 and that's where the story got started. In 1999, I graduated from Stanford. In 1999, it's the year, 20% of the graduating class actually went to start-ups. That's just something amazing, right, considering it's the graduating class in Stanford. That was the year 1999, the dot-com time, so, what we decided to do is come to China to start a company and that was…

**Adrian Bye:** You left Silicon Valley to come to China, in the peak of Silicon Valley time, when China was just getting started?

**Nick Yang:** Yes. That was very rare, and even my parents don't understand why I'm going back to China.

**Adrian Bye:** It sounds kind of insane, honestly back then, because everything in Silicon, I was in Silicon Valley that year and that was when Silicon Valley was big.

**Nick Yang:** It was very big, Yahoo was trading at over $300 a share, and eBay was like the biggest name on the market at that time.

**Adrian Bye:** And you said I'm going back to Beijing.

**Nick Yang:** I'm going back to Beijing. That was pretty insane. And before we left, a friend of mine is a good friend of Larry Page, and we went to the office in University Avenue. There were 9 guys at Google, they were just starting up, and we had lunch together. They said they will treat us because they just got funding. They just got $25 million from…

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**Adrian Bye:** So, they weren't small by then. If they just got from their client some money, they were already making pretty big impact. They were the hottest start up back then.

**Nick Yang:** Hottest start up with 9 guys. It was quite amazing but still only 9 employees for Google. Just imagine, that was then, actually had lunch with them, a couple of weeks later we took a plane and we went back to China.

**Adrian Bye:** And you came back to do what?

**Nick Yang:** We actually came to Xinghua because that's where we're sitting at today, in my office.

**Adrian Bye:** Who were with you then?

**Nick Yang:** Myself, two of my partners, Yunfan Zhou and Joe Chen.

**Adrian Bye:** So, you are three Chinese guys. Oh, Joe Chen…

**Nick Yang:** Yes, Joe Chen of Oak Pacific. You know him?

**Adrian Bye:** I haven't meet him but I know of him.

**Nick Yang:** Yes, Joe Chen and myself and Yunfan Zhou.

**Adrian Bye:** And so all of you had been living at in Silicon Valley…

**Nick Yang:** We all graduated at Stanford in the same year. 1999. So, we were the Stanford team in Beijing. Joe has an MBA and myself and Yunfan were engineering students. So, we went back and we got funding from angel investors.

**Adrian Bye:** Before we go on, what drove you to come back? Why not stay in the US? I don't completely understand that. You made it through the US system pretty well. Why come back to China? A third world country, a big potential but…

**Nick Yang:** Back then it was a third world country, now it's …

**Adrian Bye:** I mean, funding and things like that, I mean what kind of family did you come from in China? Did you have a lot of family connections? Was it going to be easy to raise capital that kind of stuff?

**Nick Yang:** No, we actually raised capital from the States. From our classmates, that's where our story is very interesting. We raised $250,000 from about twenty students, from our classmates. Some are MBAs, some are engineering students and some of the guys were richer with more family money. They put in about $20-30 thousand. Some put in a few thousand dollars. So, we have about 20 investors.

**Adrian Bye:** So your family and friends?

**Nick Yang:** Basically friends.

**Adrian Bye:** Did your family come from money and connections in China?

**Nick Yang:** No.

**Adrian Bye:** No.

**Nick Yang:** My dad went to the States in 1983 on government money. Well, the government sent him to study in the States, to study engineering and he graduated with PhD program in Wisconsin. He was actually working for a long time then got his PhD. Then we ended up staying in the States.

**Adrian Bye:** So, what drive you to go back? You obviously wanted to succeed. The US is a pretty good environment for creating entrepreneurs. Why go back to China?

**Nick Yang:** Because we went back to China in 1998 prior to our graduation in 1999, with Yunfan Zhou and Joe Chen. We went back because one of Yunfan's family friends actually wanted him to work for him. He owns a big company in China and he said come back to China there's this great opportunity, and we went back. We saw what was going on in China and we decided that instead of working for him, why don't we just start our own thing? So that's how…

**Adrian Bye:** So you came back before 1999, and then you finished studying and then decided to come back.

**Nick Yang:** We finished studying and we decided to come back.

**Adrian Bye:** What did you feel back then?

**Nick Yang:** We felt that everything was sprung to life. Everything is just, it's almost like spring with all the little plants shooting new leaves.

**Adrian Bye:** But you haven't felt that when you lived here before?

**Nick Yang:** No. I felt that we're at the brink of a big tremendous opportunity, at the brink of a tidal wave. That's what we call it. We call it the tsunami. We're like surfers looking for a big wave. We felt that the waves are coming, and we just have to get in front of it.

**Adrian Bye:** Even though Silicon Valley was big, you felt it was bigger in China.

**Nick Yang:** We felt it was bigger in China.

**Adrian Bye:** I have noticed in my two and half weeks in China, I feel now that communist China is more capitalist than the US. I mean the capitalist drive here is incredibly strong. That might sound a little bit shocking but I'm very convinced on that point.

**Nick Yang:** They call it communism with Chinese characteristics.

**Adrian Bye:** I think Chinese are very capitalistic and driven and entrepreneurial. I think it's excellent.

**Nick Yang:** It's very, very entrepreneurial. Yes. I think the leadership understands that there's phases to a way a nation develops. For example, America is becoming more socialist, with high taxes, more social welfare, benefits. We'll look at Obama if he will change the tax code. So it's becoming more and more socialist. I think China will go probably the same way. You develop a market economy, you develop GDP, you develop people's

economic lives then put in more social programs, put in more welfare. President Hu Jintao said the harmonious society. So we are also turning more socialist.

**Adrian Bye:** In time. It may take another ten years.

**Nick Yang:** It may take another ten years. The tendency of GDP is probably going to surpass Japan in the next one or two years. They say it will surpass the United States' in 15 years.

**Adrian Bye:** That is if it can all hold together, right? There's a lot of pressure under the surface, too.

**Nick Yang:** I think the leadership would understand that to build a harmonious society, the money has to trickle out.

**Adrian Bye:** The interesting analogy I heard was that China is a little bit like the Roman Empire, like it is a big empire holding a big region together and that's not easy to do.

**Nick Yang:** No, it's not easy to do, because China is so big and so diverse.

**Adrian Bye:** So, let's go on. You come back to China. You got three guys. Seems like they might be good guys. You got $250,000 in friends' capital. Then what?

**Nick Yang:** Then we went back and we need people. So, we went to Xinghua, and we said, where's the best engineers? Yunfan actually graduated from Xinghua with a bachelor's degree before going to Stanford and which I graduated from University of Michigan. That's where I grew up in Michigan. So that's how the story goes. So, Yunfan said the best engineers in China is in Xinghua. He said okay I got some connections in the school. My old professors and old classmates, some of them are still here, and let's go knock on the doors. So we went to the dormitories of their computer-engineering department. That's where all the students live, and we started knocking on doors and looking for open doors and we just go knocking and we say okay, you guys are computers engineers. We're a company from Standard. We are Stanford graduates and we are starting an internet company. Do you guys want to work for us? Some students said alright.

**Adrian Bye:** Do they say what Stanford is? Or do they know…

**Nick Yang:** Of course they know. They've heard of it, but they are like wow. This is something we only heard of. We were saying stuff that they only read about. So they go, this is very, very cool and very interesting. So, a lot of students responded and they decided to work for us. So, we had to find a place outside of Xinghua where the students can go to work and go back to their classes.

**Adrian Bye:** Just, so people who are listening have a point of reference. This is pretty much one of China's top universities.

**Nick Yang:** This is a top engineering university in China.

**Adrian Bye:** I've never heard of it. It's a massive complex. It looks like…

**Nick Yang:** Yes, it's the biggest university in China. So, basically we set up shop right outside Xinghua so students can take classes while working for us. So, we built a community site with the students.

**Adrian Bye:** What is the name of the community site?

**Nick Yang:** It's called ChinaRen and it's a combination of China, English name of China and the Chinese pronunciation for people. So, this is a site for Chinese people, and it's a fusion from the east and west. Our western background was our education and the Chinese culture and Chinese philosophies.

**Adrian Bye:** So, your friends in the States who have invested, how did they do with their investment?
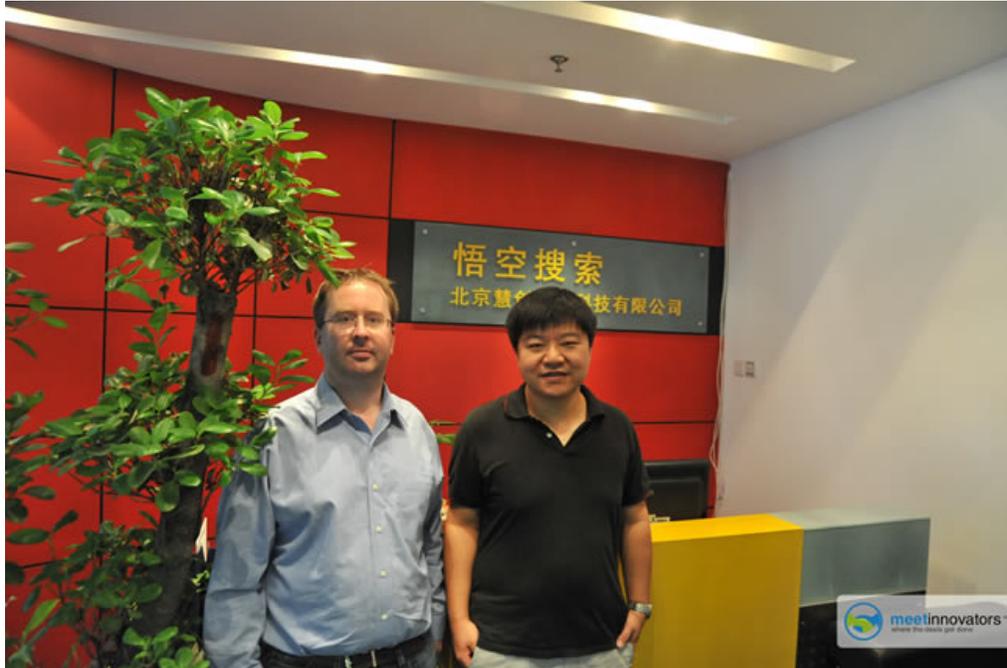


**Nick Yang:** Well, the valuation, which they invested in was $250,000 for 25% of the company, and we sold for $35 million. So, 35 times.

**Adrian Bye:** Nice. Everyone's happy.

**Nick Yang:** Actually, when we sold to Sohu, we actually traded with stocks. So there was a stock swap. So for $35 million dollars of Sohu stock, which went up to, I think 10 times. It went up 10 times since the time we sold it. So, if they kept their stocks today it will be worth, our company valuation would be $250 million. So, that would be 250 times. So, $10 thousand dollars would be $2.5 million.

**Adrian Bye:** Did some of them hold?

**Nick Yang:** Some held to $30-40. So. it was maybe 50 times. So, some of them held to 50 times.

**Adrian Bye:** So, most of them got out?

**Nick Yang:** It depend, at various times, you'll get out. The worst you can get out would be about ten times.

**Adrian Bye:** So, you have a few friends at Stanford as well, I guess.

**Nick Yang:** Our friends would call us to say, we have some friends who locked up their shares and forgot where they are. I've found them. Many years later. They thought it was a very small investment. They didn't care about it. So, they locked it in some safe somewhere, or some drawers, and when they opened those drawers and figured out "Wow! This is worth a lot of money."

**Adrian Bye:** So, there may be more investors still out there?

**Nick Yang:** Yes. I don't know. I lost touch for a while.

**Adrian Bye:**  So, you sold that company.  Sohu is like Yahoo in China.  It's so big.  Almost a conglomerate now.  So you did pretty well.  Why didn't you just like retire on a beach some place?

**Nick Yang:** Actually, after we sold to Sohu we are at the bottom of the internet age.  The first bubble burst in the year 2000, I think most people in the States remember this.  Internet stocks just plummeted.  So, we ended up in Sohu, for a year and a half very depressed because the entire market industry is depressing.  So after year 2002, we saw this new tidal wave coming up.  Remember, we're surfers.  So, whenever there's a wave, you can be sure we're going to get in front of it.  This wave is mobile, we have realized that mobile wave will be bigger, even bigger than the internet wave.  Still, we are at the beginning of it, still today.  We decided to starting on another company.  And that company is called KongZhong.

**Adrian Bye:**  And how did you get funding this time?

**Nick Yang:** How we did get funding this time?  We tried to get funding in the year 2002.  It was very, very tough, because all the VCs were just coming off the first bubble.  So, nobody wanted to invest.  Even with our backgrounds.  Stanford.  We have built community company, sold a community company.  Exactly that we are a public company.

**Adrian Bye:**  The VCs probably heard.

**Nick Yang:** Yes, the VC probably heard.  Then we were rejected by so many VCs.  Can't even imagine.  Going everywhere, people were just saying no.  It ended up that only one leading VC decided that we were the one, it's DFJ.

**Adrian Bye:**  Really?

**Nick Yang:** We actually had a contact who was associate at DFJ and he saw us.  Well, he is very hot now in China in the VC industry.  He saw us he said, "I know you guys will make it.  Just wait let me convince my bosses at DFJ and then we'll invest in you."  Because DFJ  didn't want to invest in us, they were very cautious.  Everyone was cautious and he went back to Silicon Valley and he spent 3 weeks convincing his bosses to invest in us.  I don't know how he did it, but he was able to convince them.  He even put his job on the line.  That's what he told us, he put his job on line.  I'm betting my career, my job on these guys.  So, they invested $3 million for 33%...

**Adrian Bye:**  Could you not have self-funded?

**Nick Yang:** No, we couldn't.

**Adrian Bye:**  I mean you come off selling a company for…

**Nick Yang:** $35 million dollars, but it was liquidated, without that.  It was a term.  The entrepreneurs didn't get very much.  The investors made money, but we didn't make much.

**Adrian Bye:**  So, you didn't make much money on the first one?

**Nick Yang:** No, we made $500,000.  We each put in $250,000.  So we sell it for $500,000 on this deal.  So, we raised $3million for 33% and that's the only round we raised.  We went public after only one round of fund raising.  We went public in two years and two months from the setup of the company.

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**Adrian Bye:** When you started, you went basically straight to series A, you didn't do any kind of angel investment or anything. Is there a reason why you went straight to a $3 million round?

**Nick Yang:** Well, we put in $500,000 when we started in May. After round two and then we raised the funding in November, $3 million and we went public 2 years later.

**Adrian Bye:** So, you're pretty quick.

**Nick Yang:** That was pretty quick. It was basically from $9 million valuation post money, $6 million pre. So, by the time a year and a half later when we went public, I think it was $350 million?

**Adrian Bye:** That's went up, on a roller coaster since then?

**Nick Yang:** Roller coaster life. That's it. We went back to back in pricing, and now we have about $350 to $400million.

**Adrian Bye:** Do you still hold stocks in your company?

**Nick Yang:** I hold 16%. So, we're okay.

**Adrian Bye:** If people buy the stock and push it up you are okay with that?

**Nick Yang:** Of course, it's 16%, I'm a big shareholder.

**Adrian Bye:** You're still related to that company right? You just keep an account for that.

**Nick Yang:** I am still related with the company. Yes, I'm still related.

**Adrian Bye:** In what way are you related?

**Nick Yang:** How I am related? Well, I'm the founder, I'm the Vice Chairman.

**Adrian Bye:** So, you're actively still working there?

**Nick Yang:** Not as actively as before. I'm involved in other companies.

**Adrian Bye:** Okay. We'll certainly get to that. Can you tell us a little bit about what KongZhong does?

**Nick Yang:** What KongZhong does? KongZhong is the company in the mobile internet business. We're the largest player in the mobile internet business in China. A business called wireless band services, which is like premium SMS, ring tones, logo, image downloads, mobile games, mobile communities, etc. So a lot of…

**Adrian Bye:** It's WAP based, is it?

**Nick Yang:** No, it's not only WAP based. It's mobile based. That's what we call it.

**Adrian Bye:** Where does the revenue come from?

**Nick Yang:** Revenue comes from revenue sharing from the operators. So, we work with the major Telco operators in China. China Mobile, China Unicom, China Telecom. These are the three Telco's.

**Adrian Bye:** Cool.

**Nick Yang:** Another revenue sources are through advertising. Mobile advertising. That's another thing we do. So, we get direct payments from major brands.

**Adrian Bye:** So, you got a US education then you're building businesses here in China. That must give you quite a head start.

**Nick Yang:** In the beginning, yes, because of the information asymmetry between the US and China that we have a lot of energies, because we see how things are done in the West, we adapted it to China and we do really well. That was 1999. Right now, with the information flow so freely on the internet, especially on technology and business, and this type of activities, so a lot of the Chinese entrepreneurs actually can have the same worldview as us. So, we have less of an advantage.

**Adrian Bye:** So, you like bring on the big firewall and block stuff so that you can get that advantage back, right?

**Nick Yang:** No, it doesn't block the business.

**Adrian Bye:** One of the guys that you mentioned you started your first company with is Joe Chen who is now running Oak Pacific. One of the top Chinese internet ventures. The third guy, what is he doing now?

**Nick Yang:** Yunfan Zhou is my partner and we started KongZhong together.

**Adrian Bye:** Okay. Are you guys forming your own little PayPal mafia here or something?

**Nick Yang:** What do you mean?

**Adrian Bye:** Like the PayPal mafia from Silicon Valley. All the guys who founded at Paypal and worked with Paypal in the early days, they understand viral marketing, they know each other, they made a bunch of money. They have been a kind of star players. So, out of these guys come YouTube, there's like 20 companies that have been from Paypal.

**Nick Yang:** Okay.  They're all friends' together right?  Yes.  That's pretty much

**Adrian Bye:**  And it's called the Paypal mafia.  It sounds a little bit like I don't know.

**Nick Yang:** A lot of companies actually came out of China.  We're really like in the early days, in 1999 we started the companies.  So, a lot of the guys are very, very smart and very innovative, went into early start-ups, so these went out and spiraled.  The biggest company that's spun off a lot of companies is Sohu.  We came out from Sohu right, sort of, before we sold to Sohu.  And YouKu's Victor Koo used to be the president for Sohu.  Li Zhang used to be the COO for Sohu which he owns also a public company.  A lot of companies.

**Adrian Bye:**  So, you guys know each other.

**Nick Yang:** Yes.  Well, in China all internet people know each other.

**Adrian Bye:**  Because the fact that you're a pretty small community with the guys at this level, isn't it?

**Nick Yang:** It is.

**Adrian Bye:**  I mean that's my understanding.  Is that right?  Because they're mainly around a couple of cities, Beijing, Shanghai and a couple other towns.

**Nick Yang:** We know each other.

**Adrian Bye:**  The Chinese internet mafia.

**Nick Yang:** We call them the internet tianghu because tianghu means lazy rivers.  What lazy rivers literal translation, but in traditional Chinese way of describing things, it means society, it means, you know the kung fu movies, kung fu novels.  Which is like you have this different games, different, well, it's like the mafia.  It's like the mafia, different mafias.

**Adrian Bye:**  I can believe it.  I mean for us coming from the US, we see all these Chinese sites with tons of traffic and don't understand it.  That's why we came here, to talk with you guys about it.  So now you are starting a search company.  And that is Monkey King Search right?  One of the reasons I wanted to talk with Nick about this is because one of the trends that I've noticed in China is you can build companies a lot cheaper than in the US, you can effectively test a lot more concepts more quickly because there's such a big user population.

**Nick Yang:** And they're more forgiving.

**Adrian Bye:**  Okay.  So they're more forgiving.

**Nick Yang:** The users are more forgiving.

**Adrian Bye:**  There are two catches, one is obviously a big one in that you can't monetize Chinese the way you can in the US right now.  That could definitely change in time, but right now China is still a developing country, and then the second is that Chinese culturally is different, but I've been very intrigued with the idea that, because this is like a Petri dish of ideas that can be tested here but ideas could ferment here that could be going over to the US, and business models here could be going over to the US and take over major US markets.

Maybe Nick, you can tell us a little bit about your plans for your search company that fits in just what I described.

**Nick Yang:** Okay. Since the end of last year I started involving myself with the search company because that's always been my passion. I'm involved with this company called it's called Monkey King Search in China because it's always been my passion to build a search engine. I believe in doing something that will really help the people's lives. I think search engine is as fundamental as water, as tap water. So, we've been building before like communities, like KongZhong, which is about services, mobile games, etc. These I consider them as soft drinks, like Coke, Pepsi, iced tea. You can live without coke and Pepsi or iced tea, but you can't live without tap water. I think search engine fundamentally is as important to people's lives as tap water. So, that's why I'm doing it and I want to make a difference in people's lives.

**Adrian Bye:** But a lot of people want to build search engines. Microsoft launched its latest iteration of a search engines just a while ago. Honestly, search engines aren't really that big of a deal anymore and they are well understood and well monetized.

**Nick Yang:** I think that something that I totally agree with. People said that Google is great. Google is wonderful. Google is so powerful. And Larry, he said that we're only at the beginning. We took the first baby steps towards our goal of artificial intelligence. Which I totally agree and people say that is it too late to start a search company? I said it's not too late 10 years ago, people had said that 10 years ago to the Google guys. It's too late to start another search engine.

**Adrian Bye:** They had to search as one, Alta Vista is number one.

**Nick Yang:** Yes. And they said it's too late to start another search engine company now. I'm saying that it's not too late ten years from now. If you do it ten years from now, because people say that "oh, don't you have to follow the footsteps of Google and you have to take 10 years to build Google's quality today?" I said no, you don't have to.

**Adrian Bye:** Well, Google had great quality in the beginning though.

**Nick Yang:** I'm saying that to Google's quality today. Do you need 10 years to build the Google today and I say you don't have to. Because you're standing on other people's shoulders. In business, it's always like that, and use open source. Google technology which they have been utilizing and they have been successful with is like such as the GFS. You can build something similar, on an open source, open platform.

**Adrian Bye:** I get that, but, I'll be very blunt, though. There's a lot of people who had a significantly bigger international profile, have a lot more resources than you that have tried to build search companies and they've fallen on their ass like a lot of times, really badly. You're in China, why would people use what you're doing? Understand I'm on your side.

**Nick Yang:** In China, like you say this is a highly competitive field. The search engine business. I say you're wrong. It's not competitive at all. It's a very low competition level business. Do you understand why? Sometimes, they say the most dangerous places is the safest place. When you go in hiding, people will search for you. Sometime, it's the most dangerous place is the safest place to hide, because nobody think that "Wow there's a tremendous opportunity here." And search engine is that because so many people are afraid.

**Adrian Bye:** I can believe there's opportunity. Are you able to talk more specifically about what you're going to do.

**Nick Yang:** Okay.  So in China, in many industries, sectors in the internet, there's lots of public companies, and in the search engine business there's only one.

**Adrian Bye:**  Baidu.
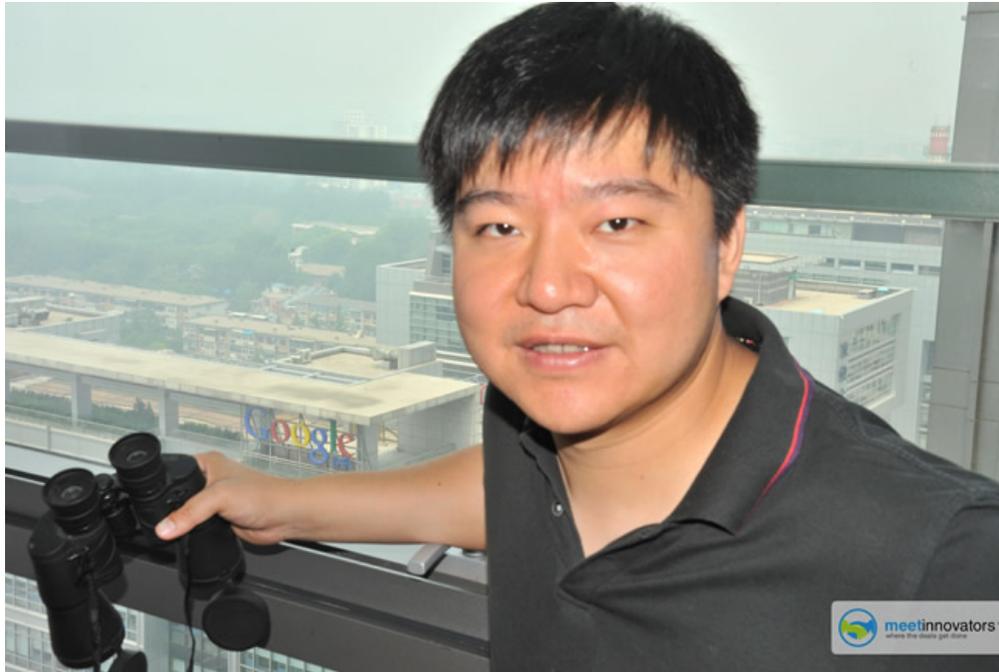


**Nick Yang:** Baidu is one public company of China.  The number is too small.  There should be at least another one that could go public.

**Adrian Bye:**  Is your intent to just build a smaller competitor of Baidu?  Or are your aspirations a little bigger than that?

**Nick Yang:** I believe I am bigger than that because I want to challenge Google in the United States.

**Adrian Bye:**  So, if you want to challenge Google.

**Nick Yang:** I have to build a better mousetrap.  That's simply it.

**Adrian Bye:**  I'm sure it can be done; it's just what is that?

**Nick Yang:** What is that?

**Adrian Bye:**  Wikisearch there has been all kinds of different stuff and none of it worked.  Now it's real time search but is that building anything more important?  I don't think so.

**Nick Yang:** No.  I believe the idea is conceptual search engine.  You hear that talked a lot, but it's actually very difficult to do.  It's not a keyword search engine.  It's a conceptual search engine.

**Adrian Bye:**  The one that just launched from Wolfram Alpha.

**Nick Yang:** Similar, but we have different algorithms.  The one that was recently launched, their algorithm is too complex.  We could do that as well, but if you take so many processing cycles to just serve one user, it's just not economical and you go bankrupt because you can't make enough revenue off one search.  For example, if you use the one million servers for Google to just serve one person, that's almost as smart as the matrix.

**Adrian Bye:** I'm sure there's a cost issue. Behind it is going to be the energy cost issue. I think that is a bigger one.

**Nick Yang:** It's a bigger one. Yes, that's true. You are totally right. And the human brain is actually so much powerful than so many computers and they're very efficient. It only takes about 3,000 kcals a day.

**Adrian Bye:** So, then let me ask you this, that search engine, I'm forgetting the name the one from Wolfram Alpha, what's the name of the search, do you remember?

**Nick Yang:** I don't know. I saw it on the internet. I saw the results, I'm saying that in research you can do that.

**Adrian Bye:** Let's say that they're using a high cost version of it, and so therefore we'll assume it's a high quality search. I mean, I've used their search three times, and then I've stopped using it. I've seen a couple of friends talk about this, and say, hey you should go and search there. But for me as a pretty active internet user, actually I would say extremely active internet user, I have no life and I use the internet all day, I don't use it.

**Nick Yang:** Because it is still not good enough.

**Adrian Bye:** So, it faces the high quality version that's used

**Nick Yang:** Which one is that?

**Adrian Bye:** The one from Wolfram Alpha.

**Nick Yang:** Is that the one in Silicon Valley right.

**Adrian Bye:** They're in Chicago I think.

**Nick Yang:** Is that the one where they take all the history posts now.

**Adrian Bye:** We'll go to Wolfram Alpha right now. We'll find it.

**Nick Yang:** Yes. Google.

**Adrian Bye:** Sure. If you do a search for a Wolfram Alpha search.

**Nick Yang:** Google is a key word search engine. Wolfer?

**Adrian Bye:** Wolfram Alpha Search.

**Nick Yang:** The computer technology search engine.

**Adrian Bye:** So, the domain is …

**Nick Yang:** Wolfram Alpha

**Adrian Bye:** So Wolfram Alpha.com. Is this the one you're talking about?

**Nick Yang:** Yes. I think so.

**Adrian Bye:** So, if this is the high quality version that uses a lot of computing resources and gives the best answers and you'll going to do it with less resources that will usually give lower quality answers.

**Nick Yang:** Lower quality answers, but as fast as you can. For example, like the solar car. It's not really viable, although it goes very long distance it can only hold one guy, lying down. I'd rather build a car that you can actually use.

**Adrian Bye:** So, I'm not using this right now. Because I haven't found the answers…because we couldn't find it.

**Nick Yang:** There's also very limited scope for this one. I've tried it before, very limited scope. Only certain things it can answer. It's not generic, as in the sense that I can enter anything. I can give you results as fast as I could.

**Adrian Bye:** So, to do that, this stuff has been tried for a long time like AskJeeves was a kind of the early one.

**Nick Yang:** The early one, but the technology wasn't good enough.

**Adrian Bye:** And I thought Wolfram Alpha is interesting because there clearly is something to it.

**Nick Yang:** Yes. Absolutely their algorithm is very good.

**Adrian Bye:** Can you crack it and make it work?

**Nick Yang:** That's what I'm trying to do. My algorithm is different than theirs in that they use advanced algorithms but it's very, very slow. We try to use simple algorithms, which are much faster. This is the way that explain it. Instead of building a solar car, we're building a hybrid. It's fuel efficient and it's good. It's very operational and it's better than what we had before. Is it a solar car? No. Does it use non-renewable energy? It does. But use less of it. You got what I mean? That's what we're trying to do. We're trying to build a better search engine like a hybrid, a hybrid car. That's the comparison is.

**Adrian Bye:** How do you know there's a market demand for this? Have you done things like…let me go through this, and I'm really interested to hear your point.

**Nick Yang:** My view of how to do this right.

**Adrian Bye:** No, not on that. On how do you know there is a market for it? Have you done things like made sample test results and shown those to users and said, hey users if you got answers like these from a search engine will this be better for you than Baidu. Have you done things like that? How do you validate what you're doing?

**Nick Yang:** I don't trust study groups. I don't trust surveys. I don't trust any of that. My personal belief is that a true entrepreneur has to be the passionate guy, the passionate user. That's who I am. I'm the user checking for myself. I feel the current search engine sucks. It doesn't solve my problems. I have been searching for myself and I believe if I feel this is a good search engine, people will like it. That's how they say it...the dog eats the dog food. I'm building it for myself and building for ourselves, my teammates, my employees. I'm very arrogant, I build things that's used by hundreds and millions of people. In ChinaRen, in Sohu, in

KongZhong.  Hundreds and millions of people use my products.  So, I pretty much know what the general population thinks, and I feel that the current leader search engine sucks.  That's why I'm doing this.  I don't like study groups.  I use myself, and you have to be passionate.  If you really believe your product sucks you have to improve it.

**Adrian Bye:**  And you might fall on your ass or you might really make it work.

**Nick Yang:** Yes.

**Adrian Bye:**  And that's the risk.

**Nick Yang:** That's the risk.  I feel like the Wright brothers.

**Adrian Bye:**  This time around you're taking the funding you're doing it yourself.

**Nick Yang:** Yes, I'm self-funding this.

**Adrian Bye:**  Are you going to self-fund all the way?

**Nick Yang:** No, I'm going to raise funding end of this year, early next year.  I'll probably raise one round, then hope for an IPO.

**Adrian Bye:**  In terms of where Nick's offices are here, in the university, we're in a building on the 19th floor.  What's interesting here is Nick's office is actually a pretty expensive office space.  It doesn't look like it.  The university is just a nice university, but it's very much like a Silicon Valley style.  It's not luxurious at all.  It feels like a start up and it gives you the feeling like a hungry start up.  Is that part of…?

**Nick Yang:** The guys I have on my team, most of them hasn't made a lot of money on stock options, but they have friends and they know people.  In China they have made a lot of money on start-ups.  So, that's why I have them here.  I want them to be very, very hungry.  Because if you're not hungry, if they have made money on their previous start ups, then they won't work as hard.

**Adrian Bye:**  Do you want to talk a little bit about, can you tell about the view that we have from your office?

**Nick Yang:** The view from the office.  Right outside my office is Google.  The Google building.  We're right on top of them.

**Adrian Bye:**  So what floor are we in and what floor is Google on?

**Nick Yang:** Google is in the 9th floor.

**Adrian Bye:**  We're on the 19th floor.  We are 10 floors above Google.

**Nick Yang:** Ten floors above Google, and I have binoculars because then we can see Google, the entire Google's office building.

**Adrian Bye:**  So, Nick can see exactly what's going on in there.  This is it for Google China.

**Nick Yang:** This is it.  Google China.  This is Google China building.

**Adrian Bye:** And they're right down there. Now, why are you so interested in Google rather than Baidu? Baidu is 80% market share and Google is 20%.

**Nick Yang:** But Google has so much better technology. I really believe that search engine is a technology challenge. And there's actually two….

**Adrian Bye:** So, you feel over time, Baidu might just go away?

**Nick Yang:** No, no, there are still a lot of companies who uses other strategies and does it very well. There's basically two strategies in building search engines. One is what I call technology strategy. The other is what I call human strategy. There're two extremes. One extreme is Google, which uses artificial intelligence. Machine learning, machine everything. Then there's the other extreme, which is the Naver. Have you guys heard of Naver in Korea? It's the Google of Korea. It uses humans to produce the results of search engines. So, all their results are human produced.

**Adrian Bye:** In real time?

**Nick Yang:** Not in real time, but they just keep on producing it.

**Adrian Bye:** Sort of like Ask.com

**Nick Yang:** It's sort of like Ask.com, yes, its human produced search engine. So, these are two extremes, and we're more towards the technology field. I believe in the future of artificial intelligence, in machine learning. I believe, hopefully we'll build a great company and not building a Skynet. But sometimes we ponder whether our system could become Skynet, being the Terminator.

**Adrian Bye:** I don't get it.

**Nick Yang:** You guys seen the movie *Terminator*?

**Adrian Bye:** Yes, a long time ago.

**Nick Yang:** You didn't see the new ones?

**Adrian Bye:** No. I haven't seen it.

**Nick Yang:** So, Skynet, is this computer system, which took over everything. They sort of built robots which destroyed the humans.

**Adrian Bye:** You can hear a little bit of Nick's ambition on this stuff.

**Nick Yang:** You know, KongZhong. Kongzhong means net. Kongzhong means sky. So, actually the direct translation for Skynet is actually KhongZhong in Chinese.

**Adrian Bye:** I'm interested to know, so obviously you're very optimistic. You're going to push this really hard.

**Nick Yang:** For entrepreneurs, you have to be very optimistic otherwise…

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**Adrian Bye:** I want to ask you and if you don't want to answer this, there's no problem. I just want to ask you anyway. At what point will you say, it didn't work? You could personally fund this for as long as you want pretty much, but you're not going to do that, right? At what point do you say, we're not going to do it.

**Nick Yang:** I think there's a word called perseverance and there's another word called stubborn. Do you know the difference?

**Adrian Bye:** No. I think the difference is the guys who are called geniuses are the ones who can figure it out I guess.

**Nick Yang:** Let me tell you the difference.

**Adrian Bye:** Alright, tell me.

**Nick Yang:** With your goal, your goal in life, your goal in your career or whatever your goal, there has to be perseverance. You have to persevere. So just, tell yourself, "I have to reach my goal." That's simply the point. There's no question. There's no stopping. I'm not stopping in anything, that's perseverance.
Don't be stubborn on the way to get there. What that means is, for example, your goal is somewhere out in the distance right. I'm going to get to that point. I'm going to walk there. If there's a big wall, I can't get to my destination, I go around the wall. Try to get around the wall. If I can't get around the wall, I'll try to fly over it. If I can't fly over it, I'd dig a hole.

**Adrian Bye:** So, you're not going to give up.

**Nick Yang:** I'm not going to give up; I'm just going to find a way. Entrepreneurs find a way. That's perseverance. Just don't get stubborn on how to get there. I see a lot of entrepreneurs fail because they want to succeed and they want to succeed in a certain way.

**Adrian Bye:** Right. And you'll do whatever it takes.

**Nick Yang:** I'll do whatever it takes. I don't have to succeed in one certain way.

**Adrian Bye:** What if that way involve you not being CEO of the company.

**Nick Yang:** That's okay. That's fine.

**Adrian Bye:** You just want it to get there.

**Nick Yang:** Yes.

**Adrian Bye:** I'm interested in this in general. Firstly, in China like what's your level of Chinese?

**Nick Yang:** I can speak and read very well.

**Adrian Bye:** Are you a native Chinese?

**Nick Yang:** I'm a native Chinese, yes.

**Adrian Bye:** I mean your English is obviously native, your Chinese is native. And you can read and write Chinese as well.

**Nick Yang:** I can write and I can read.

**Adrian Bye:** Native as well?

**Nick Yang:** Native. I can read in native, but I can write like a foreigner who learned Chinese. I could write simple words.

**Adrian Bye:** So, in your communications here, then is on a Chinese level. You don't have to have other people on the way. One of the things I've been hearing about my time in here in China is that management is a real problem. You can't scale up like you can in the US because people become very individualistic, there is so much like a cap into how big you can get companies. First, is that understanding correct or is that not correct?

**Nick Yang:** I think it's the difference in culture. If you're in Germany or if you're in Japan, it's very easy to scale up very, very big, because of the people's culture. German workers and Japanese workers, they're very similar and they're very alike. They're like robots. They just toil away. In China, people think a lot more. These guys are not as team oriented as Japan or Germany. And it's even more, well, people are very creative here, people are very entrepreneurial here more than…

**Adrian Bye:** But they're not as team oriented. That's exactly it. So, you agree with my statement.

**Nick Yang:** Yes. So, it just takes a lot more work. Could it be done? It could be done. With the right manager, the right motivator, the right coach. If you line people's objectives with yours.

**Adrian Bye:** So, middle management is the area that becomes a problem here. Is that right? Is that what happens?

**Nick Yang:** In China, because we're very much more an entrepreneur, the head guy or the boss has to be the smartest guy in the company. The most capable guy in the company. Otherwise, people will leave you. There's no way you can hire someone better than you. No way. So, for example in marketing, let's say, the head guy has to be the smartest marketing guy in the company.

**Adrian Bye:** That could be relative, though.

**Nick Yang:** It has to be. Otherwise, the guy will leave. Because it would be like, why should I work for this dumb guy? Why is he the boss? Why is my profits, the money I earn, getting so much a big cut by him? So, in China, people think that way. So, you'll have to be the smartest guy in your company.

**Adrian Bye:** So, you don't think you can get guys who are smarter than you to work for you?

**Nick Yang:** That's true. Absolutely. In the United States, you can, but in China, you can't. No way. So, ten years. No way. You can't get guys that's smarter than you to work for you.

**Adrian Bye:** How many people work for you now?

**Nick Yang:** Forty.

**Adrian Bye:** Forty. How's the organizational structure like do they all report to you? Do you hire managers? Like how does it go?

**Nick Yang:** We actually have a very innovative way of management. We have what we call the Senate. So, I told the company, we run a constitution monarchy. There are certain things I decide. There are certain things the Senate decide. The Senate is a representation from the teams. So, each 10 guys has one senator. The Senate decides on things such as budgeting, such as salaries and compensations.

**Adrian Bye:** Oh, really.

**Nick Yang:** Yes. Yes. Such as work divisions and recording.

**Adrian Bye:** So, everyone know everyone's salaries or what?

**Nick Yang:** No. The Senate knows everybody's salaries. The others, no. The Senate takes some rules, and they hybrid.

**Adrian Bye:** Why are you doing it that way?

**Nick Yang:** Because you get more involvement from the company, from the employees. So, they feel part of the team. And certain things are decided by the whole body. So, I actually learned this from the Swiss government. Have you been to Switzerland? The Switzerland Government doesn't have a Head of State. You didn't know that? The Swiss Government doesn't have a head of state. It has a Council and in terms of foreign affairs, you know traveling overseas, it rotates. For example, this month it's this guy. Next month that guy. Really? You didn't know that.

**Adrian Bye:** Never heard that.

**Nick Yang:** You never heard that.

**Adrian Bye:** And I should know. I lived in Europe a couple of years.

**Nick Yang:** Yes, you should go and you should see the council. There's about twenty guys who hold it up, the country.

**Adrian Bye:** I've never heard of a head of state from Switzerland.

**Nick Yang:** Never heard of it, right? See.

**Adrian Bye:** Never hear of a President of Switzerland or a prime minister.

**Nick Yang:** See. It's very interesting system.

**Adrian Bye:** But I've always known they have a different democratic system, like the bottom model.

**Nick Yang:** The bottom model, that's their democratic system and it works very well. We were invited by the Swiss government when we traveled there a few years ago and so we actually learned how the government works. When Switzerland first got founded, all these people, the mountaineers, the Swiss, meet in the valley, and they start voting on certain things. So, they just take a hand vote. It's what's called a direct democracy.

That's how Switzerland was founded.  Then because Switzerland got bigger, so it has to be a representative democracy, but they still want to keep more power to the people.  So, that's how I run things here and people feel they're really part of the team.  Because we have so much empowerment.  So, we have a Senate and we are influenced by every employee.  So, on some issues like where do we go for our spring trip?  How do we spend our team building budget?  It's decided by the entire employee body.  And other things is decided by the Senate.

**Adrian Bye:**  Have you done this before?

**Nick Yang:** No, no.

**Adrian Bye:**  So you are just trying it here.  I mean how is it working so far?

**Nick Yang:** Very well.  People are very involved and people are very happy that there is such empowerment.  Because before, in any other type of company, any other company, is a pyramid scheme, right?  It's like who decides for the salary and the bonus?  It's your boss.

**Adrian Bye:**  In China, even more so, you have to be like a dictator at the top, that's what I understood, like a very strong control.  So you're doing it very, very differently.

**Nick Yang:** I'm doing very, very differently.  I'm doing a whole new system here.

**Adrian Bye:**  How has the retention been?

**Nick Yang:** Very, very good.  Very good.

**Adrian Bye:**  Have you lost a lot of people?

**Nick Yang:** No, I lost only one.

**Adrian Bye:**  Okay.  So, the other thing I want to ask, and tell me if this isn't something we can talk about, it's in terms of the future of China.  In some of the reading I've been doing in China since I've been here, I started to understand that China is, it is one big country, but it's a little bit more like Europe in that there's a lot of ethnic regions and groups that are combined together into one country.  That it is something that is a little bit difficult to hold all of that together.  On top of that, China is not a democracy.  It is a communist country and almost one of the things that I'm understanding is the Chinese, because they're so entrepreneurial, one of the books I read said that there's almost no sense, there's a sense of right or wrong, but Chinese people just do what they want to do.  So, you always need to have a strong system in place so that Chinese people will understand you do the wrong thing and there's consequences, and that's basically it.  There's not this inbuilt code that a lot of other western societies have where there's a kind of feeling of right or wrong.  Would you agree with what I said so far?

**Nick Yang:** Not necessarily.  I think the right and wrong, I mean, there's general… in China.  Traditionally, in China, there's…let me say how it works from the Chinese view.  I've been to States and I've been in China for a while now.  So, I can explain this quite a bit better.  In the US. People consider there are three code in China.  There's only one code in the US, there's a code of law, means that the code of law rules the land in the United States.  So, if you do something that's wrong but the police didn't use the proper procedures you'll be let go.  For example, the Miranda rights.  For example the OJ Simpson case, for example, the others.

**Adrian Bye:**  Exactly.

**Nick Yang:** So, the code of law.  So, in China, traditionally we have three codes.  The code of heaven, the code of the country, the code of law, which is the code of country, and the code of all emotions.  So, for example, in China, a woman kills her husband because her husband beats her a lot.  In the United States, hey, the law says how you're punished, you're punished.  But in China, the law of emotions could let her have a very light punishment.  Because a very wide scheme Hall of Judge can decide.  And for example, there's no way, for example, like there's evidence that someone did something bad and the people are very angry.  Then no way this person can be let go easily.  Although the police didn't use proper procedures, they use other procedures.  So, you see what I mean right?  In China, it's more those three codes governing China, rather just one in the United States.  So, people here have lots of emotions.  That's how things work here.  It's very, very important.  That's why relationships are more important here.

**Adrian Bye:**  So, along that term, where do you see the future of business in China?  I mean, the question is hard for me to articulate, because I still don't have a completely clear and I'm still learning.  It feels to me like China is working very hard to hold the entire country together.  It's obviously a very, very, very important issue for China.  If that would change and China would become twenty different countries and still united but somehow become more independent, how would that change the entrepreneurial environment?  You see that is any kind of likelihood or is that something we should not even talk about?

**Nick Yang:** I don't think it's something we should even be talking about.  Because right now we're in China and there are certain codes and laws for us.

**Adrian Bye:**  Sorry.  So we'll leave that point there.

**Nick Yang:** Someone asked me this once about government censorship or our laws and regulations on content.  Any country has laws and regulations, and you should just abide by them.

**Adrian Bye:**  Exactly.  I'm sorry.  I shouldn't have even asked.  My apologies.  Okay.  That's pretty much everything I want to ask.  Is there anything that you want to talk about which we haven't covered?

**Nick Yang:** I think it's good.  What do you think?

**Adrian Bye:**  Okay.  Nick thanks for your time.

**Nick Yang:** Thank you.