$20 Million Lesson

■ By Lei Na

PPTV Founder & President Bill Yao frankly talks about lessons learned when the 2008 financial crisis wiped out a huge investment deal he was hoping would propel his company to the top of China's video streaming sector. Yao is now enrolled in the China Entrepreneurial Leadership Camp at CEIBS as he works on a strategy to move his company forward.

"I had a very simple reason for starting my company, PPTV, one of China's well known video streaming providers. In 2002, when the World Cup was being held in Japan and South Korea, I was still at university, and many of the male students would skip class so they could go watch the matches; sometimes there were not even enough students to keep a class going. Going off campus was inconvenient though, and I thought at the time: why couldn't we have the matches online so we could watch from inside the school? So, like many new projects in Silicon Valley, my start-up began in my dorm, as a way to solve a small problem I had: how to watch a football match inside my dorm room.

Half a year later I got the first tranche of investment and my company gradually became a professional one. The Internet, with its low entry threshold, is a very good area for starting a business. When you have good ideas and technology, you can begin at once; but there are many challenges as well, one of which is that your business model may easily be copied. Four years into my business, there were 40+ video streaming companies on the market, and the video industry had attracted a total of $450 million in investment.

Our previous rounds of financing all went very well. In 2008, I decided to take a chance and try to get $20 million in our third round. The Beijing Olympics were being held that year, and my plan was to do a great job broadcasting the games so I could attract as many new clients as possible. Then I would have a better chance of getting larger investments. In August 2008, I had about half a year's cash flow reserve, which means I had to complete the fourth round of investment three months before my money ran out.

But we got stuck during this round. On September 22, 2008, I arrived in Silicon Valley, and within a week I got three term sheets. On the flight back home, I read in the papers that Washington Mutual [then the United States' largest savings and loan association] had closed. The financial crisis came quickly, leaving everyone utterly unprepared. By the beginning of October, I found two emails in my inbox, telling me, with the Americans' unique style of communication, that despite their huge interest in my project, they had to put off their decision to invest – indefinitely. Then, our third potential investor, based in Asia, withdrew their investment offer; they just paid the penalty that came with withdrawing from the deal.

Within a month, the financial crisis had swept across the globe, flooding each industry that relies on financing and finances. Things got worse in 2009; many enterprises closed down, and many venture capitalists also ran into problems.

In Silicon Valley there's a term, "death spiral". It's the predicament faced by some companies that choose to slow down their development when faced with the onslaught of an economic crisis, then if this doesn't help, they begin to cut down on expenses and employment. But these steps just result in a downward spiral until they finally close down.

The smart way to go is to cut down on expenses and employment immediately and at one go. This way you will suffer great losses, but you will still have a chance of survival. There's a saying, a CEO is not a good one if he has not sacked employees. At that point in the crisis, my investors and the board both told me that it was time that I became a good CEO. But it's not easy to cut jobs.

I had two rounds of job cuts, which resulted in a very bad atmosphere in the company, with every one of our employees questioning whether I could lead the company out of this difficult situation. Meanwhile our competitors, Tudou.com and Youku.com, had made smarter decisions. They did not throw everything they had at the Olympics; instead they got $40 million and $60 million of financing, respectively, in the first half of 2008.

This is the reality of starting up a business. If everyone ran to get angel investment, grew, financed again and went on to grow, the world would be too good a place to live in. Actually, the statistics show that over 90% of new ventures cannot survive past their fourth year, and far fewer still can live to be unicorns.

Eventually it all came down to this: honesty is more important than saving face. Everyone who starts a business is surely the most passionate in the company, willing to use all his energy for the dream. But during the hardest times, should you try to save face or be honest and face reality? Finally I chose the latter, I chose to shoulder my responsibilities and face up to the challenges.

First, I realised that though I was a strong CEO on the tech side, I had some trouble in management; second, I realised that the key to running a company was whether it could make a profit. Just like it is today, money-burning was the norm in the Internet industry back then. Everyone felt that once you used up all your money, you could get more financing, and you could attract more users. When you had a lot of users, you had everything. But I felt we had to get back to the basics in order to survive.

I used almost half my shares to lure a more experienced professional manager into the company as CEO. In addition to technological management, I became leader of the marketing team, and landed P&G as a major client. I began by getting in touch with a branding assistant, and made it all the way to the GM of P&G brand operation. We managed to grow their account to huge sales of RMB50 million a year. Before, I was a man of few words, but the two years' experience made me into a good speaker. I not only sold my dreams, I also sold shares of the company. I learned that we shouldn't just talk about tech, but should pay greater attention to our users and the market; so we changed our positioning from P2P changes our lives to PPLive changes our lives. This conveys the message that what we offer is a way of life, by which we hope to influence and change the lifestyle of an entire generation.

The financial crisis taught me a valuable lesson. I personally suffered great losses, and our company did not become the leading player in the field. But I felt this lesson was worth it, because it showed me what true entrepreneurship should be. Every one of us has big dreams, but perseverance is more important than dreams. Why do people keep starting new ventures despite all the hardships of launching a start-up? I think I can explain this all with a remark from one of my former investors, Masayoshi Son, chairman of SoftBank, Japan, who said in his autobiography: "when they're just starting out [entrepreneurs] have nothing but dreams and self-confidence that's really backed up by nothing, but that's where everything begins."

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