

# How does Xu Xin, a venture capitalist who has received a hundredfold return on her investment in JD.com, look upon Liu Qiangdong?



Capital Today is the first venture capital firm to invest in JD.com which was executed by Xu Xin (also known as Kathy Xu), the Founder and Managing Partner of Capital Today. JD.com issued to Capital Today 155 million Class A redeemable/convertible preferred shares attached with 131 million warrants on March 27, 2007. With the 131 million warrants exercised on August 15, 2007, the two investments aggregated USD 10 million. Capital Today also participated in the second round of financing for JD.com in late 2008 and early 2009. And, after rounds of stock reissuance, dilutions, and holding reductions, Capital Today had held 7.8% of the total shares in JD.com by the IPO of JD.com, which means a hundredfold return on its initial investment.

After the IPO of JD.com, Kathy Xu received a number of interviews wherein she talked about how she looked upon Liu Qiangdong. The following narration of Kathy is quoted from the reports made by *China Entrepreneur* and *Southern Metropolis News*:

## **The two decisions correctly made by Liu Qiangdong**

Over a decade since the inception of the company, Liu Qiangdong's most correct strategy was to increase stock keeping units ("SKU"). Particularly, selling books was a very shrewd move, which cut down the average transaction value ("ATV") at not too much cost, and thus lowered the threshold for the first shopping experience of a new customer to JD.com. The ATV for IT product sales is around RMB 800, which makes a new customer hesitate as he might doubt the authenticity of the product. However, if the customer buys a book at about RMB 80, he faces a lower threshold. Besides, if he feels highly satisfied with the extremely fast delivery of the book, he will immediately make his second purchase.

When increasing SKUs, we worried about the adequacy of our capital. However, Liu Qiangdong stuck to the strategy rather determinedly. At that time, although I agreed with him, I was still afraid that our capital chain might break, because our money was not that much and a loss was to be initially suffered for each SKU added. Finally, Liu Qiangdong insisted increasing SKUs before we ran out of money.

The second correct strategy was Liu Qiangdong's inception of warehousing logistics business when the company received its second investment. At the time, Ma Yun, Executive Chairman of Alibaba Group, was not willing to be engaged in any capital-intensive asset business like warehousing logistics. Therefore, JD.com embraced a three-year non-competition period. Liu Qiangdong implemented this strategy very persistently, because 70% customers were not satisfied with delivery services. At the beginning (of the company's warehousing logistics business), we were suffering huge pressures, because, a delivery center was to be set up for each city newly covered by our network. As a matter of fact, the company was suffering losses for only 20 orders per day in a city. It would not break even until 2,000 orders were received per day in a city. Nevertheless, it took a long time from 20 to 2,000 orders per day in a city. Being suffered for six months in some cities and for a couple of years in some others, the losses totaled a tremendous amount when 30 cities were covered. Liu Qiangdong, with firm conviction and really far sight, has realized the necessity of warehousing since very early.

### **JD.com faced the biggest risk in 2008**

JD.com was in its biggest danger in 2008 when the company could find hardly any investments and faced the biggest risk. At that time, JD.com had experienced its first round of boom. Although we were very happy, our money was never enough. Someone advised us to raise funds and valued the company at USD 200 million. We were overjoyed for this unexpectedly high valuation. Nevertheless, though we met a number of investors, none of them decided to finance our company. Realizing that investors' risk preferences changed in the financial crisis, we had to reduce the valuation continuously, from USD 200 million to 150 million, and further to 80 million. I was ready to accept an even lower valuation, because we had provided three bridging loans for the company and became a little bit panic. I negotiated with an investor who cut the company's valuation to USD 45 million from USD 65 million. I made a phone call to Liu Qiangdong and argued that although it was not a good price, it was acceptable, because this was his first company and success was to be prioritized. However, that investor changed his mind and said he could only value the company at USD 30 million, which made me very angry, as a valuation of USD 45 million was indeed very low and was not negotiable any more. Later, we contacted Bull Capital Partners and CVC. Together with our additional investment of USD 8 million, JD.com raised USD 20 million in total. We were really suffering a particularly heavy pressure that time. Since 2008, there has always been a tuft of white hair in front of Liu Qiangdong's forehead.

### **He is really aggressive, while his team features a strong execution**

As an acquaintance of his for eight years, I find Liu Qiangdong to be really aggressive. After all, all the bosses in the retail sector are aggressive. I have read the biography of the founder of Amazon.com. How aggressive Jeff Bezos is! Regarding such issues as structural adjustments, Liu Qiangdong has never asked for our consent, as he believes the appointment of personnel should be solely decided by CEO. He may consult us on such big issues as cooperating with Tencent and internationalization. When we were at odds, we held that the entrepreneur should have the final say. As we have quantified all the risks, even if we fail on certain issues, the company will not go bankrupt. With such a belief, the entrepreneur should be allowed to make decisions at his own discretion.

JD.com features a strong execution. When we attended the company's regular management meetings, we saw that its team was highly efficient. Once we attended a meeting lasting from 9:00 am to 6:00 pm. After the meeting was over, everybody rushed to the front of the meeting room to see a PC screen. I wondered what they were looking at and then found out that all the 68 issues discussed during the meeting were shown on that screen, attached with the respective persons in charge and deadlines. I think that this is what makes JD.com outstanding. While Liu Qiangdong was studying at Columbia University, his team was still as efficient as before during telephone conferences.

### **He becomes calmer now**

After finishing his study in the U.S., Liu Qiangdong has shown some significant changes. For example, he becomes calmer than before. During the period when we were waiting for the company's official listing, I asked him about his feeling. He was not excited and only said that it would be good if JD.com becomes the most profitable company in China. I asked when that objective could be achieved. He said that he could not answer me for the time being. He felt that the current stock price was not important and said that who laughs last laughs best.

Before JD.com went public, Liu Qiangdong already told investors that the company would not make any profit this year and next year, and that, as to whether the company would make any profit in the future, it would have to depend on various situations. Before the listing, he already advised investors of such a projection and clarified it with us.