

Subject: Granite Global Ventures – Back to the Future

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Global View

Insights and Interviews from Granite Global Ventures

Urban Growth Launches Investments Back to the Future

By Hany Nada, GGV managing partner and cofounder

A nascent auto market booms as consumers buy their first cars. New restaurant chains pop up around cities. A surge in refrigerated trucking routes lets more families enjoy fresh dairy products, meats and other perishables. It sounds like more like 1957 than 2007, but urban growth in China, India and other developing economies around the globe is taking investment opportunities back to the future.

China, where Granite Global Ventures has been investing since 2000, is seeing some of the most dramatic urban growth in the world. The China government projects that by 2010 half of its 1.3 billion citizens will live in cities, up from 41 percent in 2006. And with some 13 million rural residents moving to cities every year, the total is expected to jump to 60 percent by 2020. By contrast it took the U.S. a century to grow its percentage of urban dwellers from 35 percent in 1890 to 75 percent in the 1990s.

The accelerated urban shift is giving equally rapid rise to the urban consumer. The National Bureau of Statistics of China recently announced that per capita disposable income in towns for the first quarter of 2007 rose 19.5 percent over the previous year. With the growth in residents' buying power and the economies of scale made possible with densely populated regions, we're seeing a high-speed replay in China of the industrial and service industry development that we experienced here in the U.S. in the last century.

Take for example the auto industry. In Beijing, alone, 1,000 new cars are hitting the streets every day. First-time buyers' need for automobile performance and purchase information, insurance, and motor travel guides has fueled the popularity of ChinaCars, which provides a mix of Web, telephone, and brick-and-mortar services. At the same time, consumer demand has sparked growth in automotive parts manufacturing and car maintenance shops.

Construction projects in China now account for about 30 percent of the global total, consuming some 40 percent of the world's cement and 30 percent of the world's steel every year.

And the economics of food are reshaping China's landscape. The ability to afford meat is driving growth in cattle farming and meat processing. Meanwhile there's a need for refrigeration systems that enable grocery stores to supply perishables, such as meat and milk—not to mention trucking networks to safely deliver these foods.

These are just a few examples of how in areas of rapid urban growth, non-tech business sectors are now matching or outpacing the tech and biotech sectors in which the venture community typically invests. So it's not too surprising that the joint Dow Jones VentureOne/Ernst & Young survey of China venture investments for Q1 2007 revealed an increase in non-tech funding.

One of the benefits in many non-tech sectors is the 20/20 hindsight gained from market evolutions in the U.S. and Europe. Starbucks made coffee shops cool—and highly profitable for the VCs who funded it. Today Chamate is a popular restaurant chain that combines Chinese tea traditions with moderately priced meals, having built its business on beverage and restaurant chain best practices. Getty Images is the leading supplier of commercial photos for ads and other marketing materials in North America; Panorama is emerging as the equivalent in China.

But investment success demands more than hindsight. With scores of start-ups in each sector, both industry knowledge and local market insight are critical to winnowing out the winners from would-be players. Just as you want your wireless expert looking at a new mobile deal, you'll want to engage either a team member or external partner who understands the ins and outs of the housing construction market, not to mention all the related regulations and code requirements, to look at a home improvement products deal.

Of course, the technology market remains strong. Online auction site Alibaba.com was combined with Yahoo! China in a deal valued at more than \$4 billion. Tudou, the "YouTube of China," gets 4 million clip views, 6,000 new clips, and 1 million unique visitors each day.

The urban growth in China mirrors several other countries, but the specific dynamics are uniquely Chinese and require local expertise. That's why global hindsight and industry best practices—bolstered by an insider's knowledge of China—provides the best vehicle for driving urbanization-powered opportunities toward investment success.

The Global View from Granite Global Ventures provides insights and interviews on expanding global innovation.

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