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MARKETSHEARD ON THE STREET

Baidu's ChatGPT-Style Bot Will Be No Magic Bullet

Whether the Chinese company's Ernie Bot can recharge stagnant advertising revenue is an open question



Baidu CEO Robin Li says the company will integrate its ChatGPT-style chatbot into its search engine and other businesses.

PHOTO: SUN YILEI/REUTERS

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ChatGPT—and its feistier relative, the new Bing—have been lighting up computer screens recently. China's search giant Baidu **BIDU 2.46%** ▲ hopes its own artificial intelligence-powered chatbot will put the company back on the path to growth. Investors seem to agree: Baidu stock is up 26% so far in 2023, outperforming the Hang Seng Tech index.

But it might not be so straightforward: It isn't still clear how much chatbots will actually enhance existing services such as search, or how costly the rollout will be. Meanwhile, Baidu's core revenue source—advertising dollars—risks returning to slow growth once the initial bounce from China's reopening fades.

Like other Chinese internet companies, Baidu was hurt last year by the country's strict “zero-covid” policies, which pummeled incomes and demand for online advertising. The company was also contending with the now-ebbing regulatory assault on China's internet technology sector.

Baidu said Wednesday that revenue for the December quarter was flat from a year earlier, but that was still enough to beat analysts' low expectations, according to S&P Global Market Intelligence.

The company's cost-cutting effort has also borne fruit: Adjusted operating profit for the second half of 2022 rose 14% from a year earlier, even though revenue was largely flat. This year will likely be much better. China is reopening and the tech sector crackdown seems to have eased.

But after the cyclical recovery, Baidu would face the same problem it had before Covid-19 and grumpy regulators—a stagnant core advertising business.

While Baidu is far and away the dominant player in China's search business, it still competes with other tech titans for advertising dollars: especially Alibaba and Tencent. ByteDance, which owns short-video app TikTok, is also a fast-growing rival.

Advertising accounted for around 60% of Baidu's revenue last year. Nonetheless, the company is making progress diversifying: revenue at non-advertising businesses, including cloud services and autonomous vehicles, grew 12% year over year in 2022, largely offsetting the 8% decline in advertising. The company says its robotaxi business had provided more than 2 million cumulative rides by the end of January. But it might be a while before these businesses generate substantial profits.

With its investments in artificial intelligence, it is natural for Baidu to jump on the chatbot bandwagon, too. Baidu Chief Executive Robin Li says the company will integrate Ernie Bot, its ChatGPT-style chatbot, into its search engine as well as other businesses such as autonomous vehicles and cloud services. That could eventually make for a better interface—and perhaps more users and advertising dollars—but it may also face regulatory hurdles in China, as well as strong competition.

Meanwhile, Baidu's legacy advertising business still delivers strong cash flow. Baidu is sitting on around \$17 billion of net cash, equal to about a third of its market capitalization.

As China's economy shifts back into higher gear, investors will be looking for stocks with clear growth prospects. Unless Ernie Bot proves its mettle as a revenue generator quickly, Baidu may need to keep searching for the next big thing.

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