

CONNECTING WITH CHINESE CONSUMERS

AN INTERVIEW WITH JARED LIU

BY ADAM LECHMERE

Jared Liu co-founded yesmywine.com, China's biggest wine retail website and its third biggest imported wine retailer, in 2008. With the Chinese e-commerce market expected to reach 250m by the end of the year, yesmywine.com, with six million registered users, is set to continue its domination of the sector. The five-year-old site's statistics are impressive: it sells an average of 20,000 bottles a day, peaking at 120,000, and it has a considerable presence amongst female wine buyers. Yesmywine.com has just broken even, and a stock market flotation is on the cards.

MEININGER'S: *How much wine is yesmywine selling at the moment?*

LIU: We have about 5,000 different wines available on the website, and out of those the ones that really move are about 1,000. There are almost 4,000 wines that nobody really orders. We sell about 20,000 bottles a day – and our peak in any one day is 120,000 bottles.

MEININGER'S: *And what's the average amount of wine that your average customer buys?*

LIU: In the beginning most new customers would buy two to three bottles, so the average number was 2.4 in the first year. That has grown to about 4.2 bottles.

MEININGER'S: *And you're presumably trying to increase that as much as possible.*

LIU: Yes, because the repeating customers trust us and they will buy maybe six or more bottles for each order. Also, we have special packages to encourage them to buy more, because we don't want to just deliver one bottle, which is very expensive.

MEININGER'S: *Can you give me an idea of what kind of wine people are buying?*

LIU: The average price for a wine is about rmb76.00, or roughly \$15.00. Over 70% of sales are dry red wine; white is a very small part. Women like inexpensive sweet sparkling wine. Sixty per cent of sales are French wines.

MEININGER'S: *Does Bordeaux make up a high proportion of the French wines?*

LIU: Yes. Bordeaux accounts for the majority of sales, because for most Chinese, Bordeaux is the only French wine they know.

MEININGER'S: *Which are the most popular properties in Bordeaux?*

LIU: Actually our customers don't have too much idea about that. The most important thing is that we tell them it is good for them;

the price is also very important. The most competitive price is RMB50.00 to RMB60.00 – less than \$10.00.

MEININGER'S: *What is it about the French or Bordeaux style that is attractive to the Chinese palate?*

LIU: People buy Bordeaux just because it's so well-known, but actually for the normal entry-level wines, Chinese customers prefer to buy generic French wines. They also like Spanish, Australian and Chilean wines, which have a similar character.

MEININGER'S: *So they like the bigger, rounder, more fruit-forward style?*

LIU: Yes, they like fruity, full bodied, sweeter wines. They don't really know how to enjoy acidity or too much tannin. But as gifts they prefer Bordeaux, because everybody knows Bordeaux.

MEININGER'S: *Can you tell me something about your method of fulfilling orders?*

LIU: We have four warehouses. If you want your customers to get the wine in three days you need to have a warehouse near the major cities, and there are over 100 second- and third-tier cities. If you live in one of these cities, we can deliver within three days. That's very important for e-commerce in China today, because people are usually not very patient. They expect to get the product as soon as possible when they make the order.

MEININGER'S: *Is the business profitable? I understand turnover is around \$35m. Is that correct?*

LIU: Yes, roughly. We just broke even this year after five years. The plan was not really to break even this year, but the situation changed so we changed our strategy. We cut marketing costs and head count in 2012, so this year we have become profitable.

MEININGER'S: *How many employees do you have?*

LIU: About 300. In the four warehouses there are about 19 employees, and we have a call centre, a customer service centre, which employs 100 people, and the headquarters has 150.

MEININGER'S: *Which particular cities do you sell most in?*

LIU: The first tier cities: Shanghai, Beijing, Guangzhou and Shenzhen. People there have the buying power but, more importantly, they are open to new ideas. Shanghai is the best place to sell wine but it is also very competitive. Different cities have different cultural preferences: Beijing usually stands for north China culture, while Guangzhou stands



PICTURES BY LAM WEST, LIGHTLY SALT ED

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for the more open culture of southern China. In Beijing they prefer high alcohol, and in Guangzhou they prefer imported wines. So basically in Beijing there is more of a tradition of drinking baijiu, but in Guangzhou there is more whisky, Cognac and other imported spirits.

MEININGER'S: *I understand that a third of your customers are female.*

LIU: We have 6m registered customers, of which one third are women. The average age of a male customer is 30 to 35. The female is a little younger, maybe 26 to 30, and they consume different kinds of wines. Men prefer dry red wine while for women usually prefer sweet sparkling, and it's important that it comes in a nice-looking bottle.

MEININGER'S: *How important is the health aspect of wine for Chinese consumers?*

LIU: For Chinese consumers it's important that wine is seen as healthy; old people as well are accepting the idea of drinking wine every day as good for their health. They need to find wine that is not very expensive for everyday drinking, but on yesmywine.com we need to be cautious, because according to Chinese law you cannot advertise wine as good for your health. Another problem is that Chinese consumers think that wine is an expensive luxury. So most of them just consume domestically-produced wines – they don't know how to choose an import wine from the thousands of choices available. So domestic wine – which costs no more than \$2.00 to \$3.00 – is responsible for over 70% of the total market.

MEININGER'S: *From what you've told me, the Chinese consumer is not that much different from the European consumer.*

LIU: When our customers realise that they can buy an imported wine at an affordable price they will not drink domestic wines. The problem is that most Chinese consumers still do not know the market very well. They don't know whether they can buy a good imported wine for \$10.00 or less. They just don't trust the system: many still believe that import wines should be expensive, and that anything below \$25.00 might be fake. And they don't know how choose wine, so they prefer to go for familiar brands.

MEININGER'S: *Chateau Lafite etched the figure 8 in red on bottles of the 2008 – did that work well?*

LIU: Yes, 2008 Lafite has very good sales in the 2008 market – last

year we sold about 800 bottles, mainly the 2001 and 2007, and some 2005. Lafite has been there for a very long time, and they understand Chinese culture. Putting that eight on the label was a great idea. They only give a small allocation to the China market, but it's a big volume. Maybe some are faked, but the number of people drinking Lafite is a lot considering it's not really for daily drinking. It's used by business people to host banquets for important colleagues and contacts.

MEININGER'S: *What about big mistakes that have been made, people who haven't understood the Chinese culture and made a terrible mistake on their label?*

LIU: I don't have any examples of bad mistakes but some countries don't do well in China, maybe because they do not really understand this market. For example – and this is just my personal opinion – I think Italian wine is not very successful in China, especially the high end wines, because they don't know how to translate their labels into interesting, short Chinese names. Usually either the grape variety or the brand name is too long for the Chinese to remember. Another good example is Chateau Fleur Cardinale [St Emilion Grand Cru Classé], which has a six-character Chinese name. I told the owner of the chateau that the wine would not succeed because the name was too long, and it also had religious connotations which would prevent it being promoted on TV shopping channels. Then we ran a competition on the website to find a new name, which attracted 4,000 votes. So finally we got a very good name for them, a three-character word meaning 'flower', which reflects the character of Merlot. It's now the most popular wine on yesmywine.com – we sold 4,000 bottles after that.

MEININGER'S: *Are you using other social media as well?*

LIU: Yes. We don't have Twitter or Facebook but we have weibo. We organise events in different cities, and sometimes we invite chateau owners, but we also encourage customers to organise different topic gatherings by themselves. We may sponsor some wines or we will assign some people to do some explanation or training, and then we encourage them to share the experience on the website. And also we have about 500 registered wine tasters. They're just customers and they register, and if we have some interesting new wines we will pick them at random and give them samples, and they will taste and post their notes. So before a wine is really launched we have got customer comments, not just yesmywine's official explanation.

“We are interested in strategic partnerships, or shares in wine companies or negociants to help us to source different kinds of wines, with the experience and capability to find the best deal for us.”



MEININGER'S: *And I understand your business model is to go for private customers, not so much state-owned enterprises, and not high net worth individuals either.*

LIU: Our target is the middle class. The really low income level is not our target.

MEININGER'S: *How do you define a middle class person in China?*

LIU: From monthly family income, although it's a definition that is constantly changing. We assume the middle class to be a family with an income of around RMB60,000 per month – \$1000.00. But in the second tier or third tier cities that would go down by 20% or 30%.

MEININGER'S: *Could you give me a relative idea of how much that would be in the US for a family?*

LIU: For America it would be a family with an annual income of \$40,000 to \$50,000.

MEININGER'S: *How much wine do you sell during the festival period, and is the clampdown on banquets and gifting affecting your sales?*

LIU: A high percentage of our business is individuals, but the festival period is also very important for us. We have two festivals, in autumn and spring. These two months account for one third of our annual sales. But this year the whole wine industry was deeply impacted by the government's policy [on clamping down on expensive government and state-owned enterprise gifting during festivals]. I know most of the leading wine companies lost sales this year, but we're pretty lucky in that most of our sales are to individuals. So in the first half year we didn't feel the impact of this policy, but this autumn we fear that we'll lose the 20% of our revenue that comes from state-owned enterprise buying and government buying. But our revenue this year compared with last year is still over 50% gross, so we're still okay. We planned revenue of about RMB50m [\$8.2m] for September, but the final result is RMB42m, so we think that roughly 20% is gone due to this policy. But the individual gifting market is not affected by the policy. So we can still see a strong growth for September compared with August.

MEININGER'S: *In terms of growth, I gather you're more interested in increasing the value of wines sold rather than volume of customers.*

LIU: That's a different stage strategy for us. The market is constantly changing. When other platforms are providing lower and lower prices,

we sometimes need to follow them, but we have our own targets. We don't want to sell the very cheap wines, but the fact is the average price is coming down. So we're trying sell bigger packages, for example, by encouraging customers to buy six bottles instead of three. So we have more and more volume. The value also increases, but slower than the increase of volume. For example, two years ago the average price for each bottle we're selling was about RMB100 and now it's RMB76, so the increase in value will be slower than volume.

MEININGER'S: *You've just broken even. Can you tell me something about your financing – where is all the money coming from?*

LIU: We have raised three rounds of financing. All the investors are US-backed venture capitalists. In the first four years we raised \$53m to support the growth. But the good thing is that as we are making money, we can make them comfortable that we give them a return very soon. All investors have a director on the board.

MEININGER'S: *Will you need to do another round?*

LIU: Not at this stage, but if we prepare for an IPO [Initial Public Offering] we may have to have another round. This year our target is to try to get RMB500m, and we hope that will become RMB1bn company revenue, and then we can refer for the IPO, to float the company.

MEININGER'S: *And when might that be?*

LIU: Our target is in two years, maybe 2015. We do not have very strict schedule because we don't want to have too high an expectation with our investors.

MEININGER'S: *Do you have any plans to buy any wine properties?*

LIU: Not really. In the past two years there has been some noise around whether yesmywine wants to buy vineyards or wineries, but that's not our strategy. We want to be a distributor, and distributors need to be neutral. The wine that's good you can promote, but if the quality is not good enough you need to find a better one. Your interest cannot be bound too closely with a certain winery. Also, one or two vineyards cannot solve your customers' requirements. But we are interested in strategic partnerships, or shares in wine companies or negociants to help us to source different kinds of wines, with the experience and capability to find the best deal for us. That's our interest.