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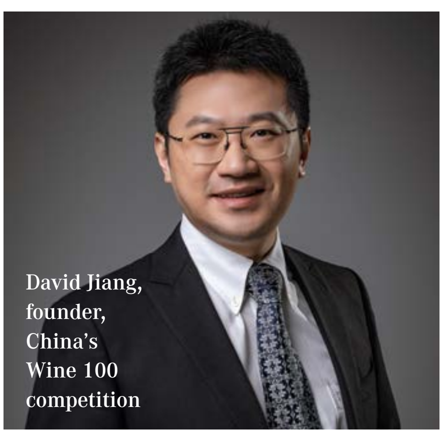
INSIDE CHINA'S DIGITAL WINE FORTRESS

Do you know your two micros from your one shake? If not, Janet Wang is here to guide you through China's digital wine economy.

More than 600 million Chinese people shopped online in 2018, about 40m of whom have collectively spent Rmb70 billion ($9.79bn) on wine and spirits. Though this is still a small figure relative to the overall size of e-commerce in China – valued at Rmb7 trillion, of which wine makes up a mere Rmb5bn – the growth trend for wine is unmistakable.

The three pillars

Underpinning the vibrancy of China's digital economy are three essential pillars: payment, logistics and information. As the founder of China's Wine 100 competition, David Jiang, observes, China's digital payment system is well established and widely adopted; even street vendors in the remotest places prefer mobile payment to cash. Courier services in China are speedy, with same-day or next-day delivery the norm along the developed eastern coastal areas, where the first-tier cities are located. Inland and western regions are catching up. Then there is the information flow empowered by internet and mobile communication. Chinese wine drinkers also tend to be young, in their 20s to 40s, and have a natural affinity with e-commerce.



David Jiang, founder, China's Wine 100 competition

Retail platforms can also be roughly divided into three categories. There are horizontal marketplaces, which connect buyers and sellers across different industries and regions, such as Tmall and JD.com. A newcomer is Pinduoduo, which has been called Groupon on steroids, and which lets people form syndicates with friends to buy at big discounts direct from manufacturers: it's increasingly attracting premium brands. The second type of retail platform is the vertical marketplace, which is specific to one industry. In wine and spirits this would include Yesmywine.com, Jiuxian.com, Wineyun.com (time-limited offers) and 1919.cn, the Alibaba-backed online/offline business. Finally, there are social marketplaces such as Weixin (i.e. WeChat), Weibo, and Douyin, the original Chinese version of TikTok. Incidentally, these three social platforms are collectively known as the "two micros and one shake" or liang wei yi dou. (Tip: pay extra attention to things that acquire their own catchphrase.)

There are distinctions among these categories. Simon Wu, a senior e-commerce executive who has worked at both JD.com and Tmall, explains that the current market strongly favours large generic platforms; the top two players, JD.com and Tmall, account for 80% of online wine sales by value between them. The Chinese like to buy things in a multiplex environment, be it physical or virtual, Wu observes, so the large generics enjoy far more traffic and greater economies of scale, while the specialists (often venture-capital backed) find it challenging to acquire and maintain enough flow and conversion. At present it is not clear that as consumers become more sophisticated they will move towards specialists. It may happen, but it is not yet evident, even in the first-tier cities. Furthermore, consumers who buy from specialists tend to be pickier and more price-sensitive by virtue of being more informed and inquisitive.

While JD.com and Tmall are great places to buy wine, consumer opinions are often forged in the chat groups that proliferate across WeChat, Weibo, Douyin and Xiaohongshu. Specialist websites dedicated to wine news and education are also on the rise, such as Wine-world.com and Vinehoo.com. Liu Zhen, a leading wine industry management consultant and promoter for more than 20 years, points out that high-quality online content is much sought after by professionals and consumers alike, and that Vinehoo.com's model of integrating media, education and retail could be the way forward for specialist platforms.

As for the 'micros' and the 'shakes' – Chinese social apps epitomised by WeChat and Douyin – their potency lies in their vast networks of online communities, where people not only exchange information and influence, but where vast amounts of buying and selling occur in countless channels and closed groups, often in the form of time-limited offers, group discounts and auctions. These groups may be run by influencers, companies or even sole traders. While the technical barrier to entry is fairly low, the path to success is tricky. Trust needs to exist between participants and the group leader or channel owner, which takes time to build. A thorough understanding of the audience and the ability to constantly engage are essential for such forums.

JD X-Mart unmanned convenience store in Xi'an, China

Online and offline

As the online and offline world becomes increasing symbiotic, like the yin and the yang that underpin Chinese philosophy, it is no surprise that China has adopted the online-to-offline or O2O model – a blending of physical and digital retail – to its fullest extent. The power of big data and machine learning has made China a leader in online and offline integration, spearheaded by Alibaba's 'new' retail and JD.com's 'boundless' retail concepts. In the former, everything in the retail space is controlled by the Alibaba app, with the store also acting as a distribution centre and immersive digital information and entertainment space. In the latter, JD.com is using artificial intelligence to ensure that consumers have access to sellers through multiple touchpoints and channels.

Wine industry marketer, broadcaster and writer Guo Minghao notes that the offline experience of tasting wine is particularly important in China because consumers are eager for knowledge and opportunities to taste. This lends well to offline tastings driving online wine sales. However, Minghao notes that as tasting opportunities are few and far between in the lower-tier cities, consumers paradoxically rely more on online information to make choices, and it is positive online experiences that lead them to seek out offline experiences. This is driving brands and event organisers to host roadshows that penetrate ever deeper into the lower-tier cities.

Online and offline integration is continuously evolving. Simon Wu explains more about Alibaba's model: "Did you know that you can offer a competitor's customer a voucher to try your wine via mobile phone when he or she walks into a mom-and-pop store in a third- or fifth-tier city in China?" He explains there are millions of independent convenience stores in such cities and many have a point-of-sale (POS) terminal. The POS machine collects sales data that feeds into a databank. Based on the shop's location, Alibaba's data mapping and analytics can make sophisticated evaluations of footfall and customer profiles. For example, within a catchment area of 200,000, the technology may whittle the population down to about 100 people who are likely to come into this particular shop and buy wine from a competitor brand, and a discount voucher may be offered to either encourage loyalty or to entice them away.

In first-tier cities, 1919.cn promises to deliver online orders to central locations within 19 minutes. Wu says this is not about how fast the courier can deliver from a warehouse any more, but is a fusion of physical wine shops with the online e-commerce network and the courier network.

It's not all digital

The wine market in China is more mature than many people realise, given the still low level of wine drinking relative to the total population. Technology can eliminate some traditional intermediaries. However, it remains essential to have an on-the-ground local team or partner-representative to oversee operations, from brand building through to after-sales service, in order to have an understanding of, and genuine engagement with, target consumers. But more important before all that is an evaluation of one's own brand value and where it sits within the Chinese market. David Jiang suggests the segmenting, targeting, positioning (STP) market analysis as a guide to identifying where a brand should slot itself into China's vast and noisy marketplace. Jiang is also particularly interested in the community marketing model that naturally arises from social media, especially as it involves offline direct sales at wine club events.

Guo Minghao, a prominent figure in the event space, says that apart from categorising consumers through the tiered-cities system, which is predominantly based on economic growth and spending power, brands should also consider the geographical, taste and cultural characteristics of various regions in China.

Liu Zhen urges brands to think carefully before engaging influencers. While the sales effect can be seen immediately when garments or lipsticks are promoted via influencer channels, it is harder to describe wine and its story via such fast media. To do so requires a skilled and knowledgeable influencer, and the high-profile influencers who are capable of it may be importers themselves. Lady Penguin, for example, chooses wines based on her own deep understanding of her audiences and her channels.

Simon Wu offers an important final thought, which really should be a first thought for any brand selling in China: just how big a market share does any particular brand really need in China? This simple question is often overlooked or hazily defined. Some producers have become successful simply by focusing on indie bars in Beijing – and they are perfectly happy to make tens of millions of yuan a year doing so. Others may drop several million yuan just for the data analytics required to participate in one-off major e-commerce sales events, such as the Double 11 Singles Day or Tmall's 9.9 Wine & Spirits Festival; to be successful, they need to understand the what, when, where and how of their customers. Regardless of approach, a brand must be able to articulate its positioning in China at all times. Only then will the digital fortress open its doors, rather than feel like a labyrinth. ■

Simon Wu, senior e-commerce executive