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## Interview with Tao Zhang from Dianping.com



**Adrian Bye:** So today I'm actually in the offices of Dianping talking with Tao Zhang who is the CEO and Founder of Dianping. Dianping is loosely described as the Chinese version of Yelp. Tao's going to tell us a little bit more about the company and what they're doing. So Tao take it away. Tell us a bit about yourself first.

**Tao Zhang:** Yeah. Sure. The business model we are doing is pretty similar to Yelp in the U.S. so it's a site where millions of consumers share their experiences on city life related opinions, like restaurants, night clubs, etc. Dianping actually was founded in early 2003, which is actually two years before Yelp was founded. We have been around for six years. We were first funded by Sequoia and was later funded by Google. So currently, Dianping has about ten million unique visitors each month, and we have over eight million reviews submitted by the users, and we cover over three hundred cities in China.

**Adrian Bye:** So you have over ten million page views a month?

**Tao Zhang:** Ten million visitors a month.

**Adrian Bye:** Ten million visitors a month, that's ten million uniques?

**Tao Zhang:** Yes.

**Adrian Bye:** Okay, go on.

**Tao Zhang:** A little bit on my background. I grew up in Shanghai, went to the States in 1994 and lived there for ten years. I went to college there and after college, I did work for a consulting firm for three years, then went to Wharton, and I came back in 2003, after MBA, and I started the business.

**Adrian Bye:** Where did you do your MBA?

**Tao Zhang:** At the Wharton School in Philadelphia.

**Adrian Bye:** So you were talking about where you went to college?

**Tao Zhang:** Yeah. I went to DePauw in the U.S. in Indiana and then worked for a couple of years and then went to the business school and then came back.

**Adrian Bye:** So you actually worked in the States for a while, right? How many years? In Silicon Valley?

**Tao Zhang:** No, actually I was doing consulting, based out in Chicago and then doing projects all over the US. Went to Alabama, Philadelphia, etc.

**Adrian Bye:** Alabama culture capital of the US?



**Tao Zhang:** Definitely.

**Adrian Bye:** So, I'm interested to understand why did you come back to China? Why didn't you stay in the US?

**Tao Zhang:** Actually, for me I always wanted to come back. So I mean US is a great country to study and gain experience. My original goal is to come back. So, after ten years I think I have enough experience to come back and do something. China is growing very fast, the economy is good and a lot of my friends are here. So, I mean, it's a place to lavish my experience and do something great.

**Adrian Bye:** If China didn't have the economy taking off would you come back?

**Tao Zhang:** I would delay, for sure. If the economy is not taking off and still do worse I might delay a couple of years. Eventually, I hope I can. I would come back.

**Adrian Bye:** And that's just because you're Chinese and you just want to be in China?

**Tao Zhang:** Yeah, I think so. Yes. It's my country.

**Adrian Bye:** And so we're in Shanghai right now. You're originally from Shanghai.

**Tao Zhang:** Yes, I grew up here. It's a great city.

**Adrian Bye:** Yes, I've just been seeing bits of it.

**Tao Zhang:** It's very diverse, and gets more diverse by the day.

**Adrian Bye:** So, let's talk a little bit about your site. Is this your main business? Do you have other businesses as well?

**Tao Zhang:** It's my full time business.

**Adrian Bye:** It's your full time business?

**Tao Zhang:** Yes, of course.

**Adrian Bye:** Do you want to tell us about the other businesses that you have?

**Tao Zhang:** Oh no, this is my full time.

**Adrian Bye:** Do you have other businesses you've done in the past as well? Or is this like your main focus.

**Tao Zhang:** My main focus. Yes, definitely. I did a little bit start up when I was still in Shanghai in 1993 or 1992. But that was just something to play with, but this is the real business.

**Adrian Bye:** Ok. So, you said that you got started how long before Yelp.

**Tao Zhang:** We started in April 2003. Yelp I believe was started in late 2004. Okay, so maybe two years before.

**Adrian Bye:** And you started off being as a restaurant review site?

**Tao Zhang:** Yes, we started with restaurant review.

**Adrian Bye:** So, did Yelp get their idea from here?

**Tao Zhang:** No, I don't think so. They don't read Chinese. I think a market gap existed. And also I think the evolution, the evolution of the web, it became more interactive and it became more life related, more personal. I mean the early stage of the web is more like use for entertainment especially in China. As the web evolved, as the user needs evolved, I see this kind of service just makes sense. It makes sense in China. It makes sense in the US. In China I guess it's because the food culture is much stronger here. So that's why, maybe Dianping sort of started early in China. Something to do with, you know, Chinese people just loves to eat up.

**Adrian Bye:** If you haven't started it, do you think someone else would have? Like, do you have many competitors?

**Tao Zhang:** When it was started, actually there are many food related websites in China. There are several, you know, like eLong was listed in the US, similar business as Ctrip. eLong actually was started.

**Adrian Bye:** What's the name, I'm sorry?

**Tao Zhang:** Elong. Elong.com.

**Adrian Bye:** I'm not familiar with it.

**Tao Zhang:** Okay. You know Ctrip, right?

**Adrian Bye:** No.

**Tao Zhang:** Okay. Ctrip is like the big travel site. Sort of Expedia in China but I think it's actually bigger. So Ctrip, say you have Elong and then eLong started as sort of a life portal. It's kind of a citizenship and then they converted into travel destination business.

So, I guess, since food is always a big culture and there are a lot websites, they are doing restaurant related information or life related information. But the way they did it was very similar to what CitySearch did in the

US. It is very 1.0, very editorial content, there is no interaction. So, I guess Dianping was the first site to make it very interactive.

**Adrian Bye:** So, one of the things that Yelp did was viral invites, inviting friends, tell a friend, that kind of stuff. Did you start with that?

**Tao Zhang:** Yes. We have that. So, the tell a friend link.

**Adrian Bye:** Did you start with that in the beginning or after Yelp started doing it. Like how did you start your traffic in the beginning?

**Tao Zhang:** I mean, it grew very slow and steady. I mean, at the beginning, it was just myself. So, I was doing all the programming, the site maintenance, the contents and all. The first bunch of users I just get from my friends, my high school friends, people who still remember me after ten years, my family. So, my 70 years old dad, I convinced him to go to web to start using my service, he had never been to a website. So, friends and family, I also went to a couple of community sites, the BBS forums and other forums, just do some postings. Self-advertising, this is a great website, you can get full information. So, that kind of tactics.

**Adrian Bye:** I mean, I know that stuff and I imagine that didn't drive much traffic, right?

**Tao Zhang:** I didn't drive, I mean, it's good traffic. It's very high quality traffic. But at the beginning what is really important is the quality of the users, the people who can write reviews versus who just come in to visit. I mean it grew very slowly. I never really seen a spiking of the traffic. So, it's always sort of ten to fifteen percent of most growth for the past many years.

**Adrian Bye:** So, you never had like, hockey stick growth, it's always a sustained, slow and increasing.

**Tao Zhang:** Never. Never ever.

**Adrian Bye:** So, right now you are around ten million monthly visitors.

**Tao Zhang:** Right.

**Adrian Bye:** That's just every month, ten percent going up.

**Tao Zhang:** Now, it's actually slower. So, now we grow maybe, we double each year. I mean five to seven percent, at most.

**Adrian Bye:** Do you have any major competitors? I mean is anyone else there getting say five million visitors a month?

**Tao Zhang:** Not really. This kind of model is actually, the way I look at it, it's actually tough to do. We have had a lot of copy cats are on their way, but we never really see somebody does exactly what we are doing.

**Adrian Bye:** Why is that?

**Tao Zhang:** I think it's sort of a community kind of thing, and to build that community, it's not easy, and it sometimes needs some luck involved. You look at the US, Craigslist, you know Craigslist, right? If only they

have a closest competitor yet. Somebody tried to catch up. Yelp? There are several people doing what Yelp wants to do, like Judy's book, right? They all got funded. But only Yelp survived. I think, to build a community, it takes some time and patience, and not necessarily money. Money actually is not that important. Time and patience and then luck. I mean its just part of my experience.

**Adrian Bye:** You bring up an interesting point with the copy cats, because one of the things that we've heard on this trip is how big a problem it is having business models just copied out right here in China because there's not much legal protection and there's a lot of guys that are very aggressive and will chase a working business model very quickly. So, you feel in your case, the community is a strong enough barrier to entry, that it's hard for people to replicate that.



**Tao Zhang:** Yes, I think so and it would be the only point, I mean, business model, what kind of legal protection do you really have for business models, right? It exists everywhere in the US. Business model, you see Yelp model, you can copy their model. So, I think in China, it's the same thing. So, I think the key thing is do we have a really key competitive differentiators. No, you can't keep copy

cats away. So, in our case, the community helps us.

**Adrian Bye:** So, what are your key competitive differentiators?

**Tao Zhang:** I think the community is number one, the loyal group of users in each city. Think about it, even though in Shanghai we have fifteen million people maybe. Maybe like four million or five million young people. Among four to five million young people, how many people really want to buy reviews? One percent? So, actually, the number of people who will contribute is very finite. We don't have other people like that. So, they are here. So, that's all our biggest assets. That's number one. Number two is as the business grows, I mean the brand actually become pretty important. I mean, in the US, you have The Guide, in Europe you have Michelin guide. This kind of life guides, the brand actually plays a part. So, the reviews or the ratings from Dianping, because Dianping is a trusted brand, actually, worth a lot more. So the brand becomes important as well. Those are the two most important.

**Adrian Bye:** And so, is this site now a well known brand in China?

**Tao Zhang:** What is that?

**Adrian Bye:** Dianping is now a well known brand in China?

**Tao Zhang:** Yes. I mean, in big cities, ask any young people they would know. In Shanghai, Beijing, Guangzhou, office people I know especially the ladies. Our main demographics is twenty – thirty five. They are office ladies.

**Adrian Bye:** So, I'm interested to understand a little more on traffic. How have you gotten your traffic? Has it been through public relations? It doesn't sound like it's been through viral, like specifically, tell-a-friend viral marketing. What has been the approaches that are working for you to get traffic?

**Tao Zhang:** It is word of mouth, it's friends, you may now use the tell a friend link, so they tell each other.

**Adrian Bye:** More branding public relations stuffs like that?

**Tao Zhang:** We don't actually do a lot of that. I think the users they are doing it themselves. So it's, I mean, it's not through some kind of public campaign or marketing campaign. We've done a lot of that but it's not very effective. I think the best traffic just come from people telling friends. And that's one. And the second, the search engine. We do a pretty good job into SEO, which I think SEO is critically important for Yelp and Amazon. For us, SEO is important, search engine brings a lot of traffic.

**Adrian Bye:** So, which of the main search engines bringing traffic to you?

**Tao Zhang:** Right now, I think Baidu. Baidu...

**Adrian Bye:** Baidu, the number one Chinese search engine, and what else?

**Tao Zhang:** Google. Baidu and Google.

**Adrian Bye:** Maybe just, could you tell us then a couple of pointers for people optimizing for Google and Yahoo and the US search engines. What's different about optimizing for Baidu?

**Tao Zhang:** It's the same. We do not really optimize for Baidu, we optimize for Google and the results turned out to be pretty good.

**Adrian Bye:** You optimized for Google and it works for...why would you pick Google over Baidu?

**Tao Zhang:** Because Google has a lot of discussions on it. A lot of people in the US and here talk about how to optimize for Google. Google, they are more transparent in terms of what they do and what they don't allow to do, and then you can optimize for them. Baidu is kind of opaque a little bit.

**Adrian Bye:** That's really interesting. So, even though Baidu is eighty percent of the Chinese market you optimize for Google just because there's more information about how to optimize with Google and then it works for Baidu.

**Tao Zhang:** Works for Baidu mostly. But we don't know how to optimize for Baidu because they are not very transparent.

**Adrian Bye:** What would be an example of a Baidu specific trick?

**Tao Zhang:** I don't know. That's why, we only care about how to optimize for Google and it works for Baidu usually. They have their own tricks but we don't know, they don't publish it. There are not a lot of people who discuss about it.

**Adrian Bye:** Well, I'm sure that people would figure it out, because there is money in it.

**Tao Zhang:** Yes, plus Baidu don't allow to reach out to each other. A lot more people reach out on Google than Baidu.

**Adrian Bye:** Can you tell us something that people found in the past that has worked that was a Baidu specific trick just to give us an example.

**Tao Zhang:** I don't know.

**Adrian Bye:** Can you tell us a little about your funding: To me that's pretty interesting that you're based here in Shanghai, you're out of the US and you convinced Sequoia to give you funding and then Google.

**Tao Zhang:** Sequoia China.

**Adrian Bye:** Sequoia China? Where are they based?

**Tao Zhang:** Based off Shanghai, Beijing and Hong Kong. Sequoia China was established in late 2005. That was the time we started doing our first round funding in mid 2005. We actually did some distant fund raising, tryout in Silicon Valley, in early part of 2005. It didn't work out. They're not something I suggest people to do. So, we come back to China and look for funding and Sequoia China was just getting established at that time. We knew the guy, Neil Shen, which is the founder of Ctrip and was the founding partner for Sequoia China. We actually knew him before. So he was, we also proposed that he invest in us at that time. Then, it didn't make sense at the earlier time but then he went and joined the Sequoia China. So, we actually know each other pretty well already. So, we actually are one of the very first company that got funded by Sequoia China.

**Adrian Bye:** Has Sequoia been good to work with? I guess the answer is yes.

**Tao Zhang:** Yes. They are pretty hands off. I mean that's good in a sense. Leave us alone for sometime.

**Adrian Bye:** Who do you work with most closely at Sequoia?

**Tao Zhang:** We have Steve Ji.

**Adrian Bye:** So then, so firstly, it was Sequoia China, then you head for long with Google.

**Tao Zhang:** Yes, that was a year later. So, the first round was closed in mid 2006 and a year later we closed with Google.

**Adrian Bye:** Is that Google China or Google US?

**Tao Zhang:** I don't know their corporate structure but it's Google China, we talked to the Google China people. They're actually part of the whole business development team.

**Adrian Bye:** That seems like maybe an unusual investment, and it is a conflict of interest. Why would Google invest with you?

**Tao Zhang:** For them, my understanding is Google, their strategy was for the search, one is mobile and the other is local. They have pinned we fit definitely to both, local and the mobile side. In China, one of their strategies if they want to compete with Baidu, was try to put more focus, fill up the local search site, and in the end, they will be helping you with that.

**Adrian Bye:** Is there a conflict of interest or is that the sort of stuff that doesn't matter here? I mean, because we could look at them and say well Google has an incentive to rank your stuff higher in the search results in China.

**Tao Zhang:** I hope they do, but I don't think Google have to do that.

**Adrian Bye:** I certainly don't think they would in the US, but China is a different world.

**Tao Zhang:** No, I don't think so. I don't think Google will do that. Well, if they do that, it would be wonderful. But I don't think they will do that. I don't think it is wise. They would never do that. If I were them I will never do that.



**Adrian Bye:** Does that hurt you with Baidu? Does Baidu rank you lower because they know that you're with Google?

**Tao Zhang:** It didn't happen yet. I hope not.

**Adrian Bye:** And so, can you talk about...have you raised money since then or those have been the two rounds?

**Tao Zhang:** Just two rounds.

**Adrian Bye:** Can you talk about how big the rounds were?

**Tao Zhang:** No, we didn't disclose that.



**Adrian Bye:** And today are you profitable?

**Tao Zhang:** Yes. We are profitable. Since November last year.

**Adrian Bye:** Congratulations.

**Tao Zhang:** Thank you. We are both net income positive and cash flow positive.

**Adrian Bye:** Cool, and does that look like it's going to continue?

**Tao Zhang:** Yes. It's actually going very fast.

**Adrian Bye:** So, will you raise more money in the future or...?

**Tao Zhang:** Probably, but not sure yet. So, we might do a round maybe a year from now, hopefully. But it depends on if we, because really we are trying to...we're not really, the company need the money, more for other reasons. Maybe before IPO thing or maybe something else.

**Adrian Bye:** So, help me understand because the guys who are going to be listening to this will be saying, "well, they've already gotten some blue chip companies to invest in them. They're profitable. They're growing. Why on earth would they want to raise more money?" Why would you raise more money?

**Tao Zhang:** We have to raise money, well, it's definitely not because the company needs the money. It's definitely for different reasons. One, could be a pre-IPO, you need a kind of mezzanine run to just have some money right? It's expensive to go IPO. Also it could be, you want to disseminate. Also you could be, there's some old angel investors or old investors they are not patient anymore so they want to get out like what happened to Alibaba, right?

**Adrian Bye:** What happened to Alibaba, maybe you can tell us that as well?

**Tao Zhang:** What happened to Alibaba was a typical case. Alibaba was funded, SoftBank and a couple of other investors, right? That was in 1997 or 1998 maybe. I couldn't remember. Alibaba has been doing very well for a long time. But for various reasons, it won't go IPO. One of the bigger reason is Taobao. They spent a lot of money trying to build up Taobao. You know, like eBay. They just beat up eBay in China very well. So, for whatever reasons, Alibaba started doing very well but they don't want to go to IPO, and then that created dilemma for a lot of investors. The investors, they have some investment criteria, horizons, so they have to get their money out. So, what happened was they had a strategic investment from the Yahoo. So, Yahoo was like forty percent owner of Alibaba. So, Yahoo came in and put a lot of money in it, and also cashed out some of the old investors, things like that. Alibaba went a couple more years and then went IPO two years ago.

**Adrian Bye:** And so those investors now lost money because they got out too early, right?

**Tao Zhang:** It depends on how you think. They don't necessarily think that. That depends...

**Adrian Bye:** They would have made a lot of money if they hadn't done that, right?

**Tao Zhang:** They could have. But another example. Actually, I was side tracked. You know Tencent, right? The biggest internet company in China, the most powerful one is Tencent, and its probably one of the best run companies. Tencent was close to twenty billion US dollars. Fifteen to twenty billion, something like that. Then they are growing like one hundred percent a year. Amazing company. What happened was that before they went IPO, they have a company in South Africa called MIH. They buy out all old investors, so they are like fifty five percent owner of Tencent. They bought out, maybe about one hundred million US dollars.

**Adrian Bye:** They bought out. They got bought out at one hundred million

**Tao Zhang:** They invested one hundred million, something likes that, one hundred million US dollar valuation, bought out all old investors, which include the IDG ventures. And then now, they haven't sold all their shares, and then they keep most of their shares.

**Adrian Bye:** So, what's the hundred million dollars worth now?

**Tao Zhang:** Fifty million investment now it's like over ten billion.

**Adrian Bye:** That's a very good return.

**Tao Zhang:** Sad things happen, IDG really... I don't know. Different people think different ways. You have the old investment horizon, you are happy. Who knows what's going to happen to the company? Different people have different views. That's kind of side-tracked.

**Adrian Bye:** That's what I'm here for, to learn more about some of this space. One of the things that I imagine you saw recently, about two months ago, was that Yelp had a lot of public relations problems. They've been getting complaints that these sales teams have been pushing too hard on local businesses. The way it was implied was like bribery or something like that or blackmail into paying for Yelp Listings and that became quite a problem for Yelp. Have you had anything like that happen here in China?

**Tao Zhang:** PR perspective no. I mean, not really. We did get sued, but that's a different story. We did get about many years ago. That's three to four years ago when the company first started. We got sued by the restaurant several times because they say the review is on the website, are derogatory, so they want to take them out. Three, four times, we won, two or three, the other one the judge say okay it is derogatory, take it out. So, things like that. It's more on the user review side. We haven't done the monetization yet. Yes I've read the news about the Yelp problems they are facing. There are some things that you just have to manage. I think it's just going to come out. For us, I guess it's a matter of time, and also how we're going to manage that. I mean, a lot of times, I would imagine our story is not that simple. For one thing, definitely, for a big sales team, and you have different kind of people. Maybe, those sales people just get hired and they don't get the proper training. They do something improper, I mean on individual based. That happens. Does that happens, well definitely it is going to happen.

**Adrian Bye:** It can happen to any company?

**Tao Zhang:** It happens to any company. Is that a Yelp policy? I doubt it. I mean if Yelp really does that, I mean, that is not a smart move. So, our company would never allow people to do that. Definitely, we'll have that on individual basis. Also, other thing is that, is it really always the sales people fault, it depends. I mean the business people really what Yelp or their team does will affect a lot, touch a lot of raw nerves for the business, right? I mean we actually have a lot of case like that, just miscommunications. Then, there are

some cases, for example, that happened quite a couple of times. It was like, our sales people go to a business and they talk to them and they say if you want to do the advertising, and the business say no. Okay, the sales people go back and nothing happens right? And then a couple of days later, the business people found out, they think they found out that the good reviews were taken out. Then they derive from that and say, “because we didn’t do advertising with Dianping, they take out the reviews as a punishment.” Is that true or not? No, its just miscommunication. It happened to be the reviews were taken out. We are checking these reviews. Want to make sure the reviews up here. So, that I imagine, we have a lot of miscommunications like that, but its not become a PR problem as Yelp has. But that happened a lot. Ninety five percent of the cases are miscommunications.

**Adrian Bye:** So, onto that point of removing reviews. It’s a big problem with fake reviews. I’ve seen in the news TripAdvisor that people are saying is TripAdvisor even worth paying attention to anymore, because so many hotels are just basically spamming it. They’re even, TripAdvisor’s now putting warnings on some certain pages saying “we believe that a lot of the reviews on this page may have been fake so be extra careful.” So, how are you handling that fake reviews?



**Tao Zhang:** That’s a big problem. I mean, as we become influential and then more people try to spam it and try to trick it. So, we just always try to do better. We have certain policy in place. From the technical perspective, we actually control what kind of reviews will be shown up. So, we have some kind of eBay kind of star systems. So, every user depends on activities on the

website you get certain points. If you log on...

**Adrian Bye:** So, if the user has more positive reviews then their reviews shown first?

**Tao Zhang:** No, necessarily positive reviews. If the user log on, they get a point, if they write reviews they get points. So, it’s kind of a credibility score. For your review to show on the first page, your credibility score would have to cross this threshold. So, that technique actually get rids of a lot of fake reviews. And also, it has become very sophisticated. Look at IPs, look at log in name, password and stuff.

**Adrian Bye:** All those stuff can be faked though?

**Tao Zhang:** Yes, of course. It will never ever be one hundred percent, the spammers just become more sophisticated.

**Adrian Bye:** I guess in your case, like TripAdvisor, they could at least insist that people like if they bought through one of the related sites, they can track whether a purchase actually happened, I guess you can't really track whether the people went to a restaurant.

**Tao Zhang:** No, we can not. Yes, we can not. I think Yelp definitely has the same problem. It's impossible to get a hundred percent non-fake, every review is authentic. That would be a goal but it's not going to happen.

**Adrian Bye:** You never thought about like partnering with restaurants to provide sales names and then you could have verified names on the site like Amazon has real names.

**Tao Zhang:** That's tough. I don't mean offline but logistic wise it's impossible. And if that way, if you do that, the restaurant might, they get involved, they might actually make the situation worse. Who knows? It's a problem. Definitely it's a problem. It's just like what Google does with all the SEO black hats. Always trying to make ...

**Adrian Bye:** ...they stay on top of it and make it work.

**Tao Zhang:** The pressure is just like, is it ninety, seventy, thirty percent wrong? Forty percent wrong or just one percent wrong?

**Adrian Bye:** You guys are profitably making money, yet Judy's Book had imploded and most other sites hadn't done well on this space. How are you guys surviving in a country where there isn't as much... like the revenue you can generate per user is lower in China than in the US. So, how do you survive?

**Tao Zhang:** I think Yelp is actually doing well, from my understanding.

**Adrian Bye:** Is it?

**Tao Zhang:** The revenue is not bad, I'm not sure if they are profitable yet but they're doing pretty well. The key thing why Judy's Book imploded is because they really hadn't built a user base, to start with. They never really built up the traffic. For us, the traffic is good, we do get a lot, and we had become influential in the industry. The most important thing is the restaurant who advertises with us, they do see results. They see their business go up. So, they renew their contracts.

**Adrian Bye:** They see what go up?

**Tao Zhang:** They see their business go up because they partner with us. They see real results. Other local business owners, they are very practical people. They don't believe all these fancy advertising, brand advertising. But if you see the results, just like the Google advertisers, the key thing is we actually prove until we can see results for them.

**Adrian Bye:** Maybe you tell us a little bit about how you are monetizing the site? Is that mainly through sponsored listings, mixed reviews is that the primary mode of monetization?

**Tao Zhang:** Actually, priority now is, one is the key words. You can buy key words, for example, Chinese food or hotpot, the key word. So, if you'll buy the key word your sponsor link is more prominent. Also the other way is ...

**Adrian Bye:** So, do you have a natural search results and then paid search results when I search for hotpot?

**Tao Zhang:** Yes.

**Adrian Bye:** So I would pay to be in this sponsored results on the site? What's your highest key word then? What is the dollar value?

**Tao Zhang:** Highest key word? Dollar value? One thousand a month US dollars.

**Adrian Bye:** That's what they're paying a thousand dollars a month?

**Tao Zhang:** Yes. We charge on a monthly basis. Not on a per click base yet.

**Adrian Bye:** What's the key word that they're paying a thousand dollars a month for?

**Tao Zhang:** Sze chuan.

**Adrian Bye:** What's the name?

**Tao Zhang:** It's a Sze chuan food. And also actually, the area key word, let's say...

**Adrian Bye:** Like Shanghai or Beijing?

**Tao Zhang:** No, Shanghai is too big. Within Shanghai, you have Peoples Park, you have Suzhou wei. You have different business areas. These key words are actually more popular.

**Adrian Bye:** And what would, like a business park, what would the key word like that go for?

**Tao Zhang:** How much you mean? The highest is around one thousand, as you were here, I'll bill you one thousand.

**Adrian Bye:** And so you'll have a restaurant in the business park paying a thousand dollars a month to be in the top listing. And that's giving them a good ROI.

**Tao Zhang:** Yes. Very good ROI.

**Adrian Bye:** Do you then, I guess, you have people bidding on those, like how do you increase the...

**Tao Zhang:** We haven't started the bidding system yet. It's hard to sell the bidding concept to the local owners here. We might do that in the future.

**Adrian Bye:** So, some guys are just sitting there, paying a thousand and they're making fifty thousand back?

**Tao Zhang:** Yes.

**Adrian Bye:** That could be. I mean you don't know.

**Tao Zhang:** We actually measure by...another part is the coupons. The coupon is very popular, too. So, the restaurant can put out a coupon on the website and the users can print or download it to their mobile phone, and redeem the coupon at the restaurant. The coupon is actually pretty well. We usually combine these two together, the coupon and the key words.

**Adrian Bye:** What attracts the most revenue for you?

**Tao Zhang:** I mean these two.

**Adrian Bye:** Overall. It's key words and coupons.

**Tao Zhang:** Yes, we use the two combinations. It's most effective.

**Adrian Bye:** One other thing that's interesting, I know Yelp does use a sales force, but I guess you're able to drive that harder than a site like Yelp can because you can have more people and it's cost effective. Maybe could you tell us a little about the dynamics of that? How that actually works out?

**Tao Zhang:** Yes. Sure. In China, average sales people, they make, in our case, base salary plus the sales commission, maybe one hundred thousand RMB.

**Adrian Bye:** One hundred thousand RMB, not a hundred thousand dollars?

**Tao Zhang:** No.

**Adrian Bye:** I'm sorry that would be. What would that be in US dollars?

**Tao Zhang:** That would be fifteen thousand USD.

**Adrian Bye:** Fifteen thousand dollars.

**Tao Zhang:** Not bad.

**Adrian Bye:** So, just over a thousand dollars a month salary.

**Tao Zhang:** Right. Okay. Actually that's not bad, right? And the worth he can bring per sales people is about over half million RMB. So, that's about maybe ninety thousand USD a year. So, we pay them about fifteen thousand.

**Adrian Bye:** Fifteen thousand and then they bring in about ninety.

**Tao Zhang:** That's good business. That's why internet companies in china their net margins are amazing. You can't believe that. I was in the US in business schools, for any company, if they can have double digit in their margin, it is a good company, right? Microsoft, Google have maybe twenty to twenty five percent in their margin.

**Adrian Bye:** So, what are your net margins? Can you talk about that?

**Tao Zhang:** We are not to that point yet. We have to scale up. To the world, what are net margins for Tencent is? Forty percent. Forty percent and then for Ctrip, thirty- thirty five.

**Adrian Bye:** So, why, the net margins are high just because salaries are so low and you get so much more leverage?

**Tao Zhang:** I think one other thing is salaries isn't all.

**Adrian Bye:** Is that the change, is the Chinese currency has already devalued quite a lot over the last six months.

**Tao Zhang:** It would change, but I don't see a change in the next five years. In China, the net margin is very big. I don't see them changing in the next five-ten years. The cost structure, no different change, maybe ten-twenty years from now, it might.

**Adrian Bye:** And so what that means for now is if you're a good Chinese internet company, and you're in front, you can have massive margins.

**Tao Zhang:** Yes, all the good companies, Tencent, Alibaba, Baidu, Ctrip, NetEase, they all have about thirty-forty percent in their margins.

**Adrian Bye:** Okay.

**Tao Zhang:** Which is amazing.

**Adrian Bye:** I'd be interested to know overall, on the site, no, overall for Americans coming in...Let's say, because, a lot of our audience are from America, there is going to be two topics they're going to be interested in. Some are going to be interested in starting a business in China. How do they get started? I know that's like a two hour conversation in itself, right? But maybe just some ideas on how they can get started, and the other would be if they already got a US company and they want to expand into China. How might they do that? Can you maybe just talk in general about business for Americans on the internet in China?

**Tao Zhang:** That's a tough topic. And so we focus on the internet space?

**Adrian Bye:** Consumer marketing in the internet.

**Tao Zhang:** Consumer marketing

**Adrian Bye:** What are going to be some of the differences that we're going to run into in business in China versus the US?

**Tao Zhang:** Well, what I've noticed from, and pretty quite evidence, so far, it's hard to see a success story for international business to compete in china market. It's just cut clear. You see a lot of...you know, P&G is doing well here, McDonalds, not that bad. But internet, Google is still heading there. Actually, they might be okay. But besides that, nobody is really doing that well. I guess, there are different explanations for that, maybe operations side could be tough. Also I think, the key thing could be because internet is so much part of

people's life, as one kind of industry, it's very close to what consumers really want, and their needs. So, you really have to understand what the consumer wants.

**Adrian Bye:** And you have to be right on that mind set which if you are an American company trying to get into the Chinese mind set, it's very different.

**Tao Zhang:** It would be very different. So, you have to have a Chinese people... I can't imagine, I mean, it's hard for a foreigner to run a Chinese company here.

**Adrian Bye:** But they're seeing some success. There has been some foreigner who has done well here? Like the guy with the travel site.

**Tao Zhang:** I think he has local...I'm met him for some drinks...I think he has been in China for a while and also he has very strong local partners. So I'm not saying it's not possible but just that he's one of the rare maybe successful examples.

**Adrian Bye:** So, you hear about people coming over to China, the Americans that come over, do they tend to fail when they come over?

**Tao Zhang:** I was speaking just for internet business, especially if it is related to consumers. I'm saying you have to understand what Chinese people want. What the local people want, and then these...it's hard, tough even for the Chinese, it's actually hard. A lot more success stories are founded by local, local Chinese like Tencent. Like Alibaba versus by returnees. So, that aspect is pretty important.

**Adrian Bye:** So if a company is doing well and they wanted to expand into China, how do you suggest they do it?

**Tao Zhang:** They have to really have a local team, a local person to run it, and with a lot of independence and authority. A very little interference from the headquarters. That's what happened to Inchnet and eBay. That's why Inchnet failed. You have to have a very independent operation.

**Adrian Bye:** So, a little bit like the way Yahoo was a success going into Japan, because they partnered with Softbank and then they basically did everything. And that has worked. Is that the model you will consider for China also?

**Tao Zhang:** I think you mostly have to do that. A lot of independence. Any kind of ...you know also, I think what happened was that internet is a genuine fast, is a very fast evolving business, industry. And also the people who are doing the internet business tend to be pretty good people among the Chinese entrepreneurs because they are pretty capable in general. They are capable and they are very fast. So, if you have any kind of interference from the head quarters, you have to get approvals from what to do, so you get a product change or UI change or financial change...

**Adrian Bye:** And good entrepreneurs are going to maybe like, no way.

**Tao Zhang:** And you are dead.

**Adrian Bye:** And so, people that would be willing to do that, you will attract lower quality entrepreneurs.



**Tao Zhang:** Lower quality entrepreneurs, you might attract. If you happen to get lucky to attract a high quality entrepreneurs, their hands are tight. They can not compete with those entrepreneurs. And as I told you earlier, the money is not that important. That's also another key thing with the internet industry. Money is a more a commodity in a sense. Especially for some foreign internet company, to do all of that you need a balance cost.

**Adrian Bye:** So, I'm wrapping up. Could you maybe just give us some more general pointers for Americans wanting to understand the Chinese market. It's obviously very interesting for a lot of people. You got massive scalability, incredible cost efficiencies, and a country that's growing dramatically. What are the sorts of things ... how can Americans profit off that?

**Tao Zhang:** For the internet industry, I will say, as I've said earlier, you just really have to have a team who really understand the Chinese market. And then really delegate the decision making to that team. And before they prepare, in my view at least to see, that's its hard to compete on the internet space, at least. But I do see a lot of other success stories in other industries.

**Adrian Bye:** So what would be some examples?

**Tao Zhang:** For our success stories in other industries?

**Adrian Bye:** Yes.

**Tao Zhang:** Coca Cola, P&G.

**Adrian Bye:** So, almost in the internet space, you are saying, go and look at some of the big Fortune 500 companies who has been successful in China, look at how they did that, and then adopt that model to the internet, is that what you're saying?

**Tao Zhang:** Actually, what I'm thinking is, it's tough to compete in the internet business in China. The failure rate is pretty high.

**Adrian Bye:** That's the same in the US, right?

**Tao Zhang:** Yes. I guess so. Unless I think if you are strong as Google. It's a product which is very technology focused. And companies like MySpace, Facebook that kind of business does not a really key technology differentiators. I just don't see a lot of chance see them succeeding here. So my suggestion is actually don't come. It's tough.

**Adrian Bye:** So, you are telling the US entrepreneurs not to bother.

**Tao Zhang:** The big companies. Like MySpace, I just see that they changed their CEO's in China. A lot of shake up in the US. I don't think they will succeed in china. No chance. Facebook? No chance. But entrepreneurs of course, you know Fritz, he's a great guy, big success. Don't come here if the entrepreneur wants to do some start up. Except for some rare opportunities, you really have to tap into your resources and maybe have training or some kind of models. If you know China, if you don't know China, you'd definitely get a problem. You know when you can do it. If you know China very well, then you have a big advantage.

**Adrian Bye:** In the case of Fritz, who is a big success, he has been in China for something like twelve years, right?

**Tao Zhang:** Twelve years, he loves the island then come back. He has a Chinese wife. He doesn't speak Chinese but he knows China very well. His partner is very strong. His partner is a local Chinese. Very strong family.

**Adrian Bye:** And how long do you think a typical guy would need to come over here before he gets is traction?

**Tao Zhang:** Without knowing any Chinese, I think it takes several years.

**Adrian Bye:** Are we talking two or talking ten?

**Tao Zhang:** I'm not an expert on that. I think the judgment is bad. I'm sorry, I have no idea. But maybe two, three or four years. I imagine I was in the US, it takes me that long to get used to American culture. And I learned English before I went there. And my English still have an accent. So, it depends on the person I guess.

**Adrian Bye:** Is there any points you want to talk about that we haven't covered?

**Tao Zhang:** Actually, we've covered pretty well.

**Adrian Bye:** Well, thank you so much for the interview.

**Tao Zhang:** No problem, my pleasure.