

Connecting to China's Mobile Market

As the mobile market grows, in numbers, regions and media, the question will be how businesses can take advantage of the developing opportunities.

By Jessica Beaton



Second-Tier Reception

Turchetti elaborates on the finding by explaining that the majority user growth in China is in second- and third-tier cities. He cites research on mobile users in China: 18 per cent of users live in Guangdong Province, 8 per cent in Shandong Province, 7 per cent in Jiangsu Province and only 6 per cent in Shanghai. Even by including users in, for example, Beijing and Zhejiang Province, those figures still point to a significant percentage of users in less developed areas.

In contrast to Turchetti's explanation based primarily on geography, Cheryl Chong, Co-CEO of Buongiorno China, links geography to consumer-specific factors. She says, "The differences between cities are determined by price-sensitivity, education and 'tech-savviness.'" Buongiorno helps businesses utilise mobile media to drive the cell phone entertainment industry and personalisation of mobile technology.

Cash, Plastic or Mobile

How people in China are using mobile technology is slowly evolving. Currently, primary uses of mobile technology are for news, entertainment and games. There are two particular areas that are developing into viable businesses: mobile payment methods and mobile advertising.

Mobile payment systems have been slow to develop in China. Many countries have their own barriers to entry for companies offering these services, and China, as a cash-based economy, is no exception. "Culturally," says Greg Shen, CEO of Smartpay, a Chinese mobile payment company, "Chinese people prefer using cash." Also, the use of credit cards remains a relatively new practice. To create a mobile payment system, Chinese companies will have to create a secure way for people to manage their accounts.

Shen believes the next 12 to 18 months in China will be very telling for the mobile payment segment. He foresees regulatory changes in addition to a consolidation of the

Ear to the Markets

During his presentation, Sun explained the many ways Chinese people view the use of their mobile phone. Aside from being a bilateral communication device, it links people, creating a community of users. This social web also enables them to develop *guanxi*, the Chinese concept of cultivating relationships. Extra features like cameras and MP3 players provide companionship.

Particularly in China, the mobile phone represents an individual's identity, while projecting a public persona. The distinctive way many Chinese view their phones – as an important social tool – gives many companies who might not have considered this avenue of marketing before, a reason to pause and reassess the Chinese mobile communications market.

Mobile communication is increasingly important nationwide, but its influence is especially dominant in specific demographics. David Turchetti, CEO of 21 Communications, says that those who take most advantage of the developing mobile communications networks are "young, educated, affluent Chinese" and trendsetters amongst their peers. Saw went on to define affluence as an income of RMB3,001 to RMB5,000 per month.

Just a decade ago, PCs and the Internet revolutionised the way people communicated. People were able to access the World Wide Web to connect with others and for information from across the globe or just down the street. Today, people who may not have a PC – or a Mac, for that matter – can still access the Internet, and be accessed, through smart phones and rapidly developing mobile technology and infrastructure. Indeed, mobile technology has found no better testing ground than China, where the diversity of customers and markets offer signs of a revolution, of sorts, in connectivity.

Numbers help illustrate the spread of mobile technology in China. "Currently in China, mobile smart phones are outselling PCs four to one," says Sun Saw, of the Microsoft Mobile Technology Center, at a recent conference in Shanghai on mobile technology. There are 500 million mobile phone subscribers in China alone, he added, as mobile technology has been embraced by the broader population, and not only in first-tier cities like Beijing and Shanghai. By linking into mobile communication, Chinese people are also exploring various uses for mobile technology, endowing a simple hand-held device with broader market implications.

industry. However, he believes there will not be one dominant force in the mobile payment industry in the near future. Additionally, the market will see more banks partner with mobile technology companies.

"The development of the industry is inevitable," says Chong of Buongiorno China. "Mobile bill is one of the more established billing infrastructures in China, and the demand is greater than most people know." She is referring to the current technology that allows third-party mobile value-added services (VAS) providers to monetise their solutions. The best example of this is when people "top up" their mobile phones when pre-paid accounts are low on funds.

The problem with the current system, however, is that using third-party providers creates a number of liability issues for the infrastructure owners. Chong, like Shen, believes time will be needed to develop a more complex payment business model.

Answer to Traditional Advertising

Still, mobile payment is just one of the businesses developing out of mobile technology; mobile advertising is also gaining footing in the China market. According to Shaw and Turchetti, there are between 450 to 500 mil-

lion subscribers in China, and this number continues to grow. In China alone there were 600bn SMS messages sent last year.

The implications for advertising revenues are immense. According to the Beijing-based research firm Marbridge Consulting, "revenue from China's mobile advertising market will reach USD92m this year, and USD142m by the end of next year, boosted by factors such as the Beijing 2008 Olympic Games."

Chong cites three advantages for mobile advertising, as follows: 24/7 user access; unsurpassed user-interaction between mobile advertisers and users; and the ability to use location-based services (LBS). LBS technology aims to personalise advertising content based on a user's location covering the city they are in, and more specifically reaching the street they walk on or the store they enter.

Shaw predicts that good LBS services are still two to five years off, but the possibilities show promise. Companies like Buongiorno are using LBS technology, to promote their products alongside traditional advertising avenues.

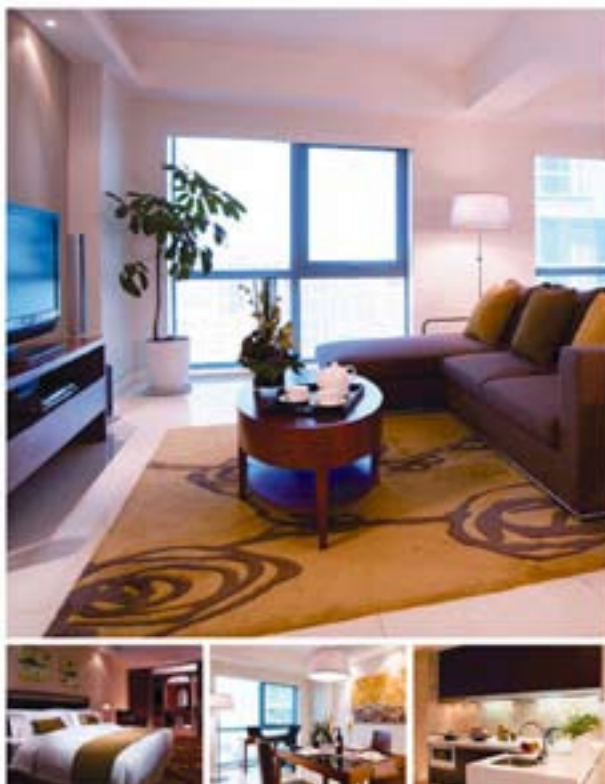
Barriers and Promises

As it stands now, China's mobile technology market holds as much promise as it does barriers for companies. Mark Natkin of

Marbridge Consulting says that much of the Chinese market still needs to be educated on mobile technology for the number of users to continue to grow at such a rate. Part of this education is also increasing consumers' trust of the technology through stricter regulations.

A point that both Chong and Natkin agree on is the need for increased bandwidth. "But, with only 38 per cent mobile phone penetration, it is no surprise that operators can continue to generate healthy business growth just by activating more new users," and not working to build better networks, says Chong. Yet the low penetration of mobile technology in China also demonstrates the potential of the current market. The market size will reduce the cost-per-user for mobile-VAS technology, simultaneously making it more accessible.

Mobile trends are difficult to predict, and sometimes market analysis seems as accurate as looking into a crystal ball. At least one thing's for sure, however: China's rapidly growing mobile market will lead to a demand for increased bandwidth. And soon, once basic barriers are solved, the more commonly asked question will not be "Mac or PC?" but "3G or not?" □



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