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Age of Mobility

Deloitte Global Mobile Consumer China Survey 2014

November 2014

Deloitte TMT Center of Excellence

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Deloitte’s Global Mobile Consumer Survey in China provides unique insights into how Chinese consumers in different demographics interact with mobile devices. We asked Chinese consumer broad yet specific set of questions such as how likely are they to subscribe 4G if available in their area, what feature would they use more if carrier network is 3-5 times faster, how frequent do they change their mobile phone, how many apps do they download per month, and how mobile advertisement impact their buying decision.

Observations and insights derived from the survey will help operators, device manufactures and organizations in mobile industry to anticipate the opportunities and challenges associated with engaging Chinese customers through digital mobile devices.

This survey is a part of Deloitte's research project which was conducted across the globe in 2014 covering 19 countries. In China, data was gathered from 2,000 Chinese consumers across four distinct demographics (18-24, 25-34, 35-44, 45-50) and technology behaviors (early adopters, early considerers, trend followers, necessity buyers).

We are always on the lookout for the rapidly changing consumer behaviors and how they impact our clients’ business dynamics. We hope this report proves to be insightful and we look forward to updating you again on the changes next year to see how mobile consumer behaviors in China have shifted.

Mobile devices have become everyday items

“Mobile devices have become everyday items for consumers as penetration rate inches toward point of saturation. Wearables are still work-in-progress. Large smartphone will be the immediate battleground which threatens tablets.”

Mobile devices have become everyday items, wearables still work-in-progress

Mobile devices are now everyday consumer items in China. Mobile phones (smart or not) are reaching point of saturation as 95% of consumers own them. The ownership of mobile phones is consistent across all age groups (age 18-50). Thus regardless of age, everyone is jumping onto the mobile phone bandwagon. Ownership rate gap of smartphone (none) and tablet (5%) is minimal between male and female, thereby demonstrating almost equivalent purchasing power and interest in digital device for both groups.

Despite the recent buzz and push from hardware device manufactures, wearable gadgets such as smart watch (10%), fitness band (9%) and smart glasses (5%) still have a long way to go in catching up with ownership rate of smartphones and tablets.

The survey indicates that majority of tablets are in the hands of early adopters (82%) and early considerers (58%). Hence how to convince trend followers and necessity buyers in getting into the tablet market will be key for device manufactures to drive the next phase of growth for tablets.

Figure1：Mobile Device Penetration Rate

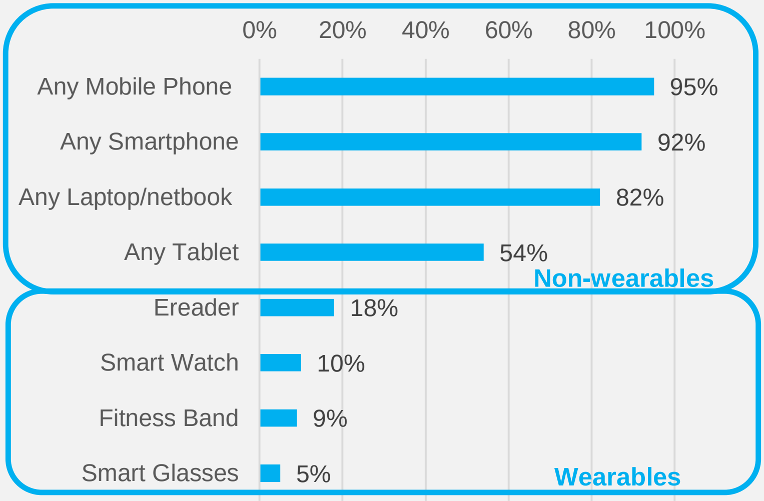


Figure2：Tablet Ownership by Technology Behavior

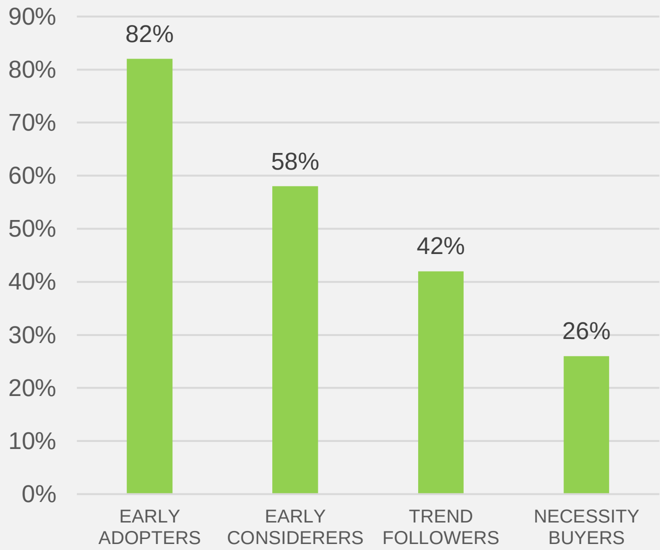


Figure3: Smartphone & Tablet Penetration Rate 2013 vs 2014

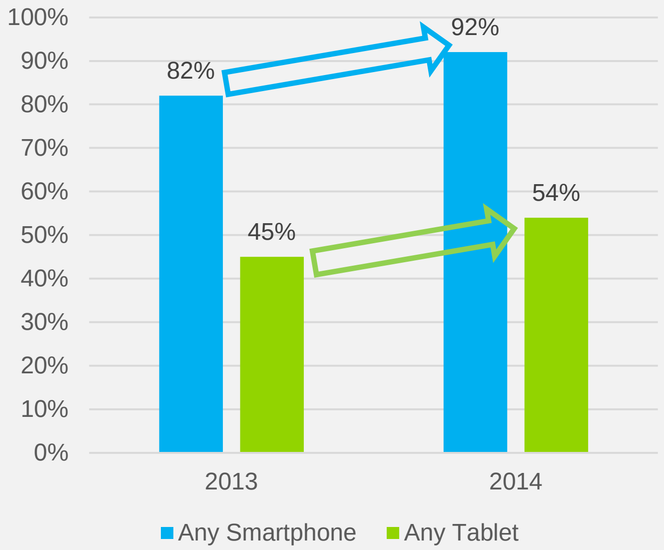
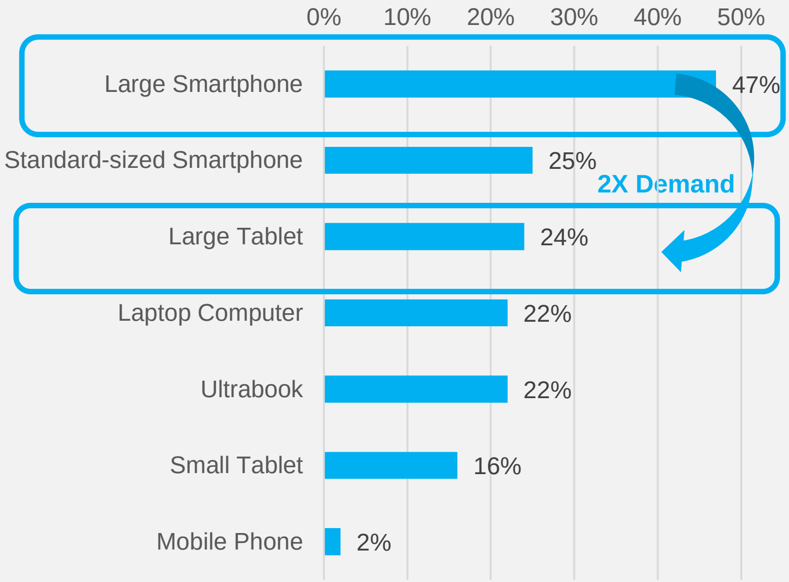


Figure4: Most Likely Device to Buy in Next 12 Month



Penetration rate growing for both smartphone and tablet. Large smartphone most likely to be bought

Compared to result from 2013, both smartphone and tablet experienced similar growth (~10%) in penetration rate. Smartphone saw an increase of 10% while tablet grew 9%.

However, despite the ever-rising penetration of smartphone, 47% of respondents still expressed that large smartphones are the most likely device that they will purchase in the next 12 month, thereby demonstrating the high desire for mobility and upgrade.

This may be an indication that although the tablet market may hold more potentials on paper, consumers are opting to move to larger screens without sacrificing the superior mobility of smartphones. This is a warning signal for tablet manufacture as they must compete with large smartphones while facing the potential slowdown of the tablet replacement cycle.

Smartphones more FMCG-Like than ever

"Smartphone replacement cycle is quick and becoming FMCG-like across all age groups. This trend is expected to continue in the next few years."

Figure5: Smartphone Change Frequency

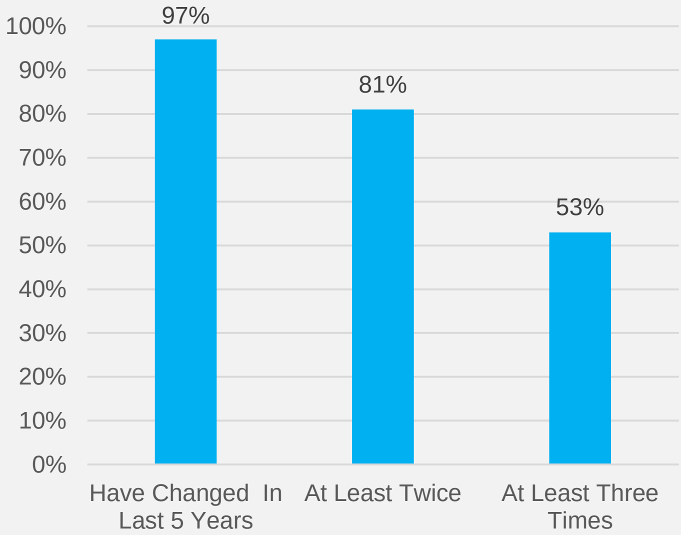
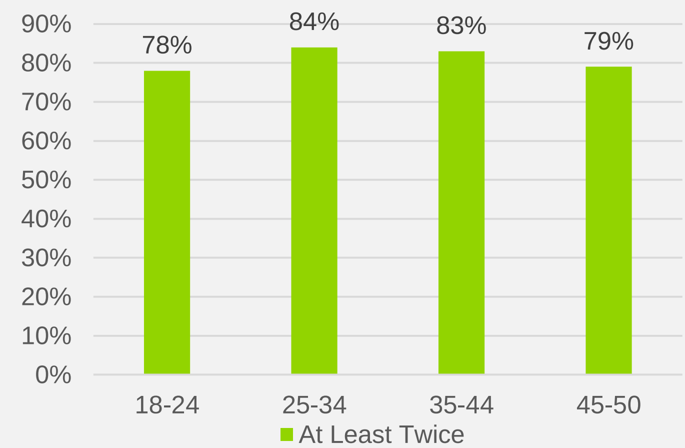


Figure6: Have Changed Smartphone at Least Twice by Age Cohorts



Fast-moving smartphone replacement cycle across all age cohorts

97% of respondents have changed their smartphone in the past 5 years while 81% have changed at least twice. More than half of Chinese consumers have changed at least 3 times, thereby making smartphone almost FMCG-like. Difference in replacement cycle of female and male is minimal. There isn’t a lot of discrepancies among all age group. Thus all generations, young or old, are frequently changing their smartphones.

The finding presents great opportunities for phone manufactures as relatively older generation are also catching up with the smartphone replacement cycle of younger generation. Manufactures need to take all age demographics into consideration and create products that are appealing to all market segments. The replacement cycle of smartphone is expected to be similar in the next few years as over 50% of respondents expressed that the frequency of change will stay.

Tech-savvy Chinese consumers

“Chinese consumers are at the cutting-edge of technology and are mostly likely price insensitive if offered newest devices. They are willing to change to phone equipped with the latest technology.”

Figure7: Consumer Attitude Towards New Devices

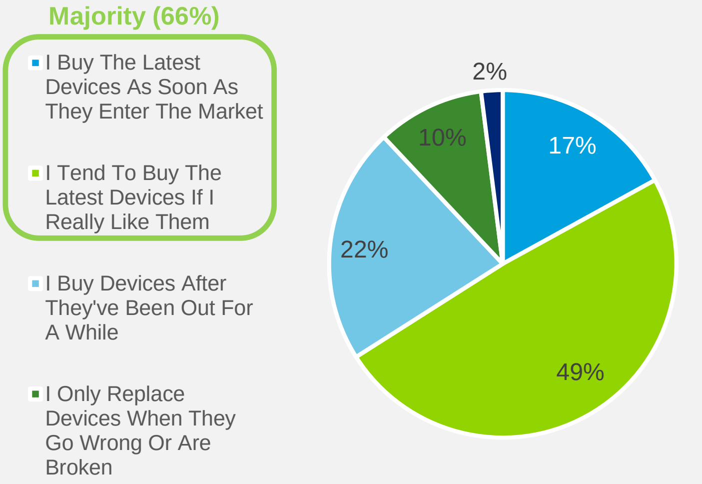
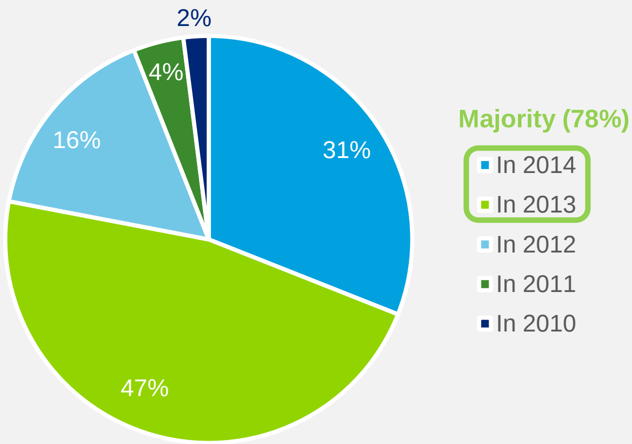


Figure8: Purchase Year of Most Recent Phone



Device manufactures should take notice of Chinese consumer's tech-savviness

Chinese consumers are willing to pay for the latest and greatest as 17% of respondents would buy the latest devices as soon as they enter the market while 49% would pay for latest devices if they really like them. Only 10% will replace devices when they malfunction or broken. This echoes with the fact that 78% of consumer's phones are bought within the past 2 years.

The finding reveals the tech-savviness of Chinese consumers. They are most likely to be price insensitive if offered the latest technology, even if their existing phone is functioning properly. Device manufactures should therefore strengthen their R&D efforts in developing and implementing cutting-edge features in continuous iterations or risk losing customers to competitors who continuously innovate. Manufactures should always to be on the lookout for new technology that may attract customers to stay ahead of the competition.

In-store the dominant channel for buying phones

"Despite the proliferation of e-commerce websites, Chinese consumers still prefer to buy phone in-store. However, when they do buy from the Internet, online only e-commerce websites are their preferred choice."

Figure9: Phone Acquisition Channel

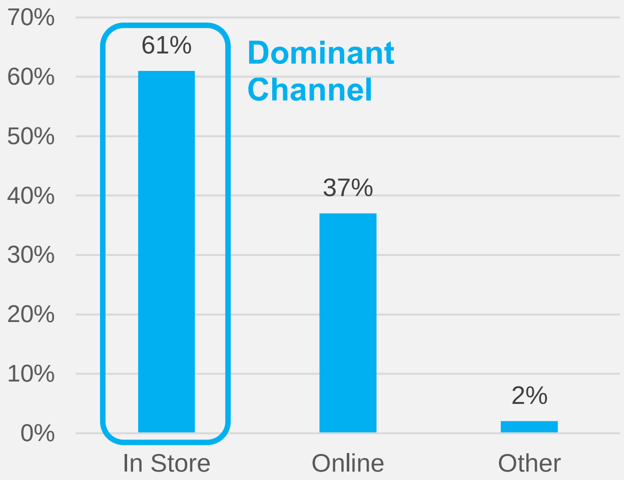
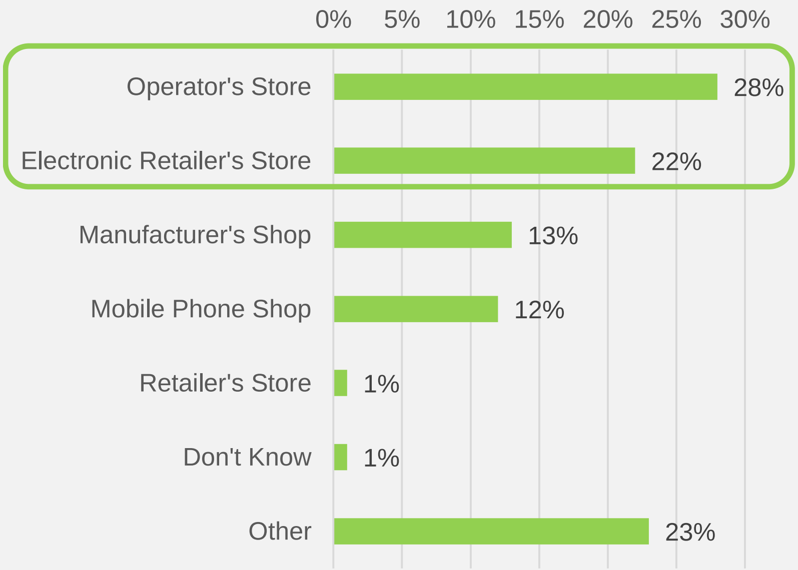


Figure10: Phone Acquisition Channel - In Store



In-store purchase the dominant way of buying phones

61% of Chinese consumers acquire their phone in-store, while 37% purchase online. For those who buy in-store, 28% purchase from operator's store while 22% buy from electronic retailer's store. Age group difference is minimal for in-store purchase.

This finding shows that despite the proliferation of e-commerce websites in China, majority of consumers still opt for physical store as the place to buy their phone where they can experience the product, particularly from operator and retailer stores.

Therefore, in-store presence is of great importance for mobile phone manufactures to consider and that working with leading operators and electronic retailers who have the scale plus distribution network is critical, unless the manufacture is setup as online distribution only model. Setting up own-shop or distributing through mobile phone shop may not be the best option as only 12%~13% of consumers purchase from these places. From operator's perspective, the continuing expansion of its physical store to ensure maximum customer reach is important to consider.

Online e-commerce website the most popular online channel

Of those who purchase phone online, majority (55%) of them purchase from online only e-commerce websites while 22% purchase directly from manufacture’s website. Only 8% of respondents purchase from operator’s website. In addition, close to 60% of consumers in age group 35-44 and 45-50 buy from online only e-commerce websites, both groups are ahead of the younger generation (age 18-24 and 25-34).

The ubiquitous online presence, large customer base, active community feedback, plus swift distribution network are key contributing factors to pure e-commerce website's popularity. Cell phone manufactures should therefore consider establishing stronger ties with e-commerce sites and ensure adequate supplies are met. They should also be active in listening to customer demand from online to ensure best customer service experience. Manufactures should also carefully evaluate whether it’s cost-effective to run its own website or ride the e-commerce website bandwagon altogether.

Figure11: Phone Acquisition - Online Channels

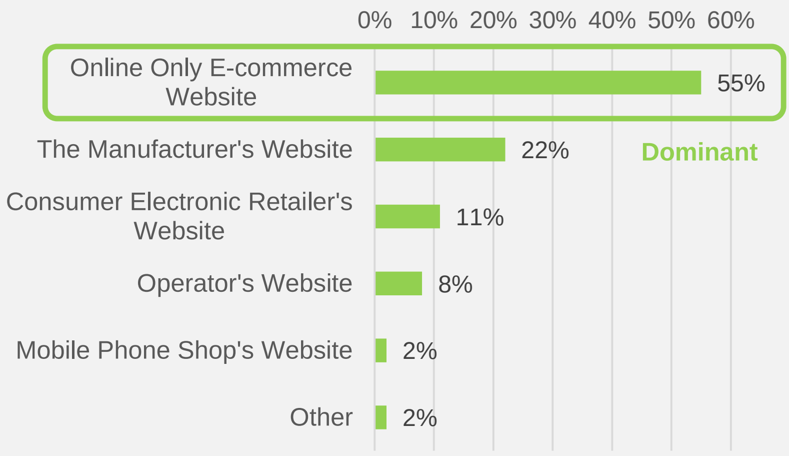
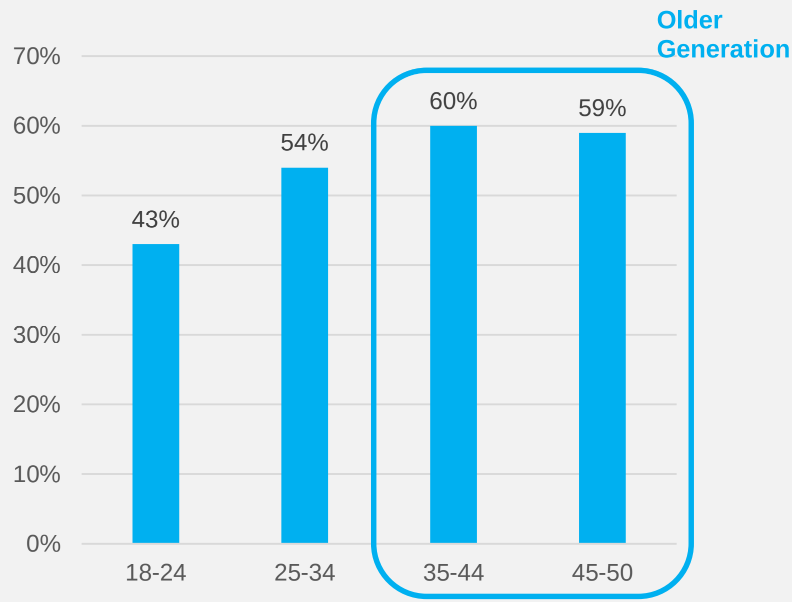


Figure12: Phone Acquisition - From Online Only e-commerce Website by Age Cohort



Practicality over “nice to have”

“Smartphone, battery life, and price are top 3 criteria for consumers when choosing a new phone. Usability outweighs nice-to-have features such as fingerprint and waterproof. Manufactures should pay particular attention on the advancement of power consumption technology as their core competencies.”

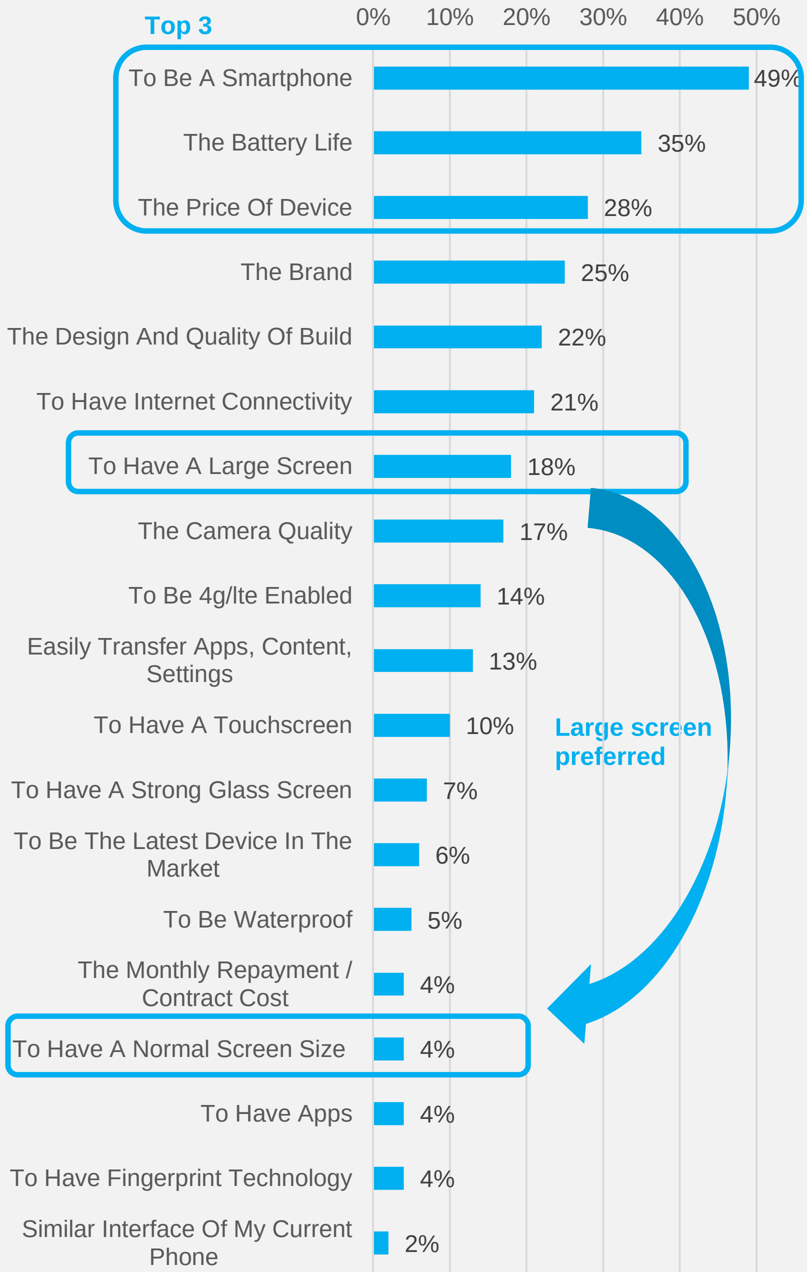
Smartphone, battery life, and price

The top 3 criteria for choosing next phone are smartphone (49%), battery life (35%) and price (28%). Consumers also prefer larger screens (18%) over standard screens (4%). Least important criteria when choosing new phone include fingerprint and waterproof technology.

The finding illustrates that core functionalities concerning usability are the most important factors for consumers, particularly among Trend Followers (38%) and Necessity Buyers (43%). They are more concerned whether the battery life can last long enough without having to recharge and whether the build quality is good enough to withstand everyday usage. They are less concerned with "good to have" technology add-ons such as fingerprint and waterproof. Even Early Adopters agrees as only 5% picked waterproof and 11% picked fingerprint as their criteria for next phone.

Hence device manufactures should focus their efforts on the advancement of power consumption technology as well as introducing new power-saving battery to conserve power so that these can act as main selling points. Less resources should be spent on non-core smart phone features in trying to differentiate itself from competitors. Thus suppliers who hold core power consumption technologies are expected to have high bargaining power in the future.

Figure13: Most Important Criteria for Choosing Next Phone



Wi-Fi advantageous over carrier networks

“Wi-Fi has favourable lead over carrier network as the choice of connectivity to Internet on mobile devices. It’s tough to beat free bandwidth that’s faster and more stable. Operators should offer more attractive packages and generous bandwidth to compete.”

Wi-Fi still the favorite way to connect

Among all mobile devices, majority of connection to the Internet are done via Wi-Fi at home, at work, or place of study. Wi-Fi in public space is also quite popular as over 50% of respondents using either tablet or smartphone to connect.

Connection via 2G/3G/HSDPA is more prevalent (~70%) among standard and large smartphones while only 29% of tablets (either large or small) are connected via mobile network.

4G/LTE is the least used method of connecting to Internet on mobile devices for now, but is expected to change in the next 2~3 years.

Figure14: Mobile Device Connectivity to Internet

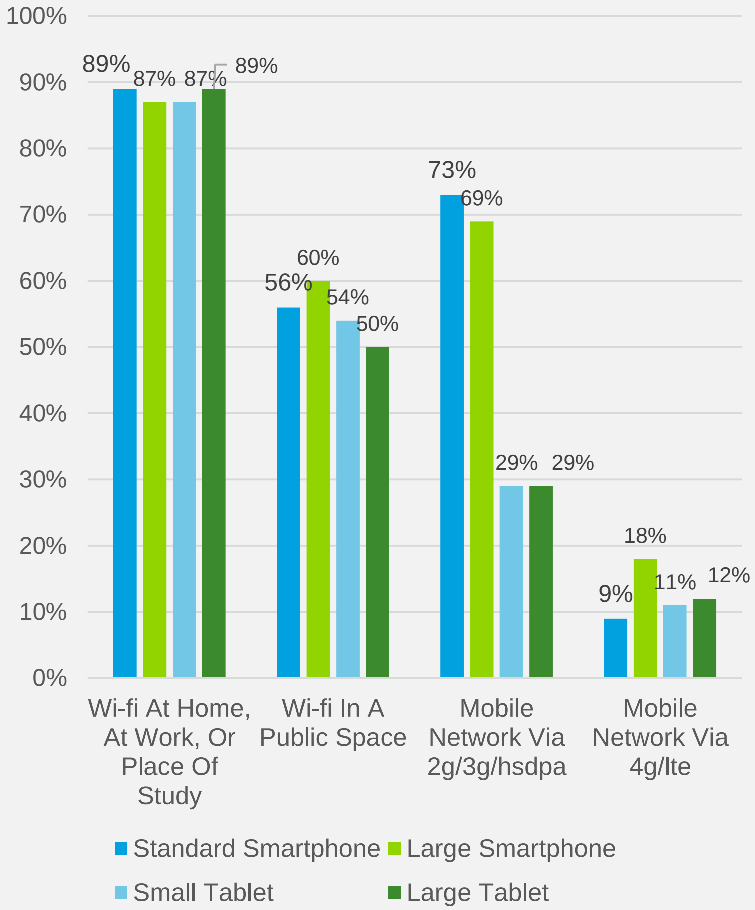


Figure 15: via Wi-Fi At Home, At Work, Or Place Of Study

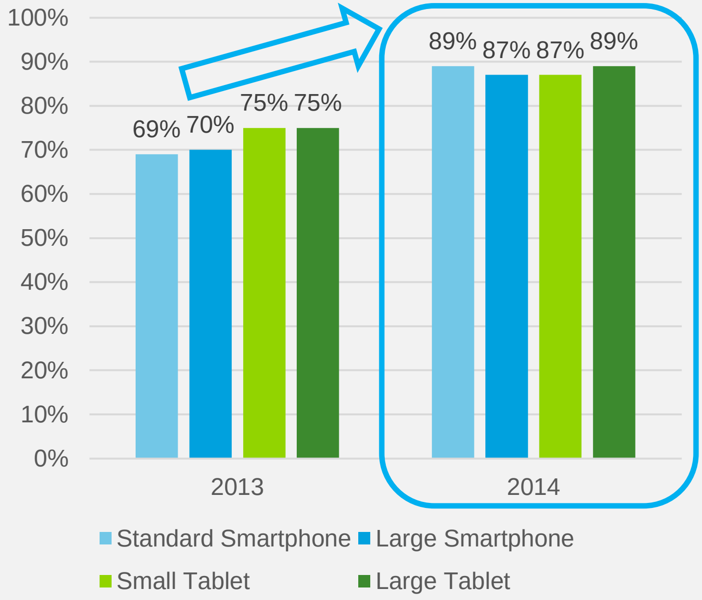
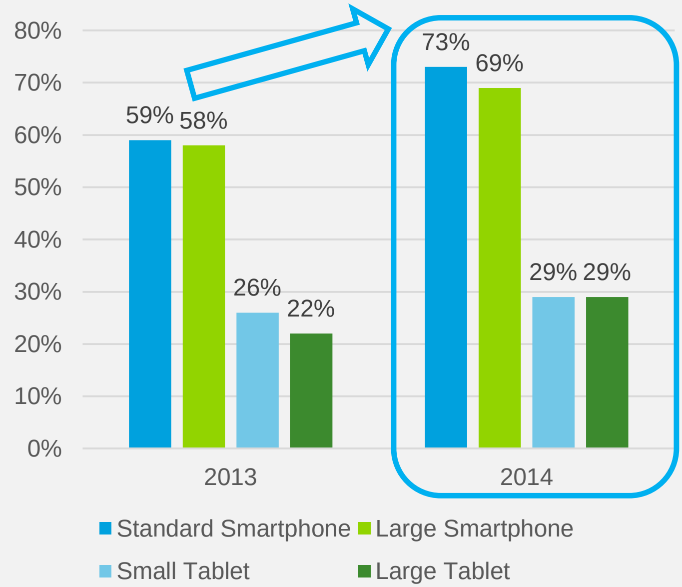


Figure16: via 2G/3G/HSDPA



Compared to 2013, there's an overall uptick in using Wi-Fi to connect to Internet on both smartphone and tablet. In addition, more smartphones users are connecting to Internet via 2G/3G/HSDPA compared to last year. Tablet users in using 2G/3G/HSDPA to connect to Internet also grew to 29%.

The growth of using carrier network (2G/3G/HSDPA) to connect to Internet is certainly welcomed by operators as more bandwidth is being used. However at the same time, Wi-Fi grew at a faster rate. Given that both ways of connectivity are competing for the same bandwidth, operators could consider offering more attractive packages or features to sway customers from using Wi-Fi.

Free, faster speed and data allowance

Nothing beats freebie as 74% of consumers opt Wi-Fi over carrier's 2G/3G/4G network simply because it's free. 64% of respondents cited that Wi-Fi has faster speed and response time. 54% expressed that they use Wi-Fi so that they don't use up Internet allowance from mobile operators. Only 20% of respondents choose Wi-Fi due to lack of 3G/4G coverage, an indication that carrier network coverage in China is well implemented.

The finding shows that free service is tough to beat, especially when Wi-Fi is in general faster and more stable. Operators should consider concentrating on improving the speed and responsiveness of the network as well as expand allowance on data plan. According to the survey, 60% of respondent's monthly data allowance is less than 500MB. Although this is sufficient for general browsing, it is not enough for bandwidth heavy content such as online video. Consumers are very conscious of their data usage but may be more inclined to use carrier network if their data allowance is not so restricted. Recent 4G data plans offered by top carriers which have lower price per megabyte compared to 3G is certainly a step in the right direction.

Figure 17: Reasons for Choosing WiFi over 2G/3G/4G

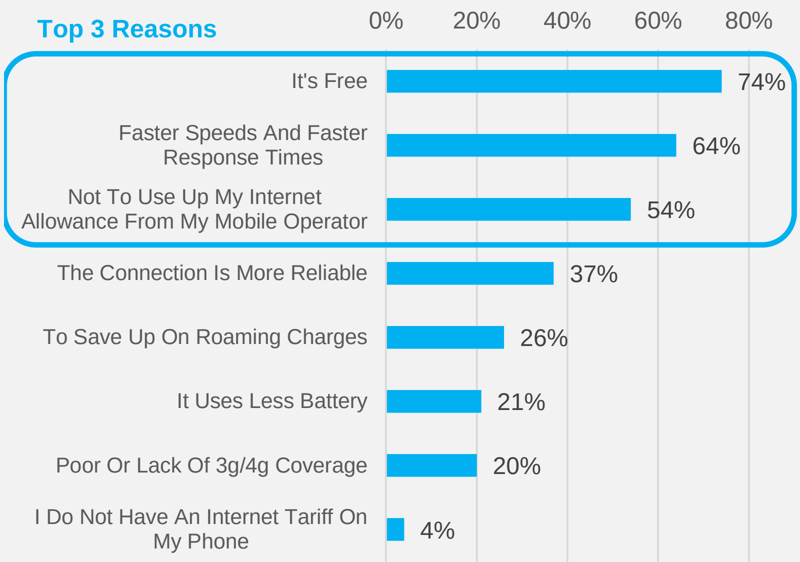
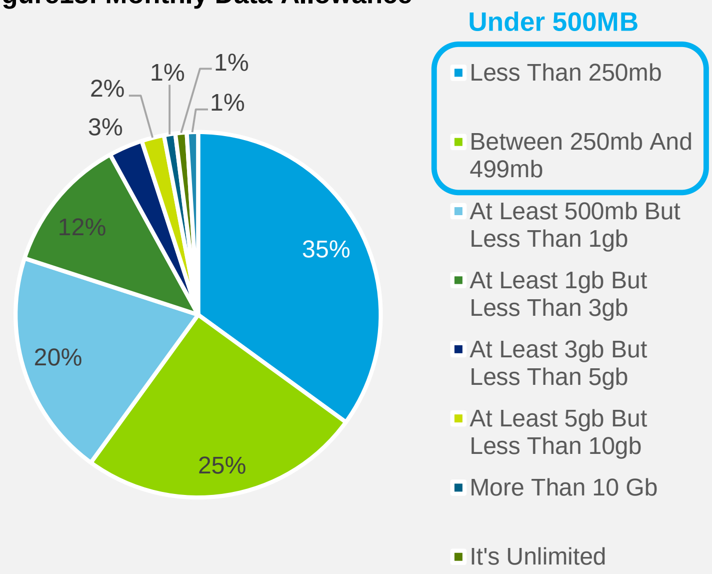


Figure18: Monthly Data Allowance



4G in position to ramp up quickly

"Majority of consumers would subscribe to 4G service if it's available in their area. They are willing to go as far as switching operator to acquire 4G. Operators who can swiftly expand their 4G coverage will gain first-mover advantage and potentially dominate the market."

High demand for 4G service

86% of consumers surveyed are either very likely (42%) or fairly likely (44%) to subscribe to 4G if the service is available in their area, the result is applicable to all age groups. Further, 68% of consumers are either very likely (21%) or fairly likely (47%) to switch to another operator offering 4G/LTE services.

Given the willingness of consumers to subscribe to 4G services, and even to go as far as switching operators, it is crucial for operators to quickly expand their 4G base stations to cover major urban centers across China in order to gain first-mover advantage. The speed of expansion will also be important as consumers will opt for operator who already has 4G service available in their area. Operators who can roll-out 4G swiftly will be able to acquire close to 90% of consumers who are likely to subscribe to 4G. Operators who are a step behind may lose a significant share of the 4G market.

From device manufacture's perspective, 4G should become the standard feature set of newly released phones and become a hot selling point as 3G/2G phones gradually phase out of the market in the next several years.

Figure19: Likeliness of Subscribing to 4G if in Coverage

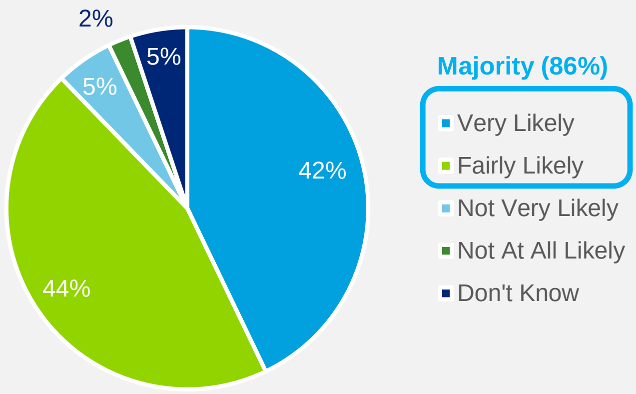


Figure20: Likeliness of Changing to Operator with 4G

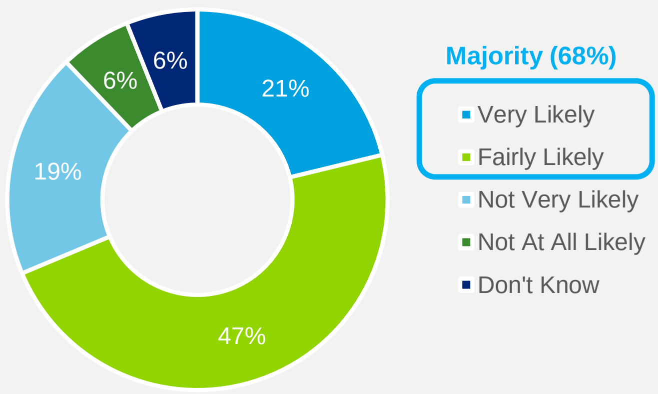


Figure21: Own 4G/LTE Phone

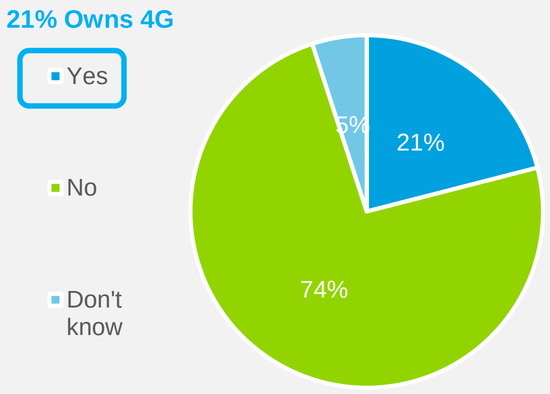
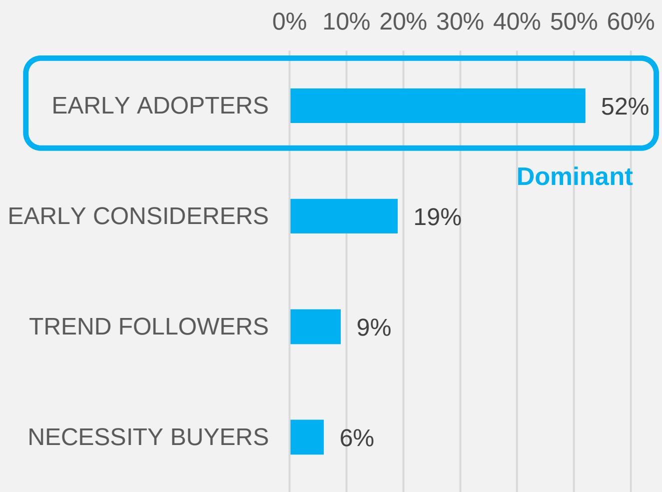


Figure22: 4G/LTE Ownership by Technology Behaviors



Early adopters rule 4G, mainstream adoption on horizon

Although 4G has only been on the Chinese market for less than a year, 21% of respondents currently already own 4G/LTE capable phones. Among early adopters, 52% own 4G/LTE phone while this figure is 19% for early considerers. Trend followers and necessity buyers still haven’t made the dive into 4G yet as the ownership of 4G/LTE phone are 9% and 6%, respectively.

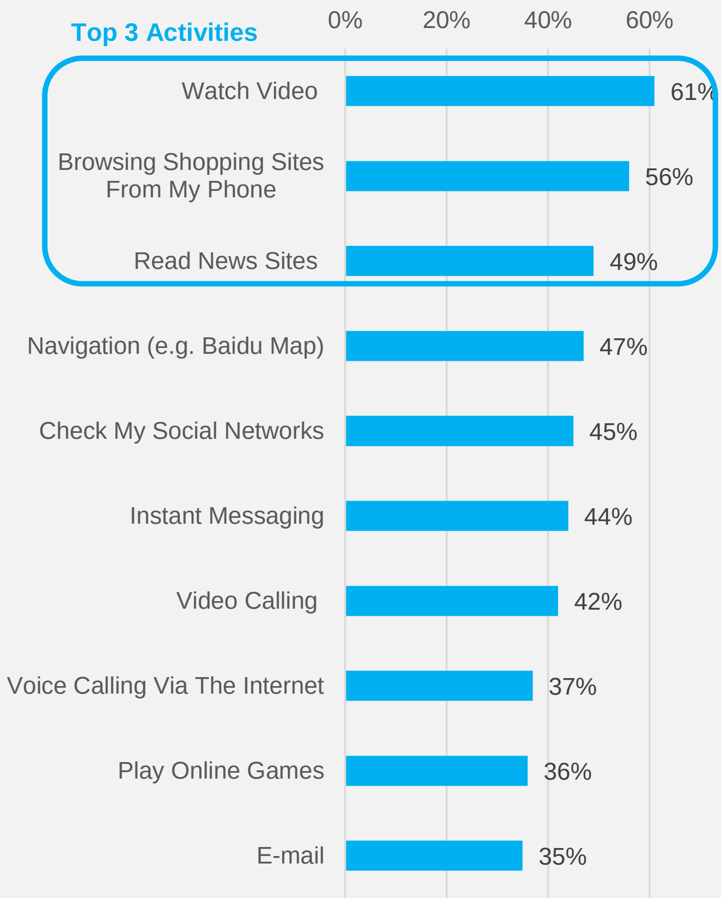
The result indicates that although early adopters have made the jump to 4G quickly, it hasn’t reach mainstream consumers just yet. However, given the high interest and demand for 4G services, coupled with the fact that Chinese consumers in the survey showed that they are tech savvy and would purchase the latest technology soon, it is highly likely that mainstream consumers will catch the 4G wave soon. To speed up the adoption process, operators should educate consumers more on the benefits of 4G technology and provide attractive data packages. Phone manufactures should make 4G phones a priority in order provide enough incentives for trend followers and necessity buyers to switch to 4G. With the recent rapid expansion of 4G network in major cities by operators such as China Mobile, solid foundation is in place for 4G to takeoff.

Diverse choice of activities when using faster network

When asked what activities would consumers do if their network is 3-5X faster (e.g. 4G) than existing ones, 61% would watch video, 56% would browse shopping sites, and 49% would read from news sites. Map navigation and checking social networks are also high on the list. The result implies that network speed is the limiting factor when watching videos or shopping online and there’s room for improvement in terms of user experience.

Compared to 2013, where video oriented activities typically sit atop, consumers in 2014 showed more diverse interest in using faster network for varied scenarios. Watching more videos online will certainly be delightful news for operators, content providers, and advertisers as faster network provides better viewing experience that’s more engaging which leads to higher bandwidth usage and longer viewing duration. Browsing shopping site from phone more frequently will benefit e-commerce vendors since faster network leads to higher conversion rate. Operators therefore, should contemplate on devising highly attractive data plans to persuade consumers to upgrade from existing network into a faster one.

Figure 23: Top 10 Activities If Network Speed 3-5X Faster



Chinese consumers remain loyal to operators

“Consumers remain loyal as over 40% of subscribers have never changed mobile operators. The exception is age group 18-24 which changes most frequently. Operators should focus on improving the quality of network while ensuring that they are competitively priced in the marketplace.”

Consumers remain loyal, except for the youngest generation

43% of Chinese consumers never changed mobile operators. Age group 18-24 changed most frequently with 44% of respondents stating that they have changed mobile operator in the past 3 years. Age group 35-44 changed the least with only 22% of respondents having changed operator in the last 3 years.

Compared to last year, the percentage of consumers who never changed mobile operator dropped slightly from 45% to 43%. Consumer loyalty stayed mostly intact, except with the youngest generation. This loyalty could be attributed to the fact that switching cost is high between carriers as mobile number is non-transferable between different networks. However this may change soon as pilot-projects have been setup to make switching network seamlessly.

In addition, the proliferation of instant messaging apps have made phone number as a unique ID less valuable than before. Nevertheless, mobile operators should pay more attention on meeting the needs of younger generation to entice them to stay with the operator as they are less likely to switch once they are older.

Figure 24: Last Time Changed Operator

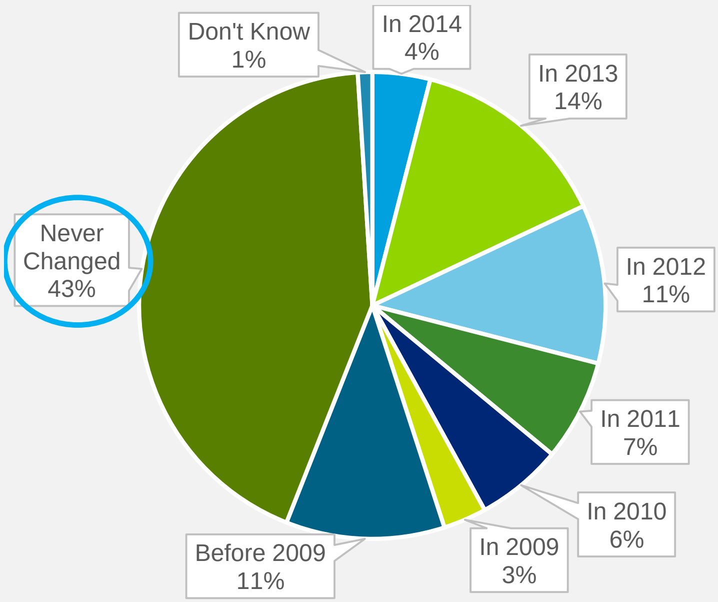


Figure 25: Changed Mobile Operator in the Last 3 Years by Age Group

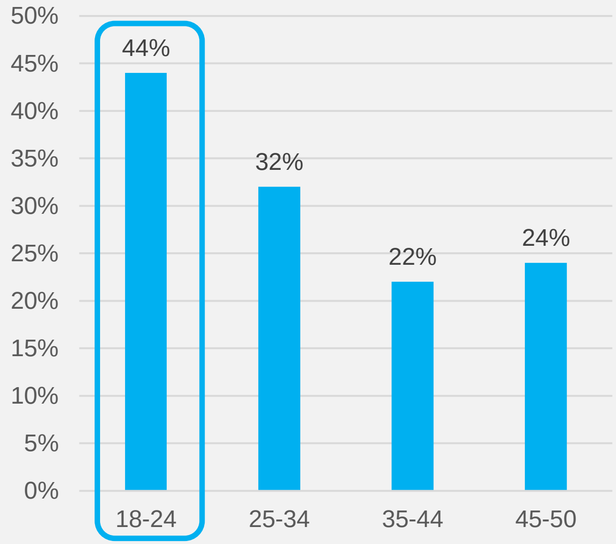


Figure 26: Top Reasons for Choosing Current Mobile Operator

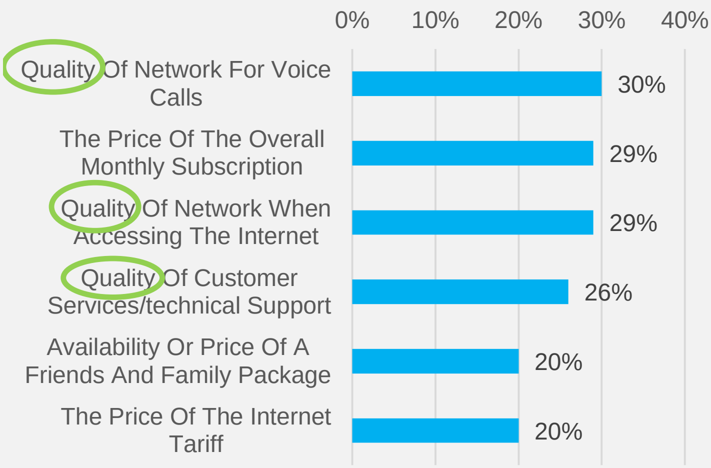
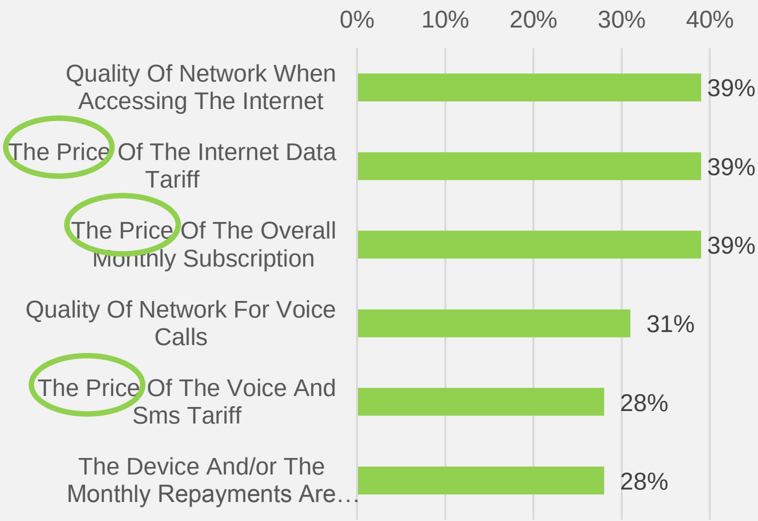


Figure 27: Top Reasons to Change Operator in the Future



Consumers come for the quality but leave for the price

Top 3 reasons for choosing current mobile operators are: quality of voice call (30%), quality of network/price of subscription (29%) and quality of customer service/technical support (26%). However, if consumers were to change mobile operators in the future, the price of internet data (39%), subscription fee (39%), as well as voice and SMS fee (28%) are crucial factors in persuading them to make the switch.

The result reveals that Chinese consumers care very much about data and voice quality, but at the same time are also price sensitive and willing to change operator if they see attractive packages from the competitors. Thus mobile operators should ensure that their data plan is competitively priced in the market at all time by monitoring movements from competition as swift response will be both essential and critical. Further, operators need to ensure that they are continuous improving the quality of mobile network so that their existing customers do not sway away easily.

Cross-sale opportunities exist for mobile operators to exploit

“Wi-Fi, broadband and TV represent the best cross-selling opportunities for mobile operators. Cost is the biggest factor for consumers when choosing services offered by operators, therefore bundled packages should be attractive and affordable.”

Figure 28：Services Already Subscribed via Operator

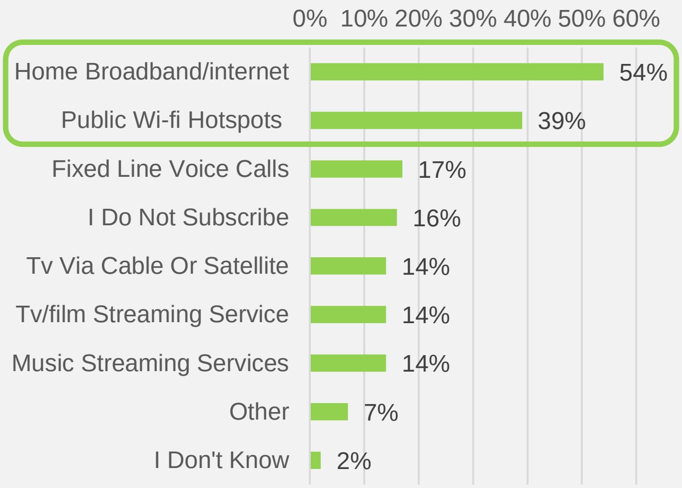
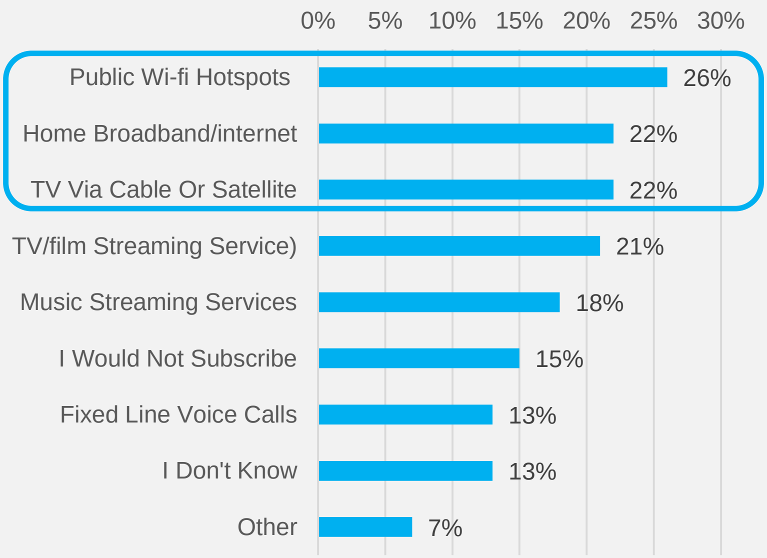


Figure 29：Would Subscribe to Following Services From Mobile Operators



Opportunities abundant to cross-sale

54% of respondents subscribe to broadband offered by operator while almost a quarter subscribe to public Wi-Fi hotspot. Top 3 services that consumers would subscribe from mobile operators are: public Wi-Fi hotspots (26%), broadband Internet (22%) and TV either via cable or satellite (22%). The result is consistent across all age groups.

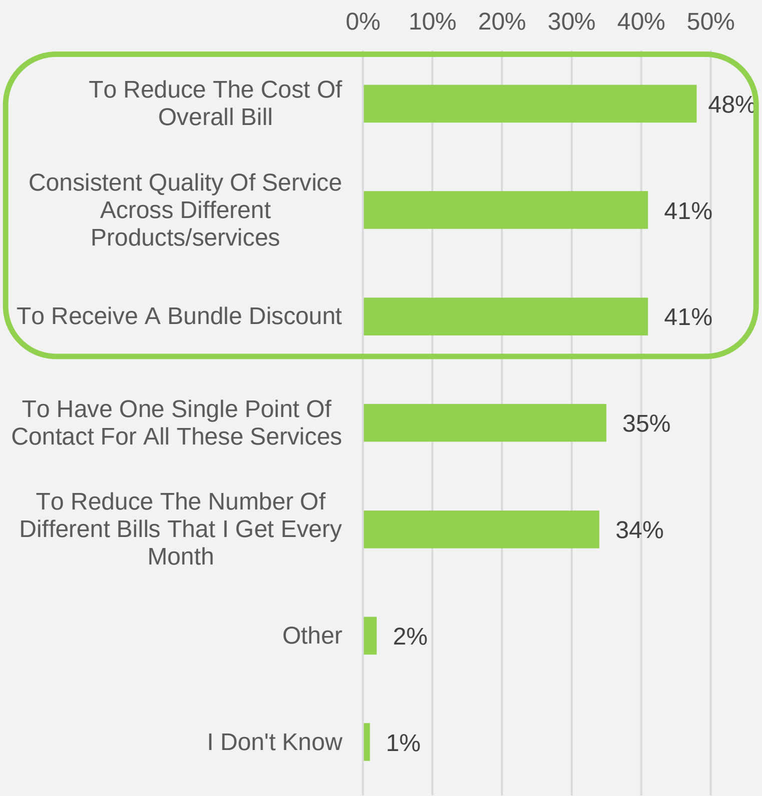
From the result it is clear that Wi-Fi, Broadband and TV represent the best cross selling opportunities for operators. Operators would be wise to thoroughly establish their cross-selling strategies and dive deeper into their existing customer base to identify targets that have the best potential to subscribe to operator services. By offering services that can enhance value to customer, cross-selling will reduce customer acquisition cost and allow operators to increase revenue whilst improving bottom-line performance.

Cost conscious consumers

Citing main reasons to subscribe to services offered by operators, reducing cost of overall bill came first (48%), followed by quality of service across different products (41%) and receiving bundle discounts (41%).

The result reveals that cost is the biggest factor on consumer's mind when choosing services provided by operators. When they subscribe to operator services, they are expecting to get discount to reduce their bills. They also expect consistent qualities between product lines and consistent services that come from the same provider. Thus operators should ensure that they can devise bundle packages that truly save customer's wallet or risk losing out to competitors with better plans. Internally, operators should ensure coordination between departments are streamlined so that consistent service and product can be offered to customers.

Figure 30: Reasons to Subscribe to Services Offered by Mobile Operators



Consumers crave for more Internet data

“More than 50% of consumers have exceeded their phone bill in the past 12 month, the top reason being Internet data usage. Consumers are using more data than ever and often underestimated their data usage”

Phone Bill Exceeding Limit

Over half (56%) of respondents expressed that their mobile phone bill have been higher than they expected in the past 12 month, while 39% have not experienced higher bill. Compared to last year, more consumers are experiencing higher bill (56% vs 50%) indicating higher data usage in general. The overwhelmingly reason for exceeding phone bill among consumers is the use of Internet data (68%), followed by voice call (36%). In contrast to 2013, the use of Internet data surpassed voice call as the primary reason of exceeding phone bill.

From the result it is clear that consumers are using Internet data more than ever. This implies that consumers often underestimate their data usage patterns and that existing Internet data plan from operators may be insufficient for majority of customers which results in overflow charges. It will be up to the operators to remedy this issue perhaps by either offering more generous plan or make more suitable data package recommendations to consumers utilizing analytics tools.

Figure 31: Mobile Phone Bill Higher Than Expected (Last 12 month)

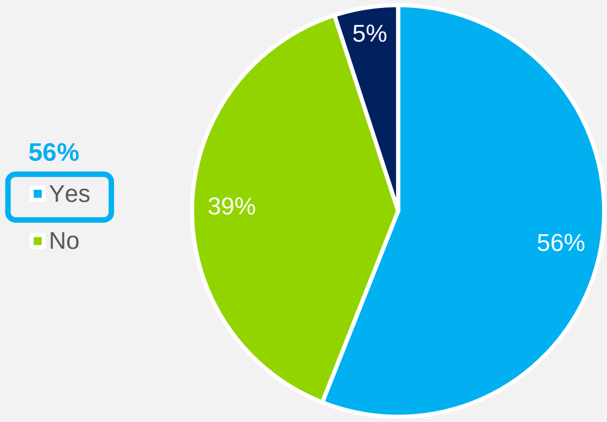
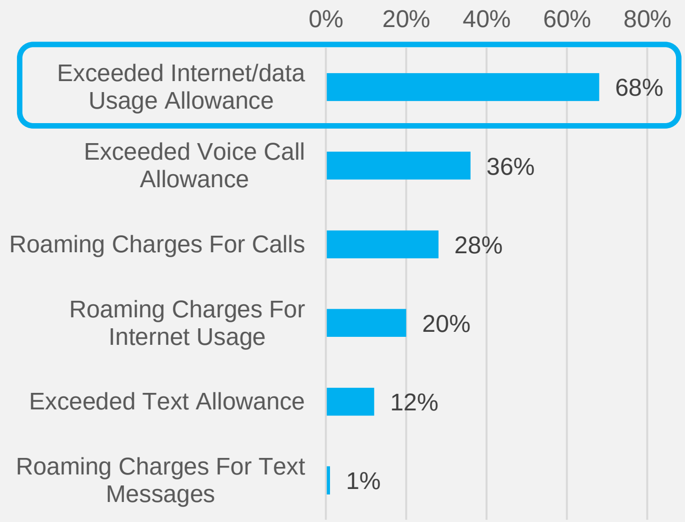


Figure 32: Reasons for Exceeding Mobile Bill



Instant messaging apps displacing SMS

“Traditional way of communicating via SMS and voice is being replaced by Instant Messaging (IM) apps and social network. Operators need to reinvent their messaging business model to avoid being simply a “pass-through” channel for mobile apps.”

IM Apps/Social Network replacing SMS/MMS

When asked on ways of communicating via mobile devices, 45% of respondents use instant messaging (IM) apps more frequently while 44% prefer social networks. Text messages (SMS) and picture/video messages (MMS) are used less frequently (17% and 12%).

The shift to using new form of communication (IM apps, social network) on mobile device is accelerating. Top 3 reasons for using IM more frequently are Wi-Fi (65%), ease of use (56%), and friends/family using it (54%).

The rise of IM apps and their continuous popularity have significant impact on mobile operator's SMS revenue. Operators need to re-invent their text messaging business model to avoid being a "pass-through channel" for mobile apps. Traditional text messaging is still valuable due to reliability and security. Many security-oriented transaction such as online banking still requires SMS verification. Therefore, SMS will not go away but will slowly fade if operators can't come up with more innovation. Leading operators in China have realized the urgency and have recently proposed counterplans by providing messaging features similar to IM apps but without having to install apps (direct integration with phone). If implemented correctly, operators may gain back portions of traffic that went on the IM app path.

Figure 33: Use More Frequently - Communicating on Mobile Devices

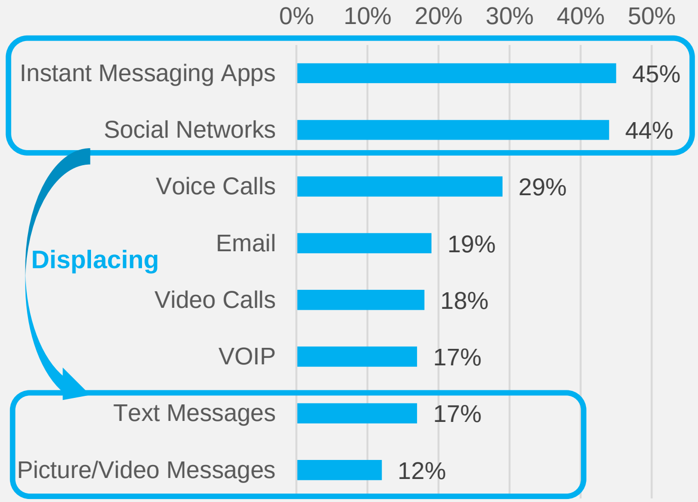
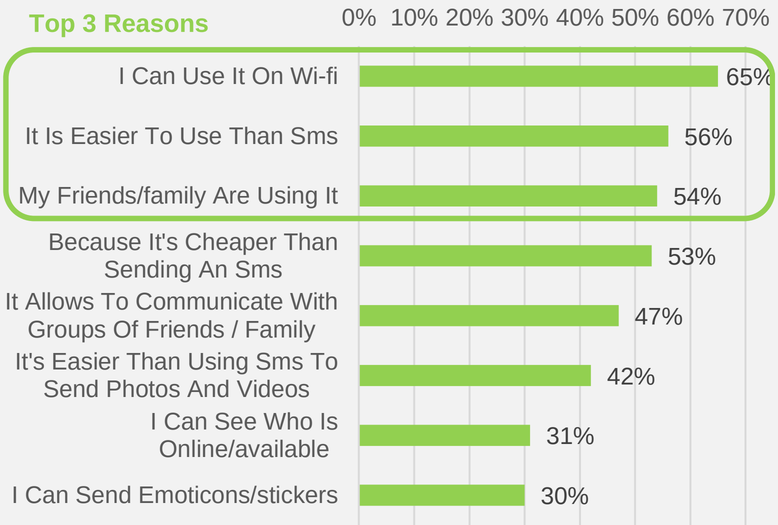


Figure 34: Top Reasons to Use IM More Frequently



Mobile phone addiction offers monetization opportunities

"Chinese consumers are highly addicted to mobile phones as illustrated by the usage frequency and interval. Mobile phones are being used more for diversified entertainment activities."

Consumers are addicted to using mobile phones

Almost half of (48%) of respondents check their phone within 5 minutes of waking up, and literally everyone checks their phone within an hour after they get up from bed. In addition, close to 80% of respondents check their phone 10 times a day while 45% check 25 times day (once per hour).

The result indicates that consumers in China are highly addicted to their mobile phones as illustrated by the interval and the frequency of usage. Mobile presence therefore is crucial for organizations across all industries to expand customer reach. However, mobile presence does not automatically guarantee reap of benefit. It is imperative for organizations to have well thought out strategy and plan on mobility that is measurable and traceable in order to derive traffic/revenue from mobile visitors.

Figure 35: Interval Between Waking Up and Looking at Phone

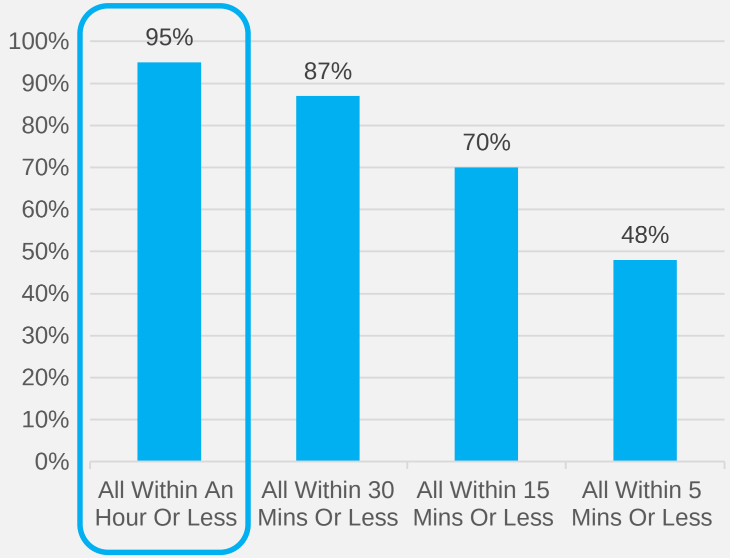


Figure 36: Frequency of Looking at Phone Per Day

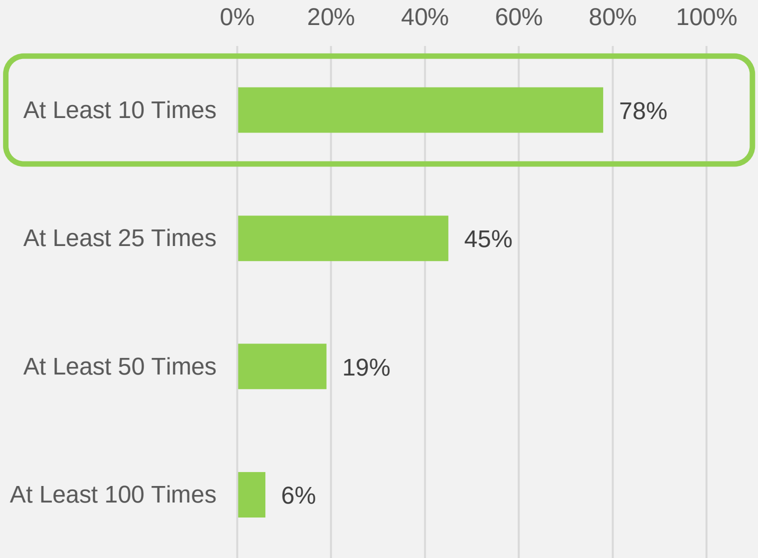
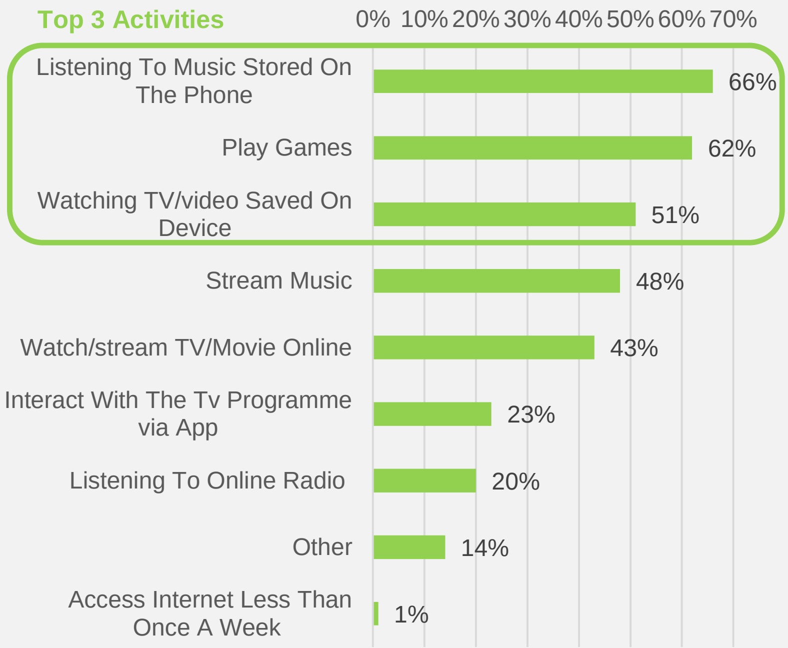


Figure 37: Phone Activities in the Past 7 Days



Phones are being used for leisure activities

Phones are being used as a diversified entertainment device. When asked what activities was done on their phone in the past 7 days, 66% listened to music stored on their phone, 62% played games, and 51% watched TV/video saved on their phone. Streaming of music and video are also popular which rank 4th and 5th, respectively.

The result shows that entertainment activities are an indispensable part of the mobile phone usage. As consumers rely more than ever on mobile phones, new and innovative business models are to be created to take advantage of consumer's consumption patterns.

Mobile payment services embraced

“Over 60% of consumers have used mobile phone for transaction related activities. The demand is clear and it will be up to operators, manufactures, payment companies, financial institutions, as well as application vendors to come up with seamless solutions for consumers to adopt.”

Figure 38: Ever Used Phone For the Following

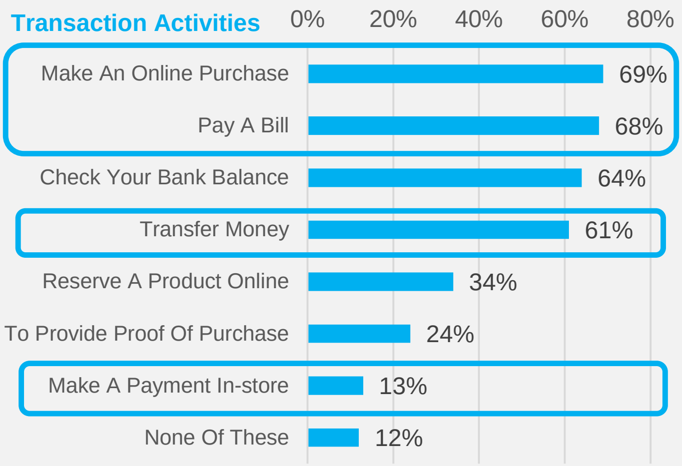
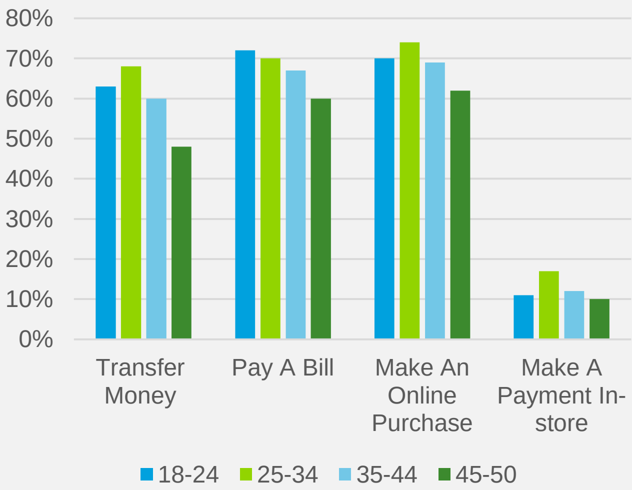


Figure 39: Mobile Transaction Activities by Age Group



Transaction activities on mobile phones

In addition to entertainment, mobile phones are increasingly being used for mobile transaction activities. Over 60% of respondents have either used their phone to make an online purchase (69%), pay bill (68%), or transfer money (61%). This is particular evident with age cohorts 18-34 where conducting online transaction activities are higher than other cohorts.

The result indicates that a significant portion of consumers are willing to give mobile transaction a try. Younger generation in particular are embracing the value of mobile transaction which is transforming the way consumers shop and purchase. The awareness and adoption of mobile payment are expected to continue to rise in the next several years.

Mobile small payment transaction demand clear

Close to 70% of respondents are willing to pay in shops (for small payments) using mobile phones, while 14% of consumers would pay using mobile phone regardless of the amount. Top 3 scenarios in which it would benefit consumers to pay include restaurant bills (45%), taxi fare (44%), and public transportation (43%).

As mobile phone become consumer necessity item, its use and application is ever expanding. From the survey, it is clear that demand and interest exist for using mobile phone as a payment device in everyday scenarios. Hence it will be up to operators, manufactures, payment companies, financial institutions, as well as application vendors to come up with seamless solutions for consumers to adopt.

Mobile payment solutions that can cover the full purchase cycle - before (e.g. promotion and coupon), during (e.g. payment and transaction), and after (e.g. loyal and reward) will ultimately win support from mobile consumers. As usage continues to increase, mobile phone may one day replace traditional wallet and change the way consumers use money forever.

Figure 40: Pay in Shops Using Mobile Phones

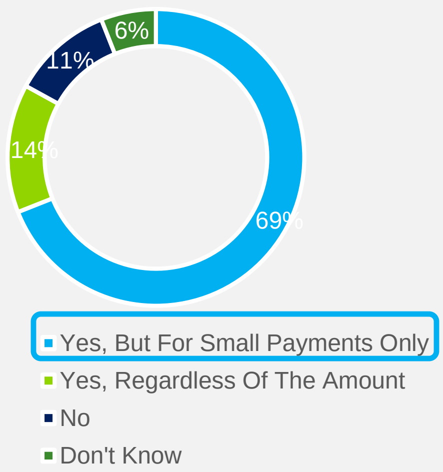
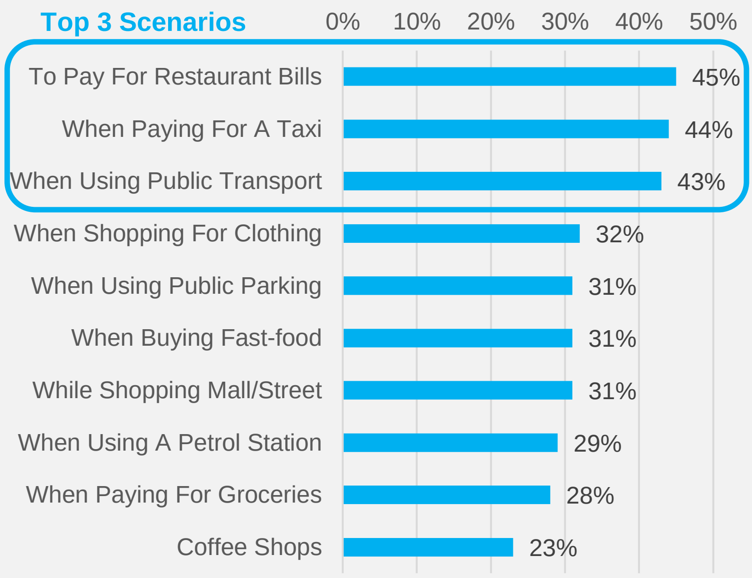


Figure 41: Beneficial Scenarios to Pay Using Mobile Phones



Inevitable fatigue on mobile apps

“Consumers are beginning to show fatigue toward mobile apps. Purchasing of apps has declined across almost all categories except for virtual game goods and film streaming. Freemium model will continue to rule as Chinese consumers are reluctant to pay for mobile apps.”

App fatigue is inevitable among consumers

Over a third of respondents downloaded more than 5 apps per month. While close to a half of consumers have not downloaded an app in a typical month.

Compared to last year, there's only a 2% increase (29% to 31%) in download of more than 5 apps but there's a large decline in download of 1-4 apps from 47% to 22%. The percentage of people who have not downloaded an app also increased from 24% to 47%.

This suggests that many consumers have reached point of fatigue with the proliferation of mobile apps. There are well-known apps already in existence in all major app verticals with significant user base. Thus unless new apps are truly innovative or can provide breakthrough features, it will be difficult for mobile app developers to convince users to download. This will most likely raise the cost per install (CPI) for app developers and negatively impact their profitability.

Figure 42: Number of Apps Download in a Typical Month

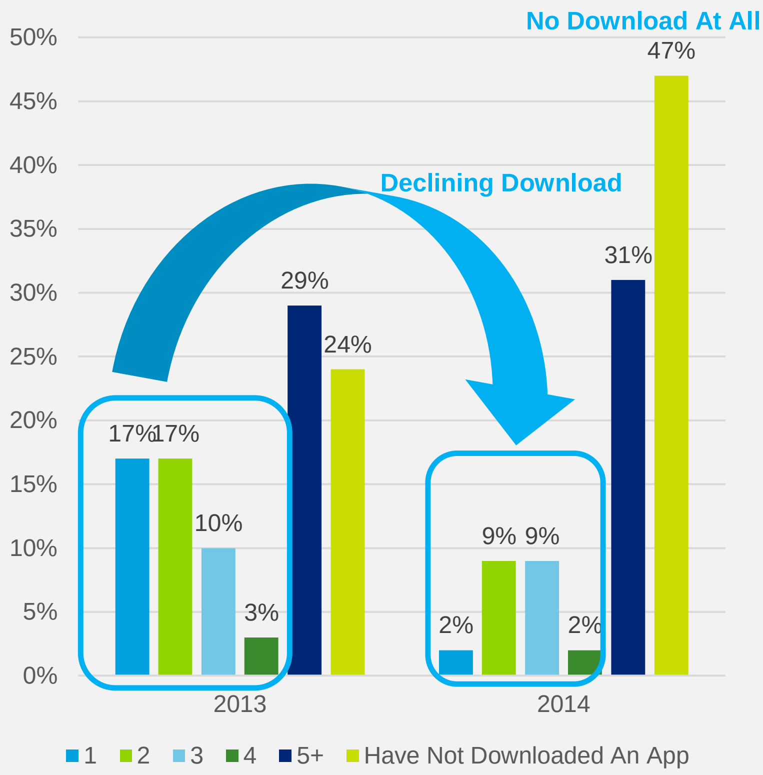
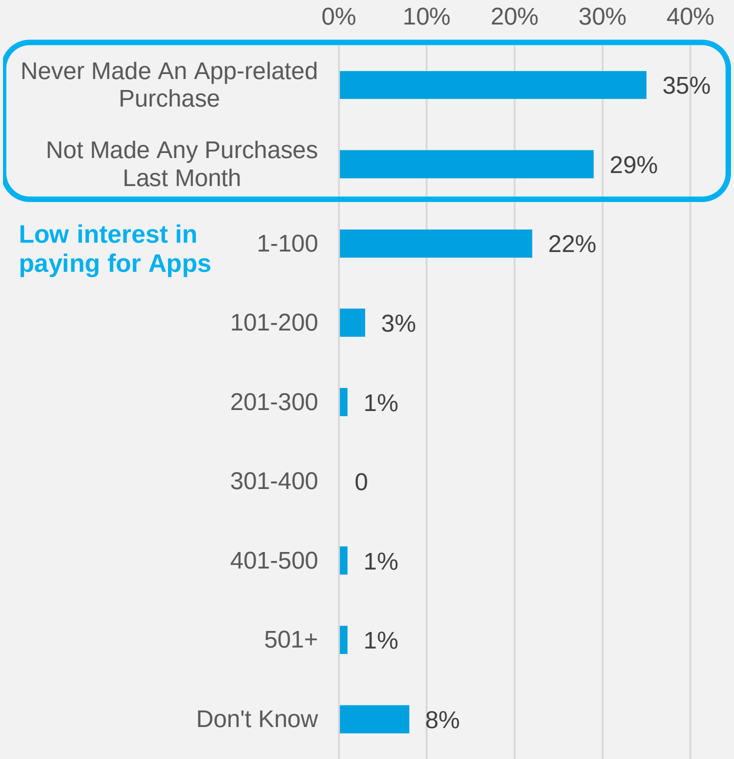


Figure 43: Monthly Spend on Apps/Games



Consumers show little interest in paying for Apps

In-app purchase is a tough sell to Chinese consumers. 35% of respondents have never made an app-related purchase while 29% have not made any purchase in the last month. The monthly spend is also low as only 22% of consumers spend 1-100 RMB per month on apps while only 6% spend more than 100 RMB per month.

The result clearly indicates that Chinese consumers are not willing to pay for mobile apps, and even when they pay, they spend very little dollar amount. Thus the freemium app model will continue to rule as switching cost is low.

App developer should therefore be more focused on the need of its core user group that is willing to pay for its value-added service and seek alternative sources of revenue stream such as from oversea market to complement to the low earning potential of the Chinese app market.

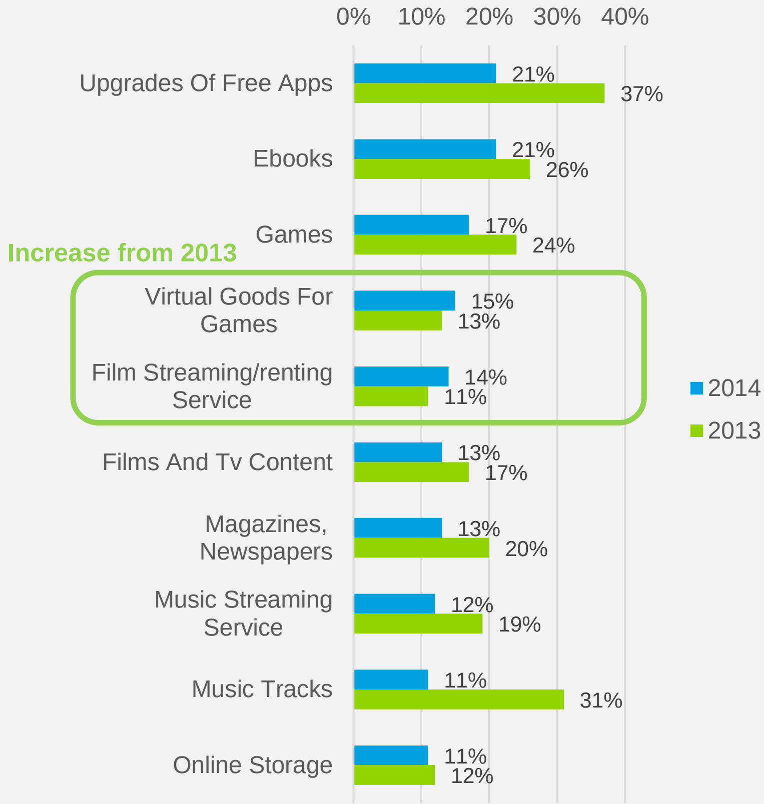
Freemium model still rules, virtual goods for game and streaming survive

For those who purchase apps, the most popular app purchase include upgrades of free apps (21%), E-books (21%), games (17%), and virtual good for games (15%). Hence consumers are still accustomed to freebies and upgrade of free apps continues to the best model to attract consumers to pay since they can try the app before deciding whether to buy or not. Gaming remains popular as consumers are willing to pay for game and virtual goods that reside within it.

Compared to 2013, app purchase has declined across almost all categories. Upgrade of free apps decreased by 16% while games decreased by 7%. In addition, E-books also declined by 5%. The only two categories that increased slightly from 2013 are virtual good for games and film streaming/renting services.

This shows that despite the fact that gaming download have decreased, those who are playing the game are still willing to pay for in-game items. Further, consumers are abandoning content that occupy too much of their storage space on the phone in exchange for streaming content.

Figure 44: App Purchase in the Last Month



Mobile advertising influential

“Mobile advertisement is highly influential as over a third of consumers have made purchase based on phone ads. It is more effective than other online advertising mediums. Mobile ads will be among the most rewarding way of advertising in the future.”

Mobile advertising powerful on consumers

Advertisements that appear on phone are highly effective, particularly if these are a post from a friend. 33% of all respondents have made purchase based on phone ads. For those phone ads that made consumers take action, 40% expressed that they are a post from a friend. While 27% took action on ads that appeared on their social network feed. Other effective advertisements on phone include emails, video, link to click, search result, and text messages.

Mobile advertisements thus enjoys higher conversion rate compared to other medium such as Internet advertising on desktop. This is most likely due to the fact that mobile ad in general is highly targeted and can precisely identify the niche market it is trying to address (e.g. via Apple's IDFA (Identifier for advertisers)). Coupled with the spontaneous speed of social network where friends share their favorite products makes mobile advertisement extremely effective. Advertisers should therefore concentrate their online presence toward mobile as mobile ads will be among the most rewarding advertising channels in the foreseeable future.

Figure 45: Made Purchase Based on Phone Ad

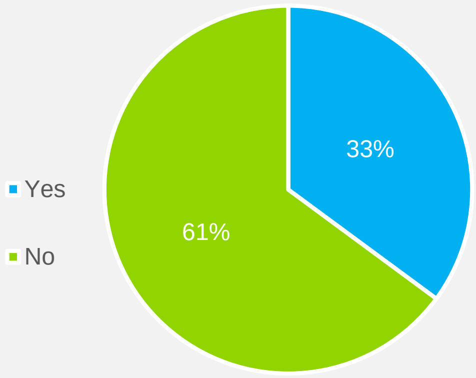
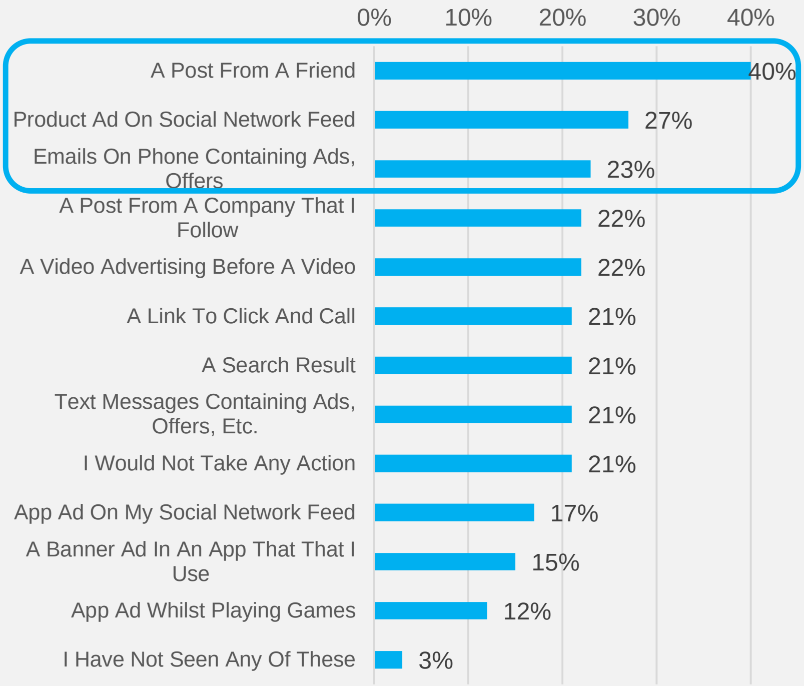


Figure 46: Phone Advertising That Made Consumer Take Action



Authors

Po Hou has been appointed as the China Technology, Media and Telecommunications (TMT) Leader starting from 1st June 2014.

Po brings in more than 15 years of relevant experience serving Asia-Pacific TMT clients, advising in particular on growth strategy, corporate transformation, M&A and reorganization. Prior to joining Deloitte, Po was head of the Beijing Office of a renowned management consulting firm and, prior to that, he was with another renowned management consulting firm as a senior manager.

Po joined Deloitte China's Consulting practice as a Strategy & Operations partner in the TMT industry practice, and his client portfolio includes China's top three telecommunications operators (China Mobile, China Unicom, China Telecom), the world's largest telecommunication equipment maker, Asian's largest advertising and PR firm, and the world's largest personal computer vendor in 2013 (Lenovo).

A Bachelor of Economics graduate from Fudan University, Po is also an MBA graduate from INSEAD.

Po Hou
Managing Partner,
Technology, Media and
Telecommunications
pohou@deloitte.com.cn

Roger Chung is the manager of Deloitte's TMT Center of Excellence in China.

Roger brings in over 7 years of venture investment and capital markets experiences in the TMT sector. He is well-versed in advising companies on strategy, market, product, and financing. His areas of expertise include new media, telecom, cloud computing, big data, Internet, software and gaming.

Prior to joining Deloitte, Roger was with a venture capital firm that invests in start-ups with world-class technologies. There he managed the investment, incubation and building of high-growth tech companies. Prior to venture capital, he was with a leading Canadian financial institution managing large-scale information technology projects.

Roger holds Bachelor of Applied Science degree in Computer Engineering from University of Toronto and MBA from University of British Columbia.

Roger Chung
Manager,
TMT Center of Excellence
rochung@deloitte.com.cn

Contact Details

Beijing
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Beijing Branch
8/F Deloitte Tower
The Towers, Oriental Plaza
1 East Chang An Avenue

Beijing 100738, PRC
Tel: +86 10 8520 7788

Fax: +86 10 8518 1218

Chengdu
Deloitte & Touche Financial Advisory Services Limited
Unit 3406, 34/F Yanlord Landmark Office Tower
No. 1 Section 2, Renmin South Road
Chengdu 610016, PRC
Tel：+86 28 6210 2383
Fax：+86 28 6210 2385

Chongqing
Deloitte & Touche Financial Advisory Services (China) Limited
Room 8, 33/F International Financial Center
28 Ming Quan Road
YuZhong District
Chongqing 400010, PRC

Tel: +86 23 6310 6206

Harbin
Deloitte Consulting (Shanghai) Company Limited
Harbin Branch
Room 1618, Development Zone Mansion
368 Changjiang Road
Nangang District
Harbin 150090, PRC
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056

Hong Kong
Deloitte Touche Tohmatsu
35/F One Pacific Place

88 Queensway

Hong Kong

Tel: +852 2852 1600
Fax: +852 2541 1911

Jinan
Deloitte & Touche Financial Advisory Services Limited
Jinan Liaison Office
Unit 1018, 10/F, Tower A, Citic Plaza
150 Luo Yuan Street
Jinan 250011, PRC
Tel: +86 531 8518 1058
Fax: +86 531 8518 1068

Shenzhen
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Shenzhen Branch
13/F China Resources Building

5001 Shennan Road East

Shenzhen 518010, PRC

Tel: +86 755 8246 3255
Fax: +86 755 8246 3186

Suzhou
Deloitte Business Advisory Services (Shanghai) Limited
Suzhou Branch

23/F Building 1
Global Wealth Square
88 Su Hui Road, Industrial Park
Suzhou 215021, PRC

Tel: +86 512 6289 1238
Fax: +86 512 6762 3338 / 3318

Tianjin
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Tianjin Branch
30/F The Exchange North Tower

189 Nanjing Road

Fax: +86 23 6310 61700

Dalian
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Dalian Branch
Room 1503 Senmao Building
147 Zhongshan Road

Dalian 116011, PRC
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297

Guangzhou
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Guangzhou Branch
26/F Teemtower

208 Tianhe Road
Guangzhou 510620, PRC

Tel: +86 20 8396 9228
Fax: +86 20 3888 0119 / 0121

Hangzhou
Deloitte Business Advisory Services
(Hangzhou) Company Limited
Room 605, Partition A
EAC Corporate Office
18 Jiaogong Road
Hangzhou 310013, PRC
Tel: +86 571 2811 1900
Fax: +86 571 2811 1904

Macau
Deloitte Touche Tohmatsu
19/F The Macau Square Apartment H-N
43-53A Av. do Infante D. Henrique
Macau
Tel: +853 2871 2998
Fax: +853 2871 3033

Nanjing
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
Nanjing Branch
11/F Golden Eagle Plaza
89 Hanzhong Road
Nanjing 210029, PRC

Tel: +86 25 5790 8880
Fax: +86 25 8691 8776

Shanghai
Deloitte Touche Tohmatsu
Certified Public Accountants LLP
30/F Bund Center
222 Yan An Road East
Shanghai 200002, PRC
Tel: +86 21 6141 8888
Fax: +86 21 6335 0003

Heping District

Tianjin 300051, PRC
Tel: +86 22 2320 6688
Fax: +86 22 2320 6699

Wuhan
Deloitte & Touche Financial Advisory
Services Limited
Wuhan Liaison Office
Unit 2, 38/F New World International
Trade Tower
568 Jianshe Avenue
Wuhan 430022, PRC
Tel: +86 27 8526 6618
Fax: +86 27 8526 7032

Xiamen
Deloitte & Touche Financial Advisory
Services Limited
Xiamen Liaison Office
Unit E, 26/F International Plaza
8 Lujiang Road, Siming District
Xiamen 361001, PRC
Tel: +86 592 2107 298
Fax: +86 592 2107 259

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