

CHINESE CONSUMER TRENDS IN A GLOBAL PERSPECTIVE



2010-05-18



ERICSSON

ERICSSON CONSUMERLAB

Ericsson ConsumerLab studies how consumers act and what they think about telecom products and services. We make sure Ericsson people who work with strategy, product development, marketing, and branding have the latest consumer insights. Additionally, we help operators understand their customers and develop revenue-generating strategies.

The foundation for understanding consumers is a global research program built on yearly interviews with 40 000 consumers in 30+ different countries – representing the opinions of more than 1.1 billion people. The global research program is built on both quantitative and qualitative consumer market research covering both general market and consumer trends as well as in-depth insights into specific areas.

We work both internally at Ericsson with strategy, product management and marketing, with Sony Ericsson and ST Ericsson, and externally with operators as advisors.

The Ericsson ConsumerLab organization has employees in Sweden and in several other countries including China.

REFERENCES

- GfK Roper study, 2008-2010
- Ericsson ConsumerLab Global Infocom Study 2008-2010
- Ericsson ConsumerLab China Urban Infocom Study 2008-2010
- Ericsson ConsumerLab China Mobile Internet Study 2010
- Ericsson ConsumerLab Rural China study 2009
- Hurun Report, April 2010
- National Bureau of Statistics of China
- Ministry of Industry and Information Technology
- National Population and Family Planning Commission in China

INTRODUCTION

China, the most populated country in the world with 1.3 billion people, is going through a lot of changes. One of the first countries to lead the global economy out of the recession, it reached its target of 8 percent GDP growth in 2009. Economic confidence is growing stronger, not only internationally but also among the Chinese people. A total of 87 percent of Chinese believe their personal economic situation will improve in the next 12 months.

Living in the fastest-growing major economy in the world, the Chinese are increasingly starting to enjoy the effects of this. The middle class' purchasing power is rapidly increasing and, thanks to the urbanization that the country has gone through, people's values have also shifted. The hunt for status has made China into the second-largest luxury goods market in the world. The rich are getting richer and their average age is getting younger.

Increased purchasing power has also fueled a desire for high-tech products. Today, 94 percent of urban people own a mobile phone and 65 percent of households a desktop computer. The purchase of high-tech products not only improves living standards, but elevates people's status in their community.

A majority of the world's leading companies already have investments in China and many more realize the great economic potential of this market, not least within the ICT industry. With over 380 million internet users and more than 770 million mobile phone subscriptions, the numbers are astronomic in China compared to the rest of the world. Predictions expect continued growth of daily mobile and internet usage and this trend is strongest among the young living in the largest cities. Here 88 percent currently use the internet on a daily basis.

With a penetration rate of close to 60 percent and around 8.8 million new subscriptions added a month, there are no signs of the market cooling down. In this way, China offers the most dynamic sample of developing consumer trends.

RURAL CHINA



MAKING MONEY A TOP PRIORITY

Life in rural China is simple; people live without the hectic schedules of those in the city and tend to the land. They try to live in harmony with their families and communities, and adhere to the traditional values of respect for their ancestors and a strong sense of duty.

In these rural communities, making money is of paramount importance. People spend relatively large amounts on their children's studies, and save for big expenditures like house building for the family and for their grown children.

But farming does not bring in sufficient income any-

more and people have started looking for work in cities to earn more. Per-capita disposable income for rural Chinese in 2009 was CNY 5,153 (USD 755), according to the National Population and Family Planning Commission in China. The group also said that average incomes for city dwellers were more than three times larger than the average for farmers.

Largely, young people do not stay to farm anymore. With educational opportunities at universities and technical schools in bigger cities, they leave their villages and often do not come back.

HIGH-TECH PRODUCT OWNERSHIP EQUALS STATUS

Finding more lucrative work in large cities is one factor pushing up the average income of rural Chinese. And with these increasing incomes comes more purchasing power. This has fueled a desire for high-tech products.

It is common practice in rural communities to compare living standards to those of neighbors and friends. The

purchase of high-tech products not only improves living standards, but elevates people's status in their community. Just as getting married is considered "a new start," buying items shows others they are off to a good start.

GROWTH OF MOBILE AND INTERNET ACCESS

China's Ministry of Information Industry has launched the Village Phone Program to provide villages with telephone access and county towns with internet connections. In early 2009, there were nearly 107 million rural internet subscribers, a 26 percent increase from 2008.

On the telephony side, Ericsson ConsumerLab estimates that about 30 percent of rural Chinese communities now have access to mobile services, and more than half of the subscribers of the country's largest mobile operator, China Mobile, come from the countryside.

In rural communities, the use of mobile phones and the internet is focused more on the basics and fun. Many

rural farmers only use their mobile phones to make voice calls and don't have much use for functions or features, while internet usage is centered on gaming and chatting. The rural areas constitute a significant business opportunity as this technology can help improve lives.

Rural consumers are in general very positive towards new technology and believe it will help to improve life, but they need somebody to show them how to use it.

Three key factors to drive rural market growth and development further are; Usefulness of services (services that can increase incomes), Cost efficiency and Ease of use.



iStockphoto

"IF THEY HAVE IT, THEN I NEED TO BUY IT"

Hunan, M, 36

URBANIZATION

GLOBAL URBANIZATION AND ITS EFFECT ON URBAN CHINA

The world's population is expected to grow to eight billion by 2020, with 60 percent living in big cities – challenging how we live, supply food and handle waste. One billion people will be new middle class consumers

in 2020, and most will be living in China and India. More people will commute, schedules will be more rushed and the need for mobile solutions will increase.

URBANIZATION AND MODERNIZATION IN CHINA

China is experiencing the most rapid urbanization of any country, with 45 percent of its citizens living in urban areas, a figure that has risen 10 percent in the last decade. The cities are also absorbing millions of rural workers, who are either coming to the cities to settle down or to earn more money. The rapid influx has caused housing prices to rise and puts enormous pressure on public transportation infrastructure.

and more convenient. Public transportation has been upgraded, with new subways, bus lines and monorails. Living conditions have improved, with well-organized communities and more green parks.

The internet has also experienced an explosion in popularity, becoming a main source of information. And electronic goods such as mobile phones, LCD TVs and MP3 players have become popular, making life richer.

But with this urbanization has come a rapid modernization of services that are making people's lives easier



CONSUMER BEHAVIOR IN URBAN CHINA

GROWING INCOMES AND CONFIDENCE IN PERSONAL FUTURE FINANCES

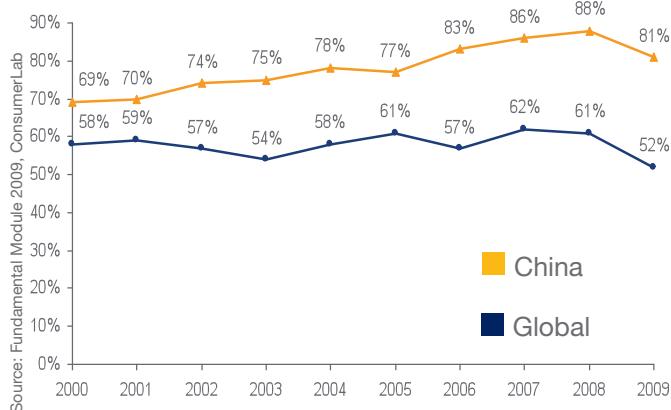
Urban Chinese are now earning more than ever before. Annual income rose 8.8 percent in 2009 to CNY 17,175 (USD 2,515) from 2008. This rapid growth is unique; developed markets like the US have seen household incomes rise by only 5 percent in the last decade, according to the Economist Intelligence Unit.

This tremendous increase has also caused product ownership to rise, with more Chinese using mobile phones, laptops and desktop computers.

After the economic recession over the last two years, urban Chinese consumers are also more confident

about their personal future finances. In fact, they were 29 percent more confident in 2009 than the world average. After a brief dip during the global economic downturn, confidence among Chinese consumers in an improved personal financial situation surged back to 87 percent at the start of 2010.

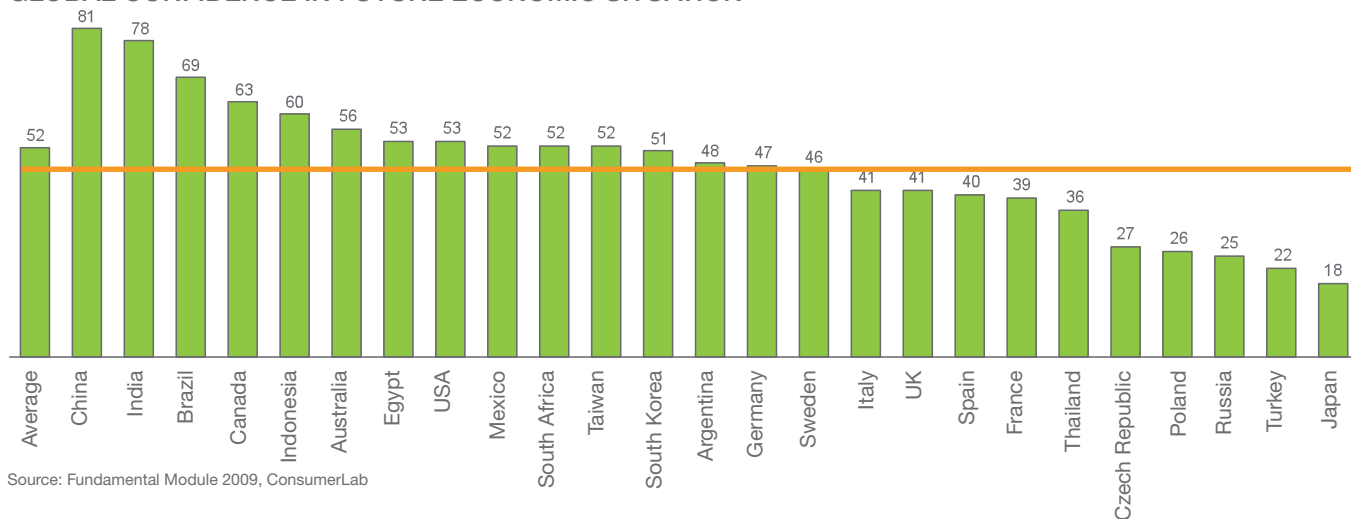
CHINESE CONFIDENCE IN FUTURE ECONOMIC SITUATION



Personal economic confidence at the beginning of 2010 was 87 percent.



GLOBAL CONFIDENCE IN FUTURE ECONOMIC SITUATION



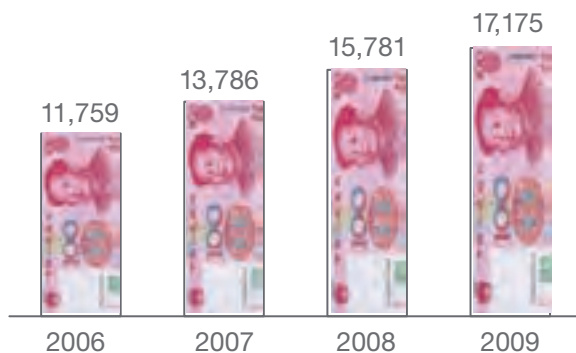
FROM SURVIVAL TO ENJOYMENT

With incomes in Chinese cities rising, people are able to consume more – and they want to. The lifestyle of urban Chinese consumers has changed from a “survive” mentality to an “enjoy life” one, with 54 percent now pursuing a more fun lifestyle, according to a 2009 GfK Roper China study.

Travel has also become a priority for the newly wealthy. In a country where few used to travel outside its enormous borders, 25 percent now say they are very interested in travel, with 54 million Chinese expected to travel abroad in 2010, up from 47 million in 2009. Urban Chinese are also spending more money on luxury goods, cementing the country’s position as the world’s second largest consumer of those goods.

This more globalized attitude, along with government initiatives, has also translated into a more sustainable way of thinking. In a 2009 GfK Roper China study, 40 percent of urban Chinese respondents said social responsibility is an important guiding principle in their life, more than half said they conserve energy in the home and 48 percent said they recycle.

URBAN INCOME: 17,175 YUAN (USD 2.515)



CHINESE CONSUMERS SUSTAINABLE APPROACH

Conserved energy in the home (e.g. use energy-efficient lights)	55%
Recycled (paper, glass, plastics, metals, etc.)	48%
Looked for products with recyclable packaging	19%
Talked to others about environmental issues	14%
Contributed money to environmental groups or businesses	8%
Changed traveling behavior	7%

PRODUCT OWNERSHIP IN HOUSEHOLD

2005

Fixed line phone:	79%
Personal Mobile phone:	77%
Internet connection:	27%
Desktop ownership:	40%
Laptop ownership:	2%

2010

Fixed line phone:	60%
Personal Mobile phone:	94%
Internet connection:	65%
Desktop ownership:	65%
Laptop ownership:	20%

“SEVERAL YEARS AGO, TRAVELING ABROAD WAS A LUXURY. EVERYTHING I SAW WAS SO NEW AND DIFFERENT FROM WHAT I SAW IN CHINA, I TRAVELED TO BROADEN MY VIEWS. NOWADAYS, I CAN TRAVEL OVERSEAS WHENEVER I WANT.”

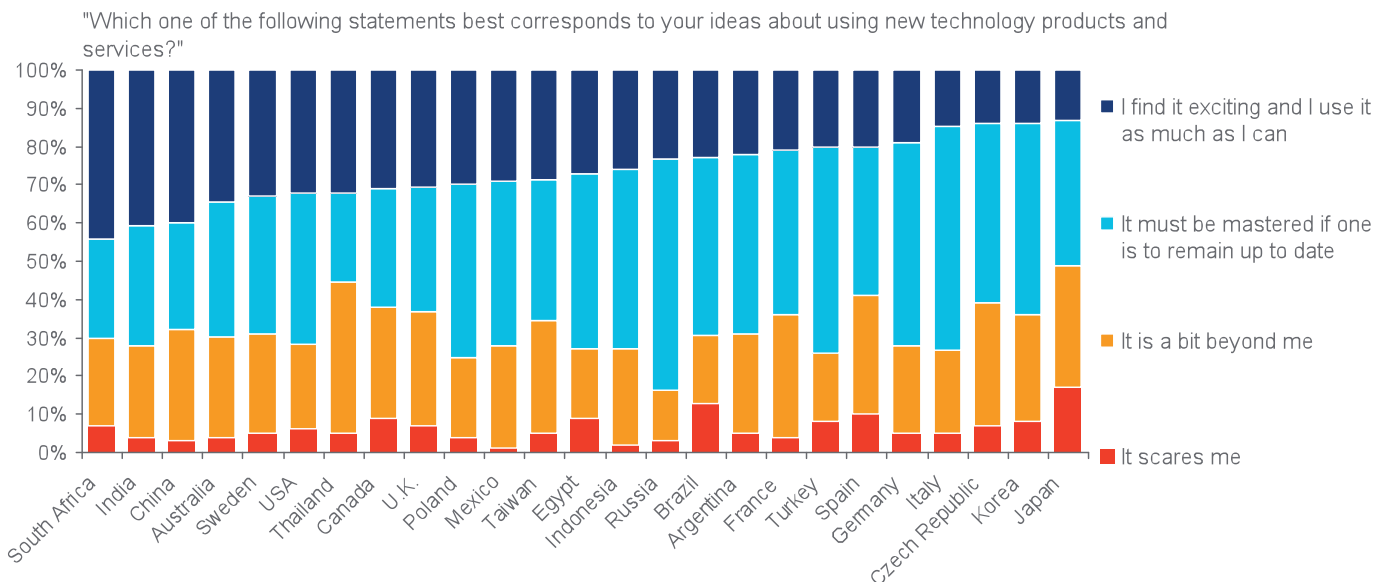
Ms. Wang, 35, Beijing

TECHNOLOGICAL CURIOSITY AND DEVELOPMENT

Urban Chinese are very positive toward new technology. In a 2009 GfK Roper study, more than 40 percent of urban Chinese said they view new technology as exciting and they want to use it as much as possible. Other countries that share urban China's enthusiasm for new technology are urban areas in India and South Africa.

There is tremendous growth in the usage of new technology and access to it in urban China, and its inhabitants are expected to continue their high uptake. In the mobile internet sector, 90 percent of its users say that they will continue or increase their usage, while more than 30 percent of non-users say they want to start using it.

The barrier to using high-tech products or services centers on affordability, compared with other countries. Even though incomes are rising rapidly, today's average incomes are far less than in developed countries.



Source: GfK Fundamental module, all countries 2008 Base: All 15-69 years old

"I DON'T HAVE MY OWN LAPTOP, BUT I AM SAVING TO GET ONE. A LOT OF MY CLASSMATES HAVE ONE" Mr. Chang, 22, Wuhan

THE INTERNET: A NECESSITY OF LIFE

Internet usage has become a necessity of life in developing countries and urban China is no exception. In a 2009 Ericsson ConsumerLab study, 46 percent of urban Chinese said it was important for them to access the internet anywhere.

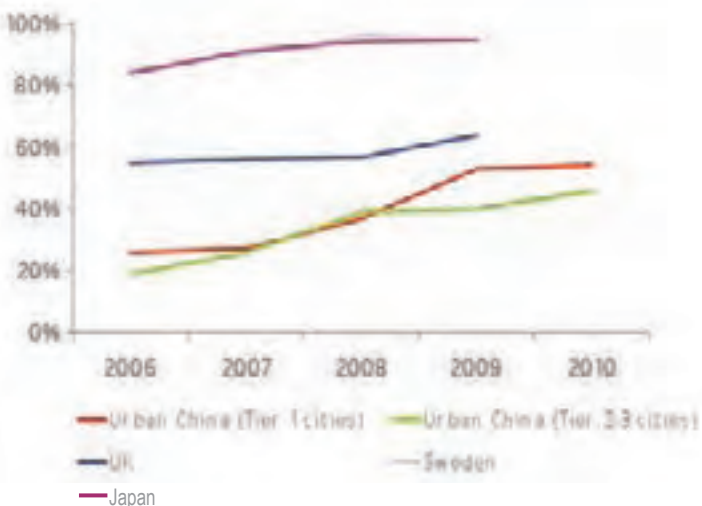
China has the largest number of internet users at 380 million and internet use in cities is as advanced as it is in other developed markets. As people move a lot of their daily activities and personal connections online, internet usage and dependence on it have grown each year.

Entertainment and social networking is particularly popular. Forty-four percent of urban Chinese internet users say they use online video streaming services on a weekly basis, according to a 2009 Ericsson ConsumerLab study. This usage puts urban China ahead of US and European users because internet usage in general is “fun” oriented.

Despite the growth, internet access and PC/laptop penetration are still lower than in other developed markets. But there is potential for large-scale growth

because although consumers want the technology, prices need to come down and education about equipment and services needs to rise.

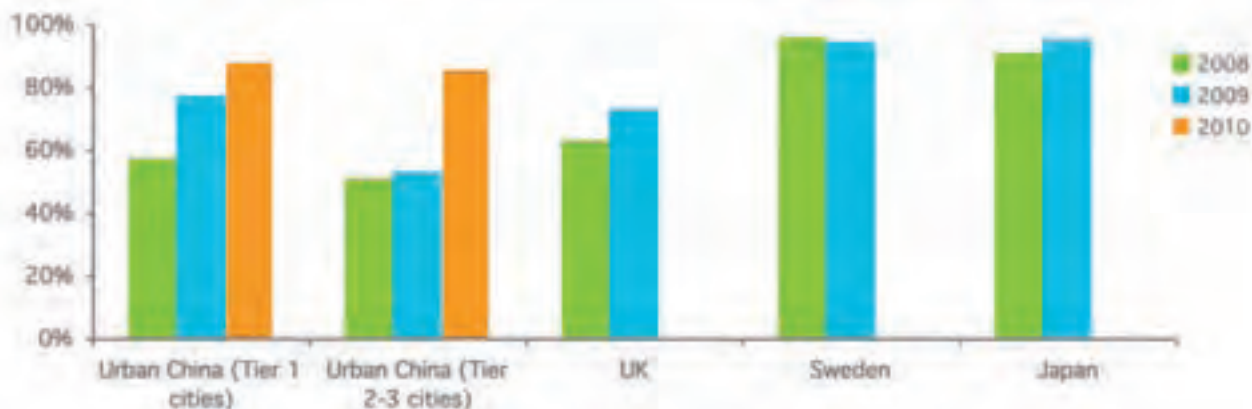
DAILY INTERNET USAGE



Tier 1 cities: Beijing, Shanghai, Gunagzhou, Shenzen

2010 figures for UK and Sweden are not available.

DAILY INTERNET USAGE AMONG YOUTH



2010 figures for the UK, Sweden and Japan are not available.

PC USE	2006	2009	2009			
			UK	Sweden	Japan	USA
Online video streaming weekly	18%	44%	26%	29%	43%	30%
Visiting web communities weekly	20%	40%	49%	38%	30%	43%
Online shopping weekly	2%	12%	32%	10%	23%	23%
Internet banking weekly	3%	19%	47%	56%	32%	44%

Source: Infocomm China urban, ConsumerLab 2009

Base: Internet users

MOBILE INTERNET USAGE IS BOOMING

Compared to most other developed markets, urban China is more mobile phone-centric. With lower access to computers and unsatisfactory mobile broadband connections, people use their mobile phones so they can stay connected.

Mobile internet usage is booming in urban China with the introduction of more advanced phones, mobile software and attractive plans from operators. Mobile chatting via QQ, an instant messaging (IM) tool similar to MSN Messenger, has been embraced by the young,

while mobile applications that make Chinese characters easier to type and simplified browsing tools have encouraged more mobile internet use.

Mobile instant messaging has grown rapidly in urban China over the last few years; just 1 percent used it in 2008 but at the beginning of 2010 it shot up to 15 percent, according to Ericsson ConsumerLab studies. With increased mobile IM use, however, consumers say they send fewer messages by SMS.

Internet access becomes an important feature to consider for future mobile phone purchases. 2010: Particularly strong growth for mobile browsing and mobile IM in Urban China.

MOBILE USE IN URBAN CHINA

	2008	2009	2010	2009			
				UK	Sweden	Japan	USA
Mobile Browsing weekly	7%	15%	22%	13%	11%	52%	17%
Mobile e-mail weekly	3%	5%	12%	11%	12%	81%	16%
Mobile communities weekly	3%	9%	10%	7%	3%	16%	8%
Mobile IM weekly	1%	4%	15%	11%	4%	8%	11%

Source: Ericsson ConsumerLab China 2008-2010 and global 2009

Base: Internet users



CONTINUED GROWTH FOR MOBILE INTERNET AND MOBILE BROADBAND

Mobile internet is expected to continue its growth as urban Chinese become wealthier, prices drop and mobile phone technology improves to support mobile internet more effectively. According to Ericsson ConsumerLab's 2010 China Mobile Internet study, nine out of 10 current users say they will increase usage or continue their current use in the next 12 months. And nearly a third of those surveyed who are not using mobile internet say they are interested.

In a 2009 Ericsson ConsumerLab study, 44 percent of urban Chinese respondents expressed an interest in mobile broadband, but among laptop users the interest was more than 60 percent. The preferred device for mobile internet access in China today is the mobile phone closely followed by the laptop while on European markets and in the US we see the opposite preference, i.e. Laptop first and mobile phone second.

Along with laptop ownership growth and attractive market offerings, mobile broadband has great potential to grow in urban China.

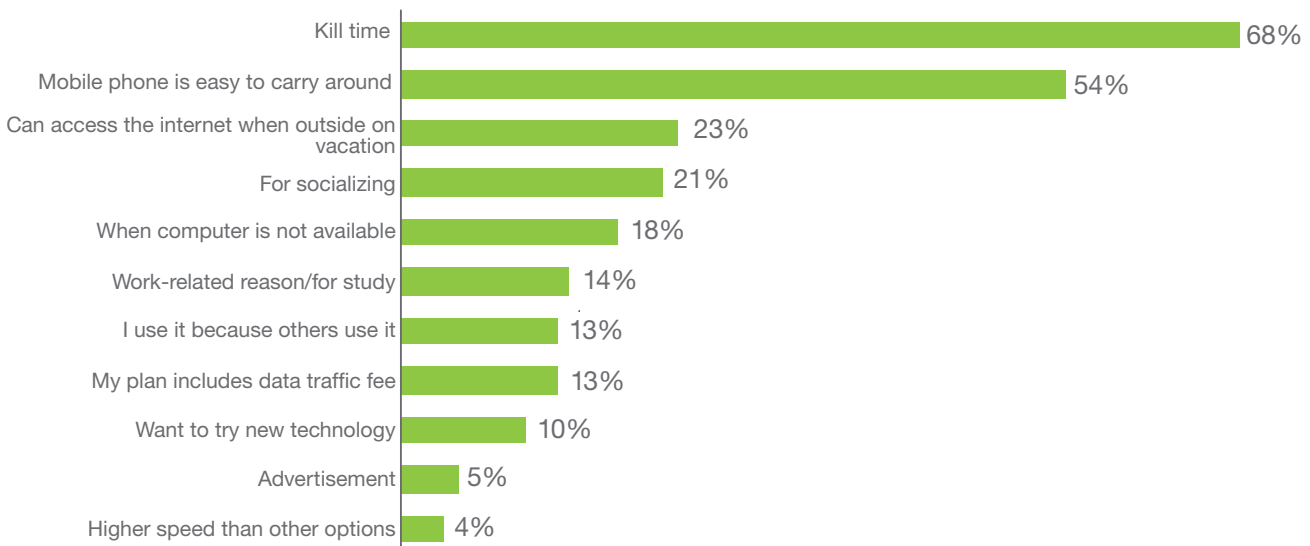


REASONS FOR USING MOBILE INTERNET

Mobile internet is the gateway to the world for many urban Chinese who don't have access to a computer. Tech-savvy young people who spend a lot of time on the go use their mobile phone for internet access, while the middle class who have regular access to computers only use their mobile to access the internet when a computer is not available.

Mobile internet is also about convenience. In Ericsson ConsumerLab's 2010 Urban China Mobile Internet study, 68 percent said they predominantly used mobile internet to kill time, while 54 percent said they used it because the mobile was easy to carry.

WHAT WERE THE REASONS THAT MADE YOU USE a MOBILE TO ACCESS THE INTERNET?



"I USE BOTH MOBILE AND COMPUTER FOR INTERNET, MOBILE IS MORE CONVENIENT FOR SERVICES LIKE QQ AND SOME QUICK SEARCH"

Mr. Wei, 22Beijing

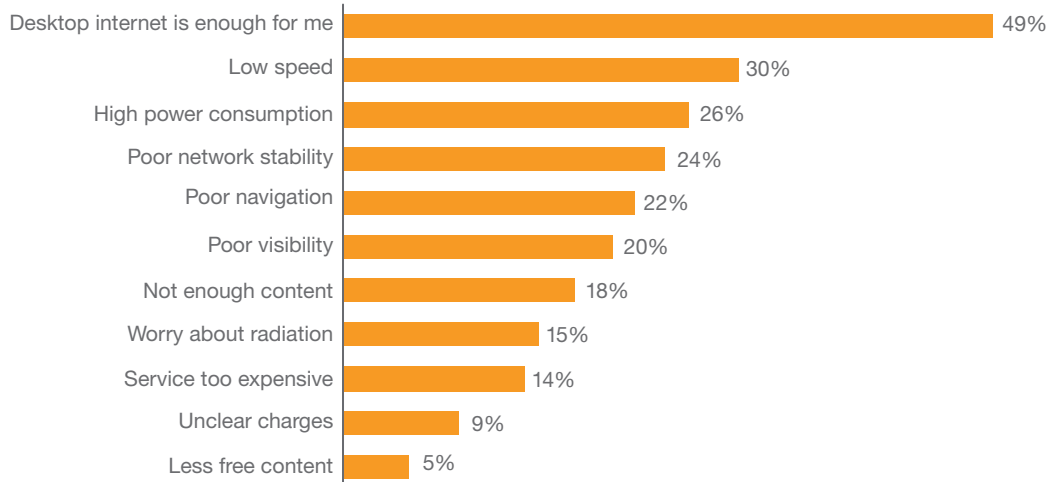
BARRIERS TO USING MOBILE INTERNET

Despite growing usage, the poor quality of some phones, poor user experiences compared to computer-based internet and a lack of knowledge have been barriers to the wider adoption of mobile internet.

In Ericsson ConsumerLab's 2010 Urban China Mobile Internet study, 49 percent of respondents said they didn't use mobile internet because desktop access was

enough for them. Thirty percent said they didn't use mobile internet because it was too slow and 26 percent said it ate up too much battery power.

So far, the early adopters of mobile internet have managed with these obstacles, but for the wider mass market it is crucial that these factors are improved and remedied.



iStockphoto

“INTERNET SERVICE ON MOBILE PHONE ARE VERY HELPFUL. IT HELPS TO KILL TIME WHEN YOU ARE OUT OR ON THE BUS”

Mr. Wei, 28 Beijing

CONSUMER BEHAVIOR OF YOUTH IN URBAN CHINA

OPPORTUNITIES AND CHALLENGES FOR YOUNG CHINESE

Young Chinese in urban areas are a valuable market segment; Chinese youth, like youth in other developed markets, are early adopters of new products and services and heavy telecom users. In urban China, their quality of life is improving and high-tech products have become a part of their life.

China's single-child policy has created a younger generation that wants the latest high-tech products and the parents are willing to pay.

However, urban Chinese youth are also less loyal to

brands, impulsive and always want something new. It is important to get respect from peers and they therefore seek the new, the unique and the personalized in their choice of products, services and brands.

Compared to older people, youth are also more curious about foreign cultures. Yet this interest is often mixed with an increasing appreciation of their own culture and tradition, especially in markets like China and India where a fast growing economy has helped boost national pride. The result is a youth culture that reflects a mixed influence.

YOUTH USE THE INTERNET AS OFTEN AS THEIR PEERS IN OTHER DEVELOPED MARKETS

Ericsson Global Infocom study 2010 shows that Chinese youth use the internet as often as those in other developed markets. In China, 87 percent use the internet on a daily basis. Chinese youth are heavy users of online video streaming and frequenters of web communities; 69 percent play games online on a weekly basis, which is far more than the youth in other developed countries.

MOBILE INTERNET USAGE IS BOOMING AMONG YOUNG CHINESE

Urban Chinese youth are leading the way in using the booming mobile internet because of its convenience. Ericsson ConsumerLab China Infocom study 2010 study shows that 41 percent are using the mobile internet for web browsing on a weekly basis, compared to 29 percent in 2009. Mobile instant messaging has also seen rapid growth; 28 percent are using mobile IM on a weekly basis compared to 8 percent in 2009.



The most intense mobile IM usage is among Chinese youth. There is intense growth in the mobile browsing area.

MOBILE USE AMONG URBAN CHINESE YOUTH

	2008	2009	2010	2009			
				UK	Sweden	Japan	USA
Mobile Browsing weekly	19%	29%	41%	24%	15%	73%	31%
Mobile e-mail weekly	6%	11%	18%	13%	12%	91%	29%
Mobile communities weekly	4%	8%	19%	17%	8%	32%	21%
Mobile IM weekly		8%	28%	19%	7%	14%	25%

Source: Infocom China urban, ConsumerLab 2009

Base: Internet users

45% AGREE

"MOBILE INTERNET MAKES MY FREE TIME PASS FASTER"

39% AGREE

"AFTER USING MOBILE INTERNET, I GO TO INTERNET CAFES LESS OFTEN"

36% AGREE

"AFTER USING MOBILE INTERNET FOR CHAT, I REDUCED THE FREQUENCY OF TEXT MESSAGES"

49% AGREE

"USING MOBILE INTERNET CAN HELP ME INTERACT WITH MY FRIENDS ANYTIME"

34% AGREE

"MOBILE INTERNET IS AS IMPORTANT AS DESKTOP INTERNET"

Source: Ericsson ConsumerLab's 2010
Urban China Mobile Internet study

Ericsson is the world's leading provider of technology and services to telecom operators. Ericsson is the leader in 2G, 3G and 4G mobile technologies, and provides support for networks with over 2 billion subscribers and has the leading position in managed services. The company's portfolio comprises mobile and fixed network infrastructure, telecom services, software, broadband and multimedia solutions for operators, enterprises and the media industry. The Sony Ericsson and ST-Ericsson joint ventures provide consumers with feature-rich personal mobile devices.

Ericsson is advancing its vision of being the "prime driver in an all-communicating world" through innovation, technology, and sustainable business solutions. Working in 175 countries, more than 80,000 employees generated revenue of SEK 206.5 billion (USD 27.1 billion) in 2009. Founded in 1876 with the headquarters in Stockholm, Sweden, Ericsson is listed on OMX NASDAQ, Stockholm and NASDAQ New York.

The content of this document is subject to revision without notice due to continued progress in methodology, design and manufacturing. Ericsson shall have no liability for any error or damage of any kind resulting from the use of this document