

Consumer and Shopper Insights



Understanding China's Digital Consumers

Successfully marketing to China's exploding population of internet users will require a deep understanding of the distinct ways in which they use digital applications and devices.

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750 million

From 420 million today, China could have as many as 750 million people online by 2015

333 million

Between now and 2012, an additional 100 million people could be logging on to the internet via mobile devices, up from 233 million today

12 months

Over one-third of digital junkies and mobile mavens replace their mobile phones every 12 months or less

34.1 hours

Digital junkies spend 34.1 hours a week on the internet, over twice the 15.8 hours a week spent by the average digital consumer in China



8 hours

Gamers spend 8 hours a week playing online games, versus just 2.5 hours a week for the average digital consumer in China

4 hours

Chinese consumers spend 4 hours a week on instant messaging, compared to just 2.6 hours a week by US consumers

2.7 hours

Chinese consumers spend 2.7 hours a week communicating through voice over internet protocol applications, compared to 6 hours in the US

20 minutes

On average, Chinese digital consumers spend 20 minutes a week on email, compared with 5.5 hours a week in the US

Understanding China's Digital Consumers

One of the hottest news stories of 2010 was the explosive growth of the internet in China, a topic that was pushed to the fore last year when Google decided to pull out of this massive market after a very public spat with the government authorities over censorship.

With six million new users jumping online every month, China's internet population is mushrooming. From 420 million today, China could have as many as 750 million people online by 2015, according to our estimates. And not everyone is tethered to a PC: between now and 2012, we estimate an additional 100 million people could be logging on to the internet via mobile devices, up from 233 million today. China has the largest number of mobile internet users in the world.

The numbers are astounding. But who are these people? What applications drive them online in the first place, and what makes them stay there? What devices are they using today, and how will this change over time? How do they differ from consumers in more developed markets such as the US? Marketers seeking to appeal to China's swelling population of digital consumers will need answers to these questions.

Marketers commonly view consumers through demographic lenses such as age, income, sex and city tier. While essential, this type of information usually conceals subtle but meaningful differences between consumers. To craft effective strategies, marketers need to know not only how old their target customers are, how much money they make, or what city they live in. They need to know exactly how China's digital consumers spend their time online, and what devices they are using to access the internet.

We recently conducted a survey of over 5,000 digital consumers across more than 20 different cities in China. In addition to collecting basic demographic data, we also asked them questions that helped us to identify two critical dimensions of their digital persona. The first dimension, what we refer to as the "digital clock", describes how much time consumers spend on digital devices (such as mobile phones and smartphones, PCs, TVs, and game consoles), as well as how they allocate their time between various applications (such as email, instant messaging, and games). The second dimension, what we refer to as the "digital wallet", looked at how much money consumers spend on digital devices and applications.

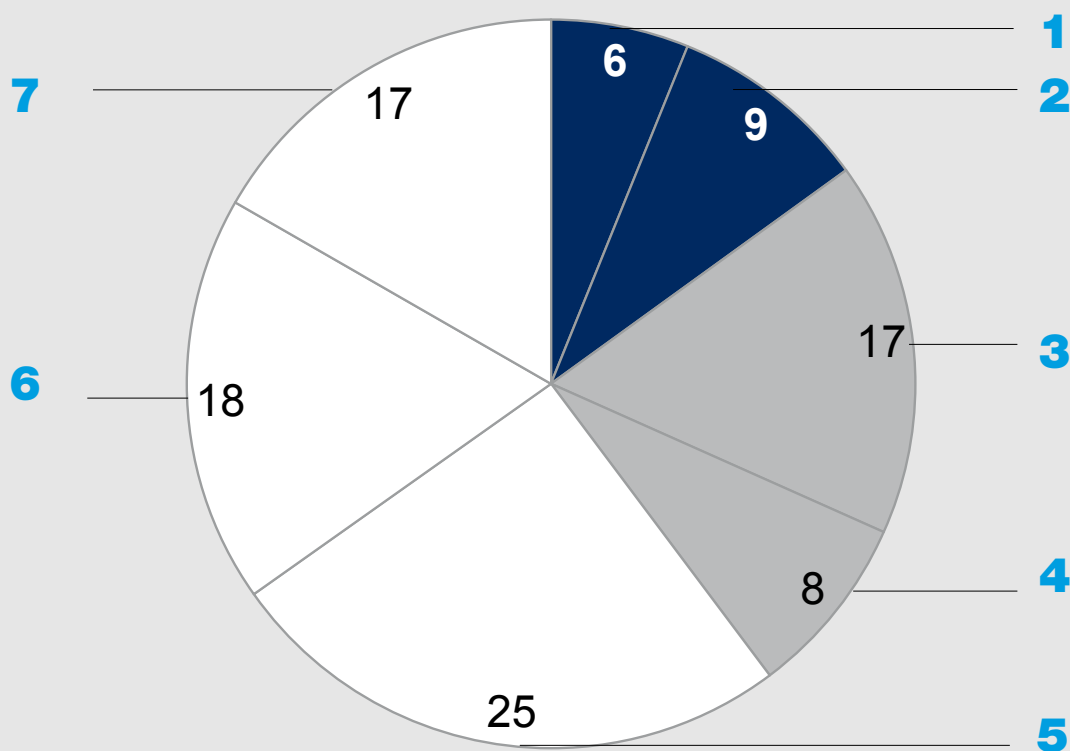
Our research highlights seven distinct consumer segments in China with widely varying usage patterns and preferences for digital applications and devices. (Exhibit 1) The largest segment, the "traditionalists", comprises a whopping 125 million consumers today. Even the smallest segment, "digital junkies", includes a sizable pool of 25 million of some of the most intensive internet users on the planet.

The substantial differences between China's digital consumers - from which applications they use ("digital junkies" are voracious consumers of bandwidth-hogging video and music, for instance) - to which digital devices they own ("info-centrics" tend to shun mobile devices and stick to their PCs) - point to the need for marketers to develop more tailored offerings.

Exhibit 1

China's seven digital consumer segments¹

Percent of respondents



1 Digital Junkies

- Spend more than twice as much time online as all other segments
- Early adopters of high tech gadgets
- Skewed toward single 18-24 year-olds in Tier 1 cities

2 Gamers

- Spends most time on PC games
- Heavy users of social networking
- Skewed toward young low income consumers in low tier cities

1. Defined by time spent on digital media; Heavy users: >28 hours/week, Moderate users: 14-28 hours/week, Light users: <14 hours/week

SOURCE: McKinsey China Digital Consumer Research (Jan 2010, N = 4,866);

 Light users  Moderate users  Heavy users

3 Info-centrics

- Prefer PCs when going online
- Looking for information to enhance productivity at work
- Skewed toward 25-34 year-old business executives with relatively high income

4 Mobile Mavens

- Heavy mobile internet users, prefer listening to music and reading
- Early adopters of portable digital gadgets

5 Traditionalists

- Light users of Internet; spend more time watching TV
- Little interest in hi-tech devices
- Skewed to less educated low tier mass consumers

6 Online Traders

- Most time online spent tracking and trading stocks
- Skewed toward middle aged men in Tier 1 and 2 cities

7 Basic Users

- Least time spent on all media
- Play games on mobile phones
- Skewed toward students and blue collar workers in low tier cities on a tight budget

Heavy users

“Digital junkies” and “gamers” comprise the “heavy users” category, defined in our study as consumers who spend more than 28 hours a week on digital media. These are China’s most intensive consumers and producers of digital content, including video, music, games, and information.

Digital junkies (6 percent of the digital population) can’t get enough of the internet and digital media: they spend a whopping 34.1 hours of time on digital media a week, twice as much as the average 15.8 hours for all users.

They are early and intensive adopters of high tech products: they own 3.6 digital devices on average, compared to an average of three devices for all other users. 26 percent of digital junkies own a laptop versus 16 percent overall; 20 percent own an MP4/MP3 player, versus 11 percent overall; and 4 percent have an e-book reader, against just 1 percent overall (Exhibit 2).

Digital junkies are always on the look-out for the latest and greatest gadget: 38 percent replace their mobile handset every 12 months or less, and the average replacement cycle is just 17 months. Except for “mobile mavens”, this is a much more aggressive replacement cycle than all other segments (Exhibit 3).

Digital junkies are young: 42 percent are between the ages of 18 and 24. A larger number of them can be found in the largest cities: 28 percent live in one of the four Tier 1 cities, compared to 12 percent of the total digital population.

Based on today’s current internet population of 420 million, 6 percent translates into 25.2 million users which belong to this segment. By 2015, we expect this segment will likely make up an even bigger share of China’s digital population. But even assuming digital junkies comprise the same share of total users as it does today, and China’s internet population swells to 750 million, their number will rise to around 45 million, an impressive figure in itself.

Gamers (9 percent) spend over 8 hours a week playing online games, three times more than the 2.5 hours that the average digital consumer spends. Gamers spend 28 percent of their total digital clock on online games, compared with just 16 percent for users overall.

At least for now, mobile gaming does not thrill them; they spend more than 90 percent of their gaming time tethered to a PC. Unsurprisingly, gamers tend to be young – 33 percent are between 18 and 24, compared with 25 percent of digital consumers overall.

Based on today’s current internet population of 420 million, 9 percent translates into 37.8 million users. By 2015, assuming mobile mavens comprise the same share of total users and China’s internet population swells to 750 million, their number will rise to approximately 67.5 million.

Exhibit 2

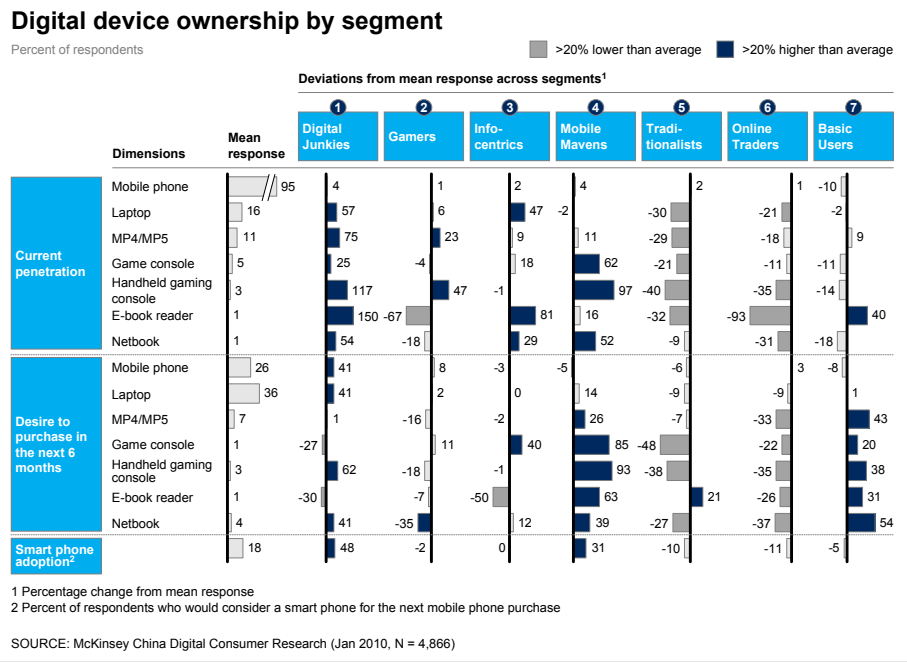
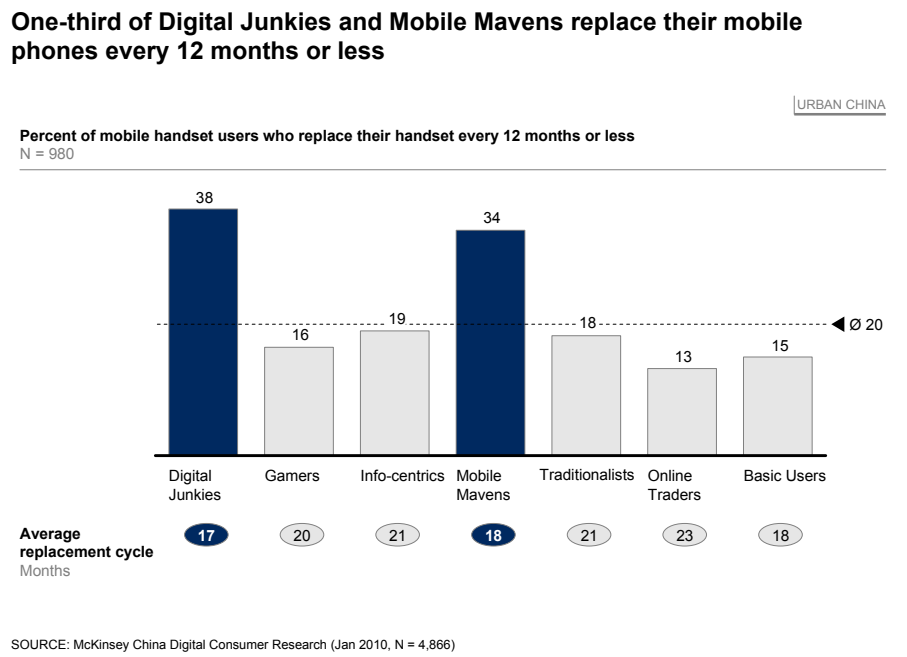


Exhibit 3



Moderate Users

“Moderate users”, those spending between 14 and 28 hours a week on digital media, include two segments we refer to as “info-centrics” and “mobile mavens.”

Info-centrics (17 percent) focus on more practical internet applications, such as searching for information, and reading and writing email. One quarter are either business managers or owners, and thus enhancing productivity at work is a priority. They usually access the internet on a PC, and rarely use mobile devices to access the internet (only 6 percent of their time online). Somewhat older (41 percent are 25 to 35 years old), consumers in this segment have a relatively high income.

Based on today’s current internet population of 420 million, 71.4 million users fall under this segment. By 2015, assuming info-centrics comprise the same share of total users and China’s internet population swells to 750 million, the number of info-centrics will rise to approximately 127.5 million.

Mobile mavens (8 percent) are intensive mobile device users, dedicating 39 percent of their digital time to mobile phones, compared with just 16 percent for consumers overall. They are among the first to line-up for the latest mobile gadgets from MP3/MP4 players to handheld gaming consoles to e-books. Along with the digital junkies, mobile mavens are more than twice as likely to replace their phones every 12 months or less, compared with the average user.

Based on today’s current internet population of 420 million, 8 percent translates into 33.6 million users. By 2015, assuming mobile mavens comprise the same share of total users and China’s internet population swells to 750 million, their number will rise to approximately 60 million.

Light Users

Three segments, comprising 60 percent of all digital consumers in China, fall under the “light users” category, which we defined as those consumers spending less than 14 hours a week on digital media.

Traditionalists (25 percent) resist the lures of the Internet and digital devices. They watch more television than average and are less likely to own, or want to own, digital devices. They are less educated, on the whole, compared to other internet users, and a sizable share of this segment lives in Tier 4 cities.

Based on today’s current internet population of 420 million, 25 percent translates into 105 million users. By 2015, assuming traditionalists comprise the same share of total users and China’s internet population swells to 750 million, their number will rise to approximately 187.5 million.

Online traders (18 percent) spend three times as much time tracking companies and trading stocks online than the average digital user – but otherwise are light users of digital media. Only 13 percent replace their phones every year. They are clearly older than average – 49 percent are between 35 and 54 (compared to 33 percent of all users) and almost three-quarters live in Tier 1 or Tier 2 cities.

Based on today's current internet population of 420 million, 18 percent translates into 75.6 million users that fall under this segment. By 2015, assuming online traders comprise the same share of total users and China's internet population swells to 750 million, their number will rise to approximately 135 million.

Basic users (17 percent) are typically high school students and blue collar workers on a tight budget who spend the least time on any media, digital or traditional. 25 percent of basic users are between 15 and 17 years old, compared with just 11 percent overall. 79 percent of basic users live in tier 3 or tier 4 cities, compared with 55 percent overall. 46 percent fall into the "low income" bracket, earning less than 3,000 renminbi per month, compared with 36 percent of digital consumers overall.

Basic users spend just 8.5 hours a week on digital media, compared with 15.8 hours for the average digital consumer. They even scrimp on traditional media, spending only 5.1 hours a week, compared with 11.3 hours a week on average for digital consumers. Given that 37 percent of basic users are students, compared with 17 percent overall, it's not surprising that this segment is so pressed for time.

This segment is by no means a lost cause for marketers: 24 percent own a mobile phone equipped with basic entertainment features such as MP3 playback, compared with 19 percent overall. And 47 percent expressed a willingness to pay a premium for high quality audio on their mobile phone, versus just 38 percent overall.

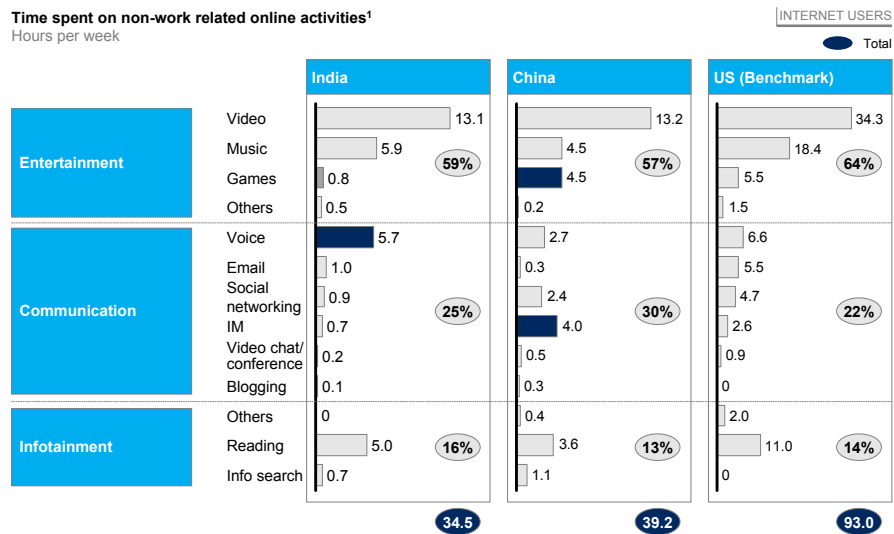
Based on today's current internet population of 420 million, 71.4 million users fall under this segment. By 2015, we expect this segment will shrink, as they acquire more disposable income and try out a wider variety of applications and devices.

Closing the gap with the US

A relative late-comer to the internet, China has in the space of just a few years rapidly narrowed the gap with developed markets such as the US. Overall, US internet users spend 93 hours a week on internet related activities, including

Exhibit 4

China still lags the US in time spent online



¹ E-commerce and financial management are not included

SOURCE: McKinsey China Digital Consumer Research (Jan 2010, N = 4,866)

communication, entertainment, and e-commerce ¹(Exhibit 4). In China, digital consumers spend 40 hours online, indicating significant room for further growth.

Chinese digital consumers share the same preference for video, music and gaming as their US counterparts. But US consumers enjoy these on a much larger scale: the typical US digital consumer spends 3 times more time on video than the average Chinese consumer, and 4 times more time downloading music.

When it comes to gaming, however, China is a very close second to the US , averaging 4-5 hours per week. As bandwidth limitations ease up and more content is made available, Chinese users will likely close the gap.

Chinese consumers also differ substantially from their US counterparts in their use of communication and connectivity applications. US consumers spend a disproportionately large amount of time reading and writing email,

¹ This number was calculated by adding up all of the activities consumers perform online. Since people multi-task – they may run multiple applications at the same time – this is not the actual number of total hours they spend online (there are only 168 hours in a week after all). However, directionally, it does provide a picture of how much time people spend online in the US.

averaging 5.5 hours a week. By contrast, Chinese consumers spend just 20 minutes on email a week. The reverse is true for instant messaging - Chinese consumers dedicate 4 hours per week to IM, whereas US consumers only spend about 2.6 hours.

US consumers spend over 6 hours communicating through voice over internet protocol (VoIP) applications such as Skype, while Chinese consumers rack up 2.7 hours a week.

Despite these differences, we identified 4 segments in China that are broadly similar to those in the US: digital junkies, gamers, info-centrics, and traditionalists. Yet even within each segment there are some characteristics that mark digital consumers in one market from the other. For example, digital junkies in China are somewhat evenly split between men and women, whereas in the US they are predominantly male. Gamers in China spend most of their time on PC games, while US gamers have a strong preference for console gaming.

China's most intensive digital consumers already represent sizeable portions of the overall digital consumer population. But they still lag somewhat behind the US, indicating tremendous potential future growth: digital junkies make up 6% of digital consumers in China, versus 12% in the US; 9% are gamers in China, 12% in the US; 8% are info-centrics in China, 15% in the US.

Two segments are unique to China – online traders and basic users. Online traders reflect the aggressive day trading culture that has sprouted up in China in line with the emergence of its stock markets. It also reflects the limited availability of investment vehicles: pensions, mutual funds, and financial planning have yet to take off in China.

Basic users are unique in China because there's a large number of students that want to spend more time online but either can't afford to or are hindered by under-developed internet infrastructure. As basic users move into the workforce and earn more disposable income, and as devices become more affordable, we expect them to join one of the other segments.

Segmentation-based digital strategies

Whether it's applications, digital devices, or e-commerce business models, no one size fits all in China. Segmenting consumers can help industry players to craft much more targeted strategies based on a more granular picture of their customers. Here are a few thoughts on how three categories of companies might draw on this segmentation to develop more tailored strategies.

Device makers

Many mobile handset makers offer a range of high-end and entry-level models that target consumers based on how much they can afford to spend. But as we've seen, consumers differ considerably not just by how much disposable income they have, but by how, when and where they use mobile devices. Segmenting consumers based on their preferences and usage patterns can help mobile device manufacturers.

For example, one mobile phone maker recently leveraged this research as part of its product development strategy. Taking the data on mobile mavens, they further sub-divided current smartphone users and potential buyers into additional sub-segments based on their willingness to pay for handsets and willingness to pay a premium for a particular feature. They uncovered a surprisingly wide range of different consumer sub-segments with unique preferences and habits. One sub-segment they identified, "open source gadgeteers", are fierce supporters of open source operating systems, refusing to buy any smartphone with a proprietary OS. "Two-thumb typists" insist on having a QWERTY keyboard to accommodate their intensive typing needs, and refuse to buy touch-screen smartphones. "Portable music fans" are looking for outstanding audio quality, and generally prefer touch screens. "Net addicts" use instant messaging and social networking intensively. "Videophiles" are heavy uploaders, viewers and sharers of photos and videos, and are looking for fast and convenient video playback functionality.

Telecom operators

Telecom operators need to be careful about becoming just a "dumb pipe." While they will continue to grow with China's exploding data traffic, there are many opportunities to think about linking services with devices, and by creating services tailored to specific segments. Operators will need to strike partnerships with other companies that will enable them to provide services that are catered to specific segment needs.

For example, an operator could strike partnerships with content providers. We know from our research that video and music are the most popular forms of content downloaded by internet users today, but monetizing that content is a prickly challenge in a market where Intellectual property protection is lax at best. A mobile operator could leverage its payment mechanisms, whether through their monthly bills or prepaid cards, to link up with content providers. They could offer packages of content – a 10-part TV series for instance – through their jointly-run website.

Corporate marketers

For corporate marketers across industries, the internet has become a critical battleground for building brands, pushing products, and managing corporate reputations. Word-of-mouth is enormously influential, and in the online world, word-of-mouth is shaped by the daily torrent of recommendations, reviews, comments and rumor.

To make sense of this flood of information, and to craft effective online strategies, marketers should consider how consumers in different segments spend their time online, and which devices they use. For example, financial institutions could target the very large segment of online traders who are very computer savvy and conduct online transactions on a daily basis. They can work with device makers and application developers to develop devices and applications that are aimed at the specific habits of online traders. They could offer stock advice, planning tools, and alternative investment options all on a convenient and highly secure trading platform. Such a platform could be linked to an account the customer may have with the bank.

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There's a wealth of data available today on Chinese consumers and how they use internet applications and devices. To craft successful strategies, however, digital marketers will need to draw meaningful and actionable insights from this data. Understanding the distinct preferences and needs of China's seven digital consumer segments provides a useful basis for drawing such insights.

About the study

To better understand digital consumers in emerging markets, we surveyed more than 13,000 individuals across China, India and Malaysia. This report is based on the China results of this research. We studied consumers in China who have used internet or data services across various devices (PCs and mobile devices) for personal use in the past 6 months. In addition to a large-scale quantitative survey of over 4,800 internet users, we also interviewed over 500 consumers who do not currently use the internet. We complemented the quantitative research with several focus group interviews and direct observations of consumers as they conducted their online activities. The survey covered 20 cities and 7 villages across 7 regions of China.

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