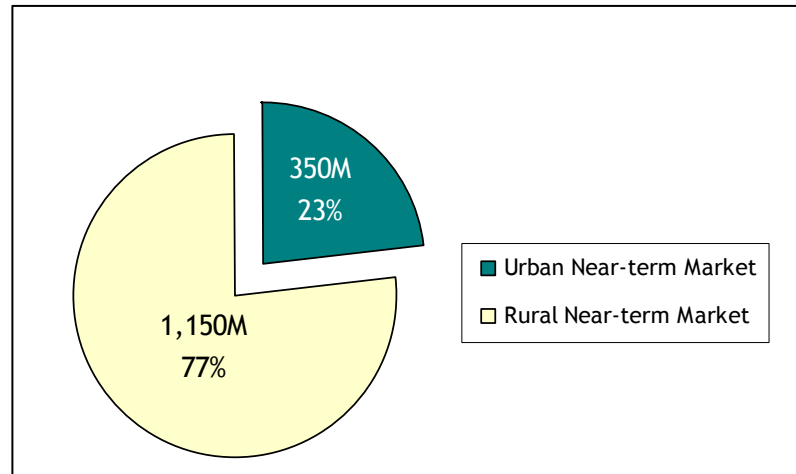


3. Geographic distribution – Overwhelmingly rural

Almost eight out of ten near-term market candidates reside in rural areas as demonstrated in Figure H. Rural areas usually have low population densities, inferior infrastructure and limited income and education opportunities. People in rural areas typically work in agricultural jobs, rendering their income seasonal and unpredictable.

Figure H - Rural and Urban Near-term Market Size



In urban areas, a significant number of the near-term market candidates are migrant workers that moved from smaller towns or rural areas in search of employment. In China, the country with the most rural-to-urban migrant workers in the world, it is estimated that up to 200 million individuals have left their homes to work in cities. These near-term candidates are a small, yet very strategic market for mobile handset manufacturers as they are exposed to mobile phones on a daily basis and encourage their friends and families in their hometowns to acquire handsets so they can communicate.

Implications

Rural areas present a significant challenge for infrastructure providers and retailers alike. The modest, agriculture-based incomes and low population densities in these areas significantly decrease the profit potential of deploying communications, electricity and transportation networks. Retailers and banks can also be reluctant to build in rural areas, restricting access to financial services. Urban near-term market candidates are five times more likely to have electricity and eight times more likely to have mobile coverage than their rural counterparts. Without electricity, mobile coverage or retail outlets, near-term market candidates are much less likely to purchase a mobile phone even if they have the funds to do so.

Am is a 24-year-old fisherman in Cambodia. His wife will soon move to Phnom Penh for a factory job. He will likely purchase a mobile phone so they can keep in contact. He will probably have to wait until his wife sends part of her paycheck home before he can afford a handset and SIM card.

4. Consumption trends – Late adopters of IT, focused on meeting basic needs

Current near-term market candidates for first-time handset purchases tend to be late adopters of technology. The responses regarding technology usage and adoptions by the potential near-term market candidates interviewed for this report shed light on technology consumption trends. For instance, most interviewees claimed they had never used “newer” technologies such as computers, video games, digital cameras, portable music players and the Internet (Figure I). In contrast, “older” technologies such as television, radio and landline phones were commonly owned and used by near-term market candidates.

The near-term market candidates interviewed for this report are relatively unfamiliar with new, digital technologies and are primarily concerned with fulfilling basic needs. When asked what they would do with a windfall of \$20, more than 45% of those interviewed said they would put it toward basic needs, and 35% said they would do the same with a \$100 cash gift. Figure J shows the intended uses of a \$20 and \$100 cash gift.

Figure I - Ownership and Usage of “Old” vs. “New” Technologies

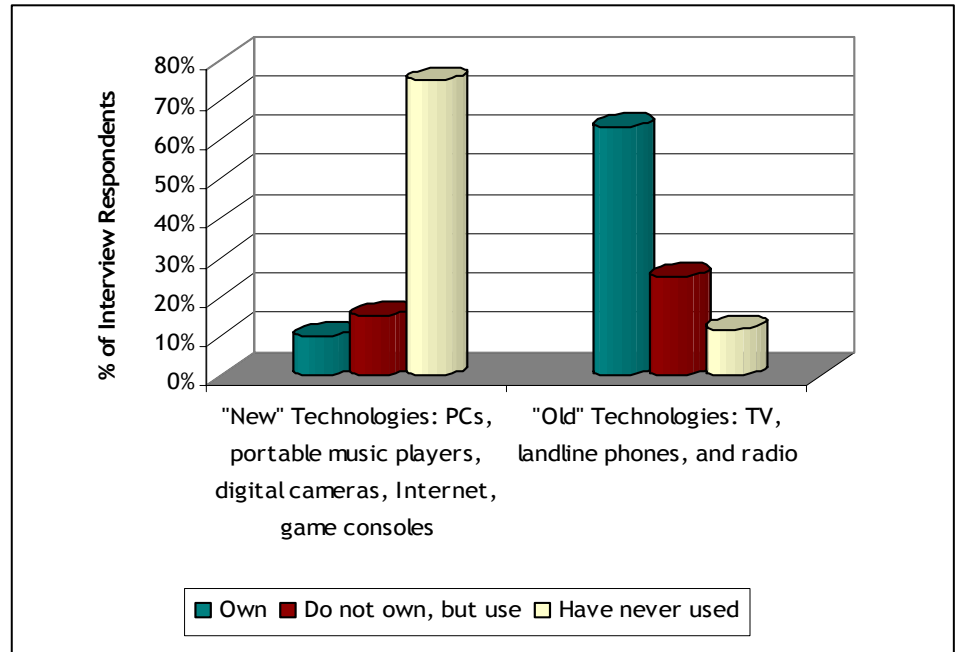
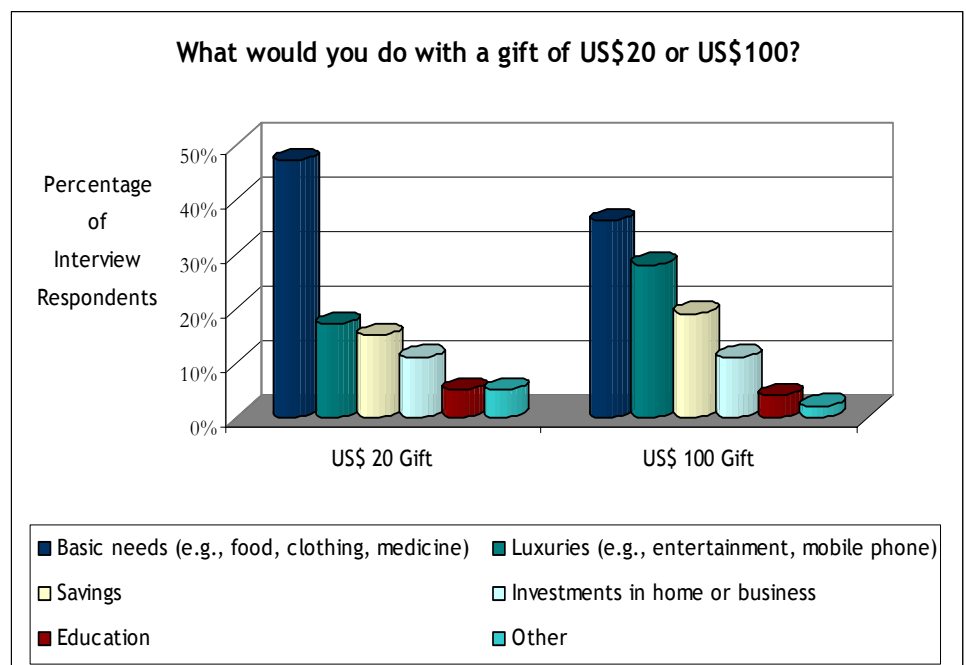
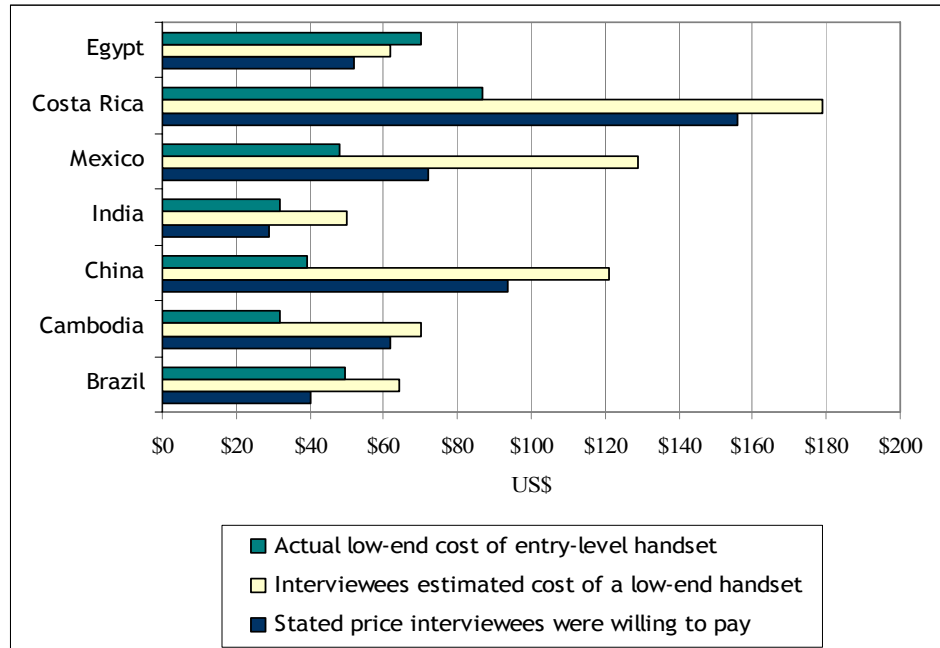


Figure J - Uses of a US\$ 20 or US\$ 100 Gift, Interview Respondents



Vital Wave Consulting research found that many near-term market candidates interviewed for this report consider mobile phones a luxury item, to be purchased after they have “the essentials,” which commonly include a stove, refrigerator and television. Interestingly, interviewees commonly over-estimate the cost of a low-end handset in the local market, and some even express a willingness to buy a handset at a higher price than the actual market rate (Figure K).

Figure K - Estimated and Actual Cost of Entry-level Handset



Implications

The mobile phone industry is competing for share of wallet with non-traditional competitors such as household appliance retailers. To capture growth opportunities in these rapidly-expanding markets, mobile phone service providers and manufacturers would do well to stress the utility of mobile phones to potential customers and position them as essentials rather than luxuries.

Teresa, a 49-year-old seamstress living in a *favela* outside Rio de Janeiro, Brazil, lives in a small, one-room home. Her only modern appliances are a refrigerator, TV and stove - “the essentials,” she says. She is currently making payments on the stove, which she bought from *Casas Bahia*. She claims her next “big purchase” will be a mobile phone, which she will also buy on credit from *Casas Bahia*.

Badria of Egypt plans on purchasing a mobile phone so she can keep in touch with her youngest daughter, who recently migrated to Cairo. However, she explains that this purchase will occur after she buys a refrigerator, which she says is “clearly the family’s highest priority.”