

## THE OPPORTUNITIES FOR CELL PHONE COMPANIES IN CHINA BOP MARKET

According to the World Bank survey, 77% of the world's people live in mobile telephone network coverage, but only 25% have access to mobile phone services<sup>1</sup>. In China 60% people live in rural area, however, only 10% of them have cell phones<sup>2</sup>. So there is a huge market for cell phone companies in the rural area where the average annual income was 3255 Yuan (\$408)<sup>3</sup>.

Considering the low income level for rural residents, manufacturers saw a better prospect for low-price cell phones to dominate this market. However, a so called low-price cell phone in China does not necessarily mean to be a cheap one. In China, the lowest price cell phone made by Philips Electronics N.V. is 1350 Yuan (\$170)<sup>4</sup>. For Samsung Electronics Co, it is 690 Yuan (\$87)<sup>5</sup>, two months' income for a rural family, making it still a luxury for rural residents. Actually, peasants do not care some applications, such as photographs, internet, music broadcast and games; they need only the simplest functions for the phone. For those illiterate peasants in China, they even do not care the messaging function because of the complicated Chinese characters. By removing unnecessary functions, the cell phone providers can provide the simplest phone fully capable of basic communication. This can substantially reduce the cost of mobile phones. Experts forecasted that the total cost of a GSM mobile phone may drop below 15 dollars<sup>6</sup>, which will undoubtedly enable more people to enjoy the low-cost mobile communication services. With the decreasing mobile phone price and increasing peasants' income, a large cell phone market in China rural area is emerging.

As mentioned above, unlike the urban market where subscribers were chasing the high-end cell phones, the rural market would be one for low-end phones. Thus, the profit from selling one phone in rural area would be much lower than in urban area. However, it is still a profitable business model for manufactures in rural area because for mobile phone manufacturers, while the profit for a single phone is low, they can adopt mass production, accelerate cash flow. Thus the manufactures can profit from economies of scale. On the other hand, through super low price mobile phone, the threshold for mobile communications was lowered. More people will join the cell phone network thus lower the average running cost of the network providers who will finally lower the

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<sup>1</sup> WeiWei Ma (2005, November 11) "飞利浦上海打造超低价手机 整机降至 15 美元". (*Philips Shanghai plans to produce cell phones with \$15 each*) 新闻晨报 Accessed June 21 2006 from <http://www.chinabyte.com/telecom/200/2190200.shtml>

<sup>2</sup> 普玩网 (2005, November 23) "农村市场盼超低价手机 摩托罗拉抓住了机会" (*the rural market needs low-price cell phone, Motorola catches this opportunity*) 通信世界网 accessed June 23 2006 from <http://www.puwan.com/news/news20060315/65629.html>

<sup>3</sup> 7788.ca (2006, April 05) "中国农村人均收入不到城市三分之一" (*rural average annual income is one-third of the city's*) accessed June 25 2006 from [http://www.war-sky.com/forum/htm\\_data/70/0603/177364.html](http://www.war-sky.com/forum/htm_data/70/0603/177364.html)

<sup>4</sup> 网易手机报道 (2005, December 08) "飞利浦 362 小跌 200 目前 1350 元凸现性价比" (*Mod 326 Philips Cell Phone fell 200 Yuan to 1320 Yuan*) accessed June 27 2006 from <http://mobile.163.com/05/1208/12/24F03RNNH001117AG.html>

<sup>5</sup> 网易手机报道 (2006, February 20) "三星血洗低端手机市场 C128 居然只卖 690" (*Samsung labeled 690 Yuan for C128, an earthquake in cell Phone market*) accessed June 27 2006 from <http://mobile.163.com/06/0220/15/2ADQIA04001117AG.html>

<sup>6</sup> 全国工商联农业产业商会 (2006, April 12) "20 年的增长数万亿商机" (*millions of opportunities appeared in the past 20 years*) accessed June 27, 2006 from <http://www.china-aicc.org/huikanshow.asp?id=84>

service price. Lower service price will enable and encourage more rural residents to buy cell phones and finally help the companies to profit from enhanced sales. So, this business model is a sustainably profitable one for companies in the BOP market.

However, there are some risks and limitations associated with this market.

1. The first problem is the poor infrastructure in China rural area. In China, especially in countryside, most companies are used to spending more on expanding the marketing systems than enhancing the customer service systems.<sup>7</sup> Many manufactures have very limited amount of agents in these market. In some rural areas, the cell phone subscribers have to go to the nearest cities for maintenance. The reason for this phenomenon is the costly price for building the customer service system in Rural area where has very poor infrastructure. BoDao Cell Phone Company (Bird International), China's largest manufacturer of mobile phones, adopted a strategy of building perfect marketing and customer service system in China rural area to dominate that market and avoid the fierce competition in urban cell phone market. However it lost 280 million Yuan for the first three quarters of 2005 from 200 million Yuan profit one year ago<sup>8</sup>. As the No.1 domestic cell phone brand in China, Bodao's failure impeded many other domestic cell phone companies to enter this market. Actually, the poor infrastructure could easily consume the profits in these markets. However international companies might have opportunities to enter this market if they have gained experience of building market shares in other countries with poor infrastructure. China government should encourage foreign competitors to enter this BOP market besides improving the infrastructure in rural area because this competition will benefit both the rural residents and the China economy eventually.

2. The second problem is that logistics would also constrain manufacturers in this market segment. An analysis showed that the current rural logistics market is a very fragmented one with poor transportation and communication condition.<sup>9</sup> But to date, few domestic professional logistics companies would like to enter the market to the town level. Its unique circumstances made it less attractive to and has higher requirement for the logistics professionals which are mainly located in urban area. This contradiction will have the potential to become the "land mines" for cell phone manufactures interested in this market. However, there are some successful stories in other developing countries. Chinese companies should learn from them and overcome this problem in the unique China circumstance.

3. The third risk is there is limited existing model and experiences. The cell phone companies have to copy the urban experience. Rural human resource environment,

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<sup>7</sup> Huiqing Guo and Xinrong Chang 郭怀清常新荣“应建立与完善农村销售与售后服务网络”(Building a better sales and customer service system in rural area) accessed by July 22 2006 from <http://www.legalinfo.gov.cn/xuefa/juan/jingjifa/jingjifa055.htm>

<sup>8</sup> Likun Jiao 焦立坤(2005 November 11)“波导前三季亏损 2.8 亿”(Bodao lost 280 million Yuan for the first three quarters). Accessed by June 26 2006 from <http://it.sohu.com/s2005/qivejiedu297/>

<sup>9</sup> 上海物流网(2005 Aug 24)“农村市场呼唤现代物流”(Rural markets for modern logistics) accessed by July 19 2006 from <http://www.sh56.cn/wlxy/ShowArticle.asp?ArticleID=14362>

funding environment, the market environment and culture environment are very different from those of the urban's.<sup>10</sup> Therefore rural can not simply copy the urban experience.

In conclusion, the cell phone market in China rural area should be a profitable one for manufactures. However, there are still many limitations and risks that hindered more companies to enter. Chinese government, which always played a key role in developing the rural economies, should continue expanding investment into rural area to enhance the basic infrastructure there, making it a more attractive place for cell phone companies; to help people there receive better education, building a more potential clients base for cell phone companies. Cell phone companies should also continue investing in this market despite current loss. Today's investment will definitely bring them leading positions in this almost untouched market.

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<sup>10</sup> Yunxi Zhao 赵云喜( 2006 June) “新农村实业运营机制探索” (searching new business models for rural area) accessed by June 2007 from [http://www.111-111.net/xizi/wenzhang\\_xinnongcun.htm](http://www.111-111.net/xizi/wenzhang_xinnongcun.htm)