CONSUMERLAB

MOBILE COMMERCE IN EMERGING MARKETS

An Ericsson ConsumerLab Insight Summary Report
January 2015

CONTENTS

METHODOLOGY

We explored household finances and purchasing habits among consumers and merchants using quantitative and qualitative data collected between 2013 and 2014.

Quantitative

This analysis consisted of data from mobile phone users in urban and sub-rural areas spread across Latin America, Sub-Saharan Africa and emerging Asia, aged 15–59 years.

Qualitative

In-depth, at-home interviews were conducted with a total of 110 consumers and 47 merchants in 11 countries across Latin America, Sub-Saharan Africa and emerging Asia. The sample consisted of both banked and unbanked consumers, as well as users and non-users of mobile financial services.

Expert interviews

Interviews were conducted with experts from the NGO, regulatory, service provider and banking sectors.

THE VOICE OF THE CONSUMER

Ericsson ConsumerLab has 20 years' experience of studying people's behaviors and values, including the way they act and think about ICT products and services. Ericsson ConsumerLab provides unique insights on market and consumer trends.

Ericsson ConsumerLab gains its knowledge through a global consumer research program based on interviews with 100,000 individuals each year, in more than 40 countries and 15 megacities – statistically representing the views of 1.1 billion people.

Both quantitative and qualitative methods are used, and hundreds of hours are spent with consumers from different cultures.

To be close to the market and consumers, Ericsson ConsumerLab has analysts in all regions where Ericsson is present, which gives a thorough global understanding of the ICT market and business models.

All reports can be found at:
www.ericsson.com/consumerlab

EXAMINING ATTITUDES

This Ericsson ConsumerLab report examines attitudes towards mobile commerce (m-commerce) adoption in the emerging markets of Latin America, Sub-Saharan Africa and Asia. M-commerce, or mobile financial services, can be defined as the ability to manage financial activities using a mobile device: transfering money, paying bills and purchasing goods and services.

Mobile financial services will help to drive financial inclusion for consumers in emerging markets, where there is a rapid uptake of mobile phone ownership and usage of mobile services. In these regions, only a minority of the population has a bank account. This applies to as many as 2.5 billion people around the world.

> “Usually when you go to the bank there's a line. The fact that there would be no queues, that would be a very positive thing about paying with your mobile phone.”
>
> Maria, 55, Colombia

KEY FINDINGS

- **Urbanization is accelerating**
  Growing numbers of people in emerging markets are moving from rural areas to cities.
- **Informal economy leads to unstable income**
  The majority of workers in emerging markets are part of the informal economy, paid per hour or on commission.
- **Paying in cash is common, but risky**
  Purchasing goods and settling bills using cash is common in these markets, offering speed, transparency and the ability to bargain. Cash is a fast option when the customer and merchant are in the same physical place, but when they are apart, the process is slow and inconvenient.
- **Main motivators**
  Consumers in emerging markets are drawn to the potential speed and convenience of mobile financial services, as well as the reduced risk of being robbed. It is very important for people to have a service that is reliable, secure and fast.
- **Adoption barriers**
  One major barrier is having misconceptions about the service. Users worry about potential scams or threats to the security of their information. Many also believe that you need to be rich or have a minimum amount of money to use the service.

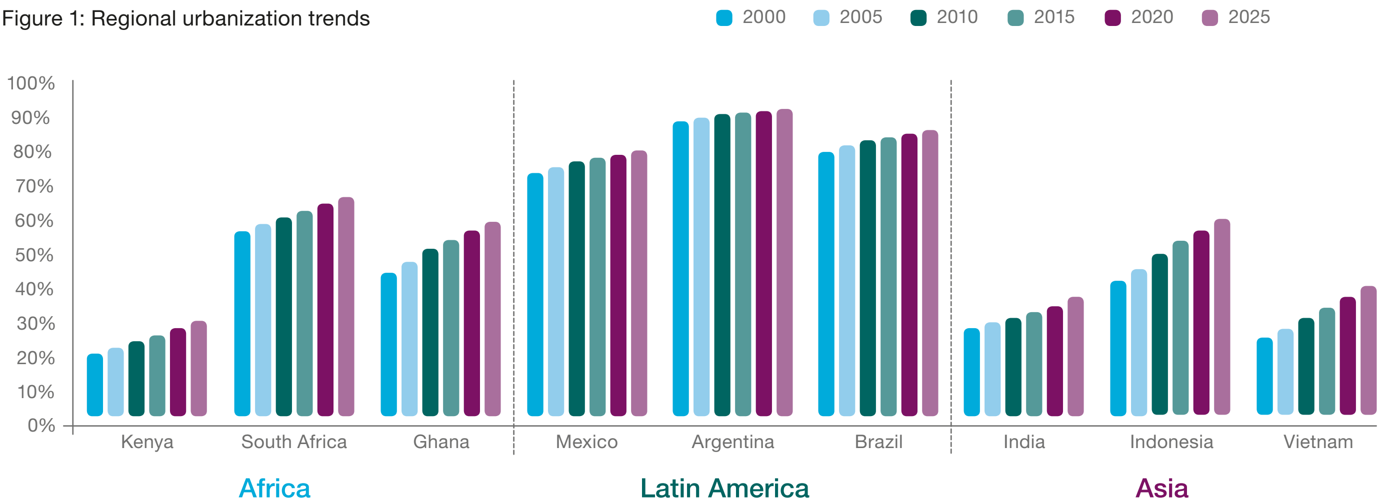
GROWING URBANIZATION

Mass migration

Growing numbers of people are migrating from rural to urban areas all around the world. The majority of urbanization occurs in developing nations, especially in Sub-Saharan Africa and emerging countries in Asia. Latin America is now highly urbanized, with 80 percent of its population living in cities.

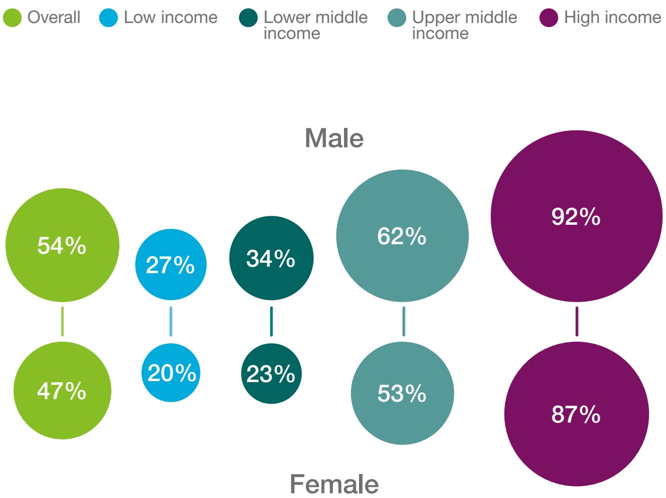
Figure 1 shows how urbanization has increased in these regions during the last decade, and how the trend is predicted to continue up to 2025.

Figure 1: Regional urbanization trends



Source: World Urbanization Prospects, 2014 revision; United Nations, Department of Economic and Social Affairs, Population Division (2012) World Urbanization Prospects, 2011 Revision
Base: Percentage of population residing in urban areas in each country, 2000-2025

Figure 2: Account holders based on gender and income levels



Source: World Bank – The 2011 Global Financial Inclusion (Global Findex) Database
Base: Percentage of population residing in urban areas in each country, 2000-2025

> "Sometimes I send money to my parents. With mobile money it goes right away, but through the bank it can take two or three days."
>
> **Ernest, 25, Ghana**

The concept of family extends further and is more inclusive in emerging markets, increasing the obligation to assist each other. This accentuates the importance of urban-rural transactions within the family group.

Within the family group there is low financial inclusion, with significant disparities between genders when it comes to handling money. Globally, 54 percent of men report having an account at a formal financial institution, while only 47 percent of women do.

ECONOMIC PATTERNS

The informal economy

Economies outside of government regulation, taxation or observation currently account for over half of global employment and as much as 90 percent of employment in poorer developing countries.

Informal workers are usually self-employed and have an unstable income, being paid on a daily basis for the number of hours worked or commission earned. It is often difficult for informal workers to plan their spending in advance.

"We do not always have money in hand and the shopkeeper is known to us, that's why we buy on credit."

Khadija, 23, Bangladesh

Circles of trust

Consumers in emerging markets buy a lot of their goods from local corner shops. This creates systemic interoperability challenges when it comes to payment methods and the roll out of new services.

People across all markets have a strong aversion to being indebted, especially those with a lower income. They tend to take out loans from their relatives, friends or employers – people they know rather than institutions – and will only do so if it is an emergency. Formal loans are not considered an option.

Connections to friends, family and colleagues therefore play a significant role when it comes to loans, savings and expenses.

Informal saving schemes appear across all markets, although the saving culture is less prominent in large parts of Latin America. These saving schemes are often organized around pre-existing social structures, and savings tend to be kept at home. Usually scheme members contribute a set amount of money each month, and draw lots or take turns to determine who gets the full amount.

Figure 3: Examples of informal saving schemes around the world

Source: Ericsson ConsumerLab, Mobile commerce in emerging markets, 2015

A CASH ECONOMY

Cashonomies

Cash is king in emerging markets. It's a fast, convenient and transparent form of payment, offering control over spending.

Cash is the most convenient payment method when the sender and recipient are in the same physical place, but when they are not, it becomes an inconvenience. When a consumer needs to visit a specific place to send money and the process involves administration, several days may be added to the payment's arrival.

Another driver for paying in cash is the opportunity to bargain. Many stores only accept cash, and discounts are sometimes given to consumers paying this way. Settling bills using cash at banks, stores and lottery houses, as well as through bill collectors, is common practice in these markets.

Consumers worry about the safety of their cash, particularly in public spaces where cash is paid or withdrawn. It is common to meet victims of financial crimes – such as card cloning and robbery – across all regions. Current money transfer services require consumers to go to specific locations to make payments during opening hours. These can take days to process, and they may need to send money urgently.

The majority of consumers with lower incomes in emerging markets do not have a bank account, and are part of the informal economy. They have basic needs when it comes to financial products: micro-credits, simple saving schemes and a way to pay bills and transfer money.

Driving change

Generally there is high interest in using mobile financial services, especially for paying bills and sending or receiving money using a mobile device. Services like bKash in Bangladesh and M-Pesa in Kenya provide value for millions of users. However, in most countries within these markets the current usage of mobile financial services remains low.

Figure 4 shows some of the mobile financial services that are currently popular in the countries studied, and which are likely to become more popular in the future.

Figure 4: Financial services used on mobile devices

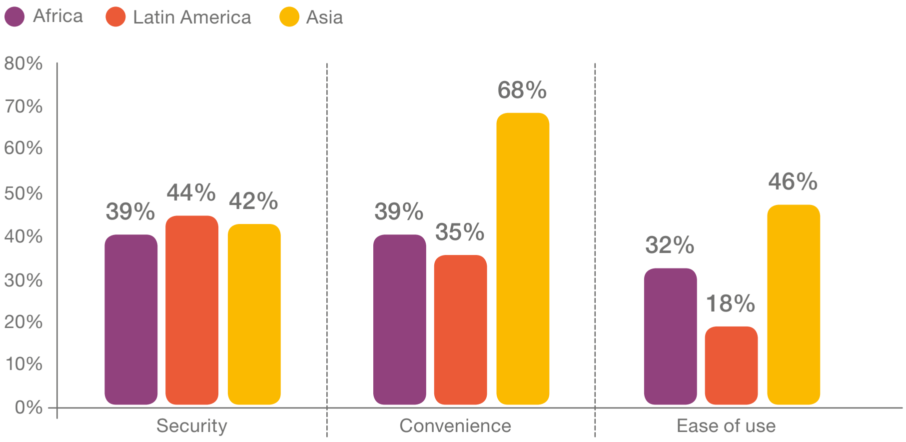
Low percentage of mobile phone users — High percentage of mobile phone users

		Kenya	South Africa	Ghana	Mexico	Argentina	Brazil	Vietnam	India	Indonesia
Payment for goods or services	Currently use	68%	13%	12%	21%	21%	21%	0%	3%	3%
	Currently use, plus those who plan to use in future	83%	32%	49%	48%	40%	48%	19%	10%	21%
Transfering money	Currently use	59%	6%	8%	6%	5%	6%	6%	1%	2%
	Currently use, plus those who plan to use in future	75%	17%	37%	22%	14%	17%	18%	3%	12%
Paying bills	Currently use	33%	2%	4%	6%	5%	8%	0%	1%	1%
	Currently use, plus those who plan to use in future	60%	9%	28%	25%	17%	20%	15%	6%	15%

Source: Ericsson ConsumerLab Analytical Platform, 2013
Base: Percentage of population carrying out financial services on their mobile

PERCEPTION IS KEY

Figure 5: Adoption barriers for mobile financial services



Source: Ericsson ConsumerLab Analytical Platform, 2013
Base: Mobile phone users who do not make/would not like to make mobile payments

> "These services seem very fast and convenient, but they are not for me, they are for business people with higher incomes."
>
> Ina, 24, Indonesia

A common trend across the markets is a lack of knowledge about financial services. There is a perception that the banking system is only for the rich, generating further misconceptions. Figure 5 illustrates the most common barriers to adoption of mobile financial services.

Increased uptake will depend on consumers having trust in the service and the service provider, which is dictated by agent, those who act as distributors and representatives of the service, and service provider trustworthiness, as well as application performance and reliability. The benefits must be proven and validated. In all regions, there is higher trust for banks as service providers, despite the fact that they are seen as being geared toward the rich.

The socioeconomic advantages of introducing these services to emerging markets will be vast, particularly as many of these countries suffer from corruption, poverty, lack of infrastructure and insufficient trade. As well as increasing economic activity, it will also make day-to-day transactions for users more convenient. There will be more visibility on cash flow, making it easier for users to detect illicit activity.

Conclusion

The main motivators for mobile financial services across these markets is convenience, speed and the added safety of not carrying cash. The respondents studied show significant similarities when it comes to their attitudes to financial services and the value that mobile financial services may provide. While many can see the potential benefits in terms of convenience, there are still those who are put off by the idea that the services are not completely secure or aimed at those with higher incomes.

Ericsson is the driving force behind the Networked Society – a world leader in communications technology and services. Our long-term relationships with every major telecom operator in the world allow people, businesses and societies to fulfil their potential and create a more sustainable future.

Our services, software and infrastructure – especially in mobility, broadband and the cloud – are enabling the telecom industry and other sectors to do better business, increase efficiency, improve the user experience and capture new opportunities.

With more than 110,000 professionals and customers in 180 countries, we combine global scale with technology and services leadership. We support networks that connect more than 2.5 billion subscribers. Forty percent of the world's mobile traffic is carried over Ericsson networks. And our investments in research and development ensure that our solutions – and our customers – stay in front.

Founded in 1876, Ericsson has its headquarters in Stockholm, Sweden. Net sales in 2013 were SEK 227.8 billion (USD 34.9 billion). Ericsson is listed on NASDAQ OMX stock exchange in Stockholm and the NASDAQ in New York.

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