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Altering the approach: Mobile operators and online consumers

By Eric Hazan, Florent Illat, and Piero Trivellato

What are Europe's iConsumers thinking? To find out, McKinsey & Company studied the digitally-based purchasing behavior of 40,000 Europeans in eight countries for the second year in a row. This study sheds light on future threats and opportunities by comparing European consumers and examining the resulting business implications. This article presents several key findings.

Results from McKinsey's iConsumer study show that the online channel in mobile communications is growing and attracting many new customers. Mobile network operators now have an excellent opportunity to draw on an expanding segment of online buyers as a source of growth and savings. Capitalizing on this trend, however, will require operators to provide dedicated – but not necessarily less expensive – offers and to utilize a market approach based on differentiation.

An attractive, affluent target market

Consumers are increasingly going online to research and buy mobile communications products such as service subscriptions, accessories, and devices. Online sales in this area have grown by 33 percent each year for the past five years. More than 25 percent of Europe's online consumers surveyed buy mobile products online, and there is potential for this figure to rapidly reach 30 to 40 percent, similar to other, more mature consumer electronics categories.

For mobile operators, online consumers are an attractive demographic: in addition to being slightly older than the rest of the population, they have, on average, higher household incomes (Exhibit 1). And they are willing to spend money on telecommunications devices and mobile communications plans. According to response data, online consumers spend 11 percent more on monthly mobile phone bills and 28 percent more on mobile devices than offline buyers. Furthermore, online consumers are more likely to be "digital addicts" – about 30 percent own a tablet computer, double the level for offline buyers. Smartphone ownership is also more common, and about two-thirds of consumers use such devices, compared to just 57 percent of those in the offline community.

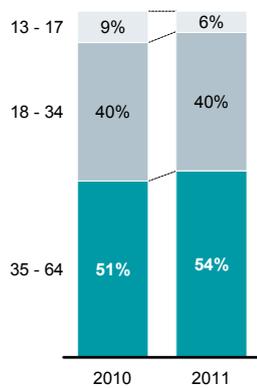
Online consumers also spend more time surfing the Internet and using data-related applications on their mobile phones; some 61 percent use these services often, while only 37 percent of offline buyers do the same. Data-related applications are increasing in number to support digital activities such as reading e-mail, listening to music, browsing social networks, video chatting, and online gaming.

Finally, online consumers are interested in new forms of technology such as augmented reality, cloud storage, and HD video. More than half of the online consumers in the study claim that they would consider using these data applications, while only 38 percent of offline consumers stated the same.

Online consumers are older and wealthier than average

Online consumers are slightly older than average ...

Distribution of online buyers by age



SOURCE: iConsumer Europe

... and live in households with higher incomes

Distribution of buyers by household income and purchase channel

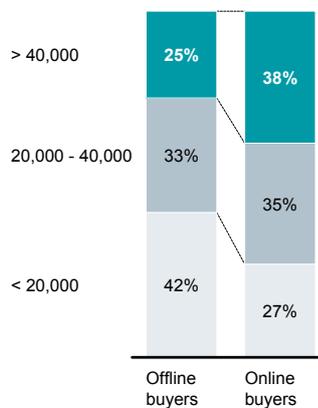


Exhibit 1

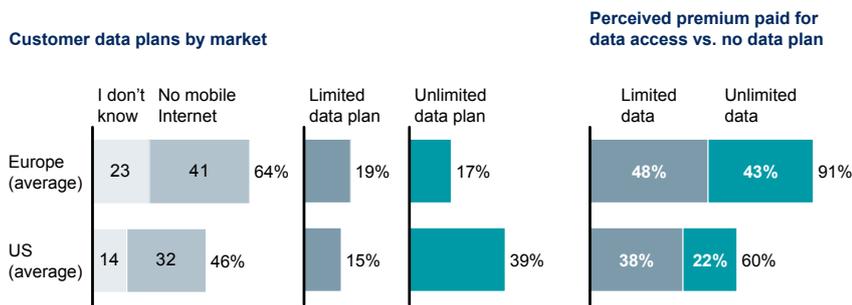
Adapting offers to new consumers

Online consumers have generally been perceived as a low-end segment that should be served through low-cost channels; consequently, they have been targeted with the lowest-priced plans. As the online channel grows and gains appeal with a broader and more prosperous customer base, mobile operators should emphasize products rather than price.

Online buyers are consuming increasing amounts of data and doing so through a variety of applications. Accordingly, they are looking for features such as unlimited SMS bundles, multi-device bundles, faster speeds, and other data-related products. In Europe, mobile-data-related offers hold significant sales and growth potential for operators. While 54 percent of mobile phone users in the United States already have a limited or unlimited data plan, the same is true for only 36 percent of Europeans (Exhibit 2). At the same time, Europeans place greater value on data access than Americans.

With access to data, additional possibilities for cross- and up-selling open up. For example, nearly 20 percent of smartphone users indicated that they would be willing to pay a premium for advanced security options, and approximately 10 percent would do so for services such as remote medical consultations, cloud-based storage, augmented reality, and high-quality premium video or music streaming.

In Europe, unlimited mobile data plans carry unlocked potential, and data accessibility is highly valued



SOURCE: iConsumer Europe

Exhibit 2

Flexible offers to match consumption profiles

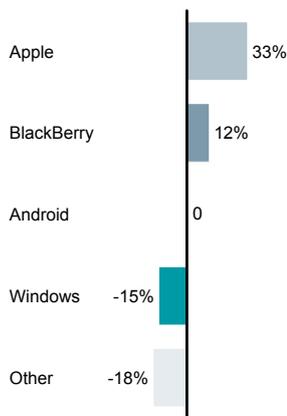
It seems that one size may not fit all in the diverse digital world, and different devices require individualized mobile-service packages. Even within the smartphone user group, significant differences exist in average spend per month. For example, compared to Android users, Apple iPhone owners spend (on average) 33 percent more on their monthly service bill, while Windows users spend 15 percent less. Usage patterns, with the exception of those for voice services, also differ considerably according to smartphone type. Again, Apple users spend significantly more time engaged in activities that are data-heavy – such as watching videos, browsing social networking sites, and downloading apps – than Android users. On the other end, Windows device owners consume less mobile data. Mobile operators should offer mobile phone plans that are tailored to the different phones available (Exhibit 3).

Companies can also make the most of the opportunity to target “digital addicts” who use multiple devices. Fifty-four percent of the online buyers surveyed said they would pay more for a multiple-screen subscription that would include PC and smartphone Internet access as well as real-time TV in a bundle. Surprisingly, 12 percent of respondents stated they would probably be willing to pay 50 percent more to enjoy this multi-screen feature.

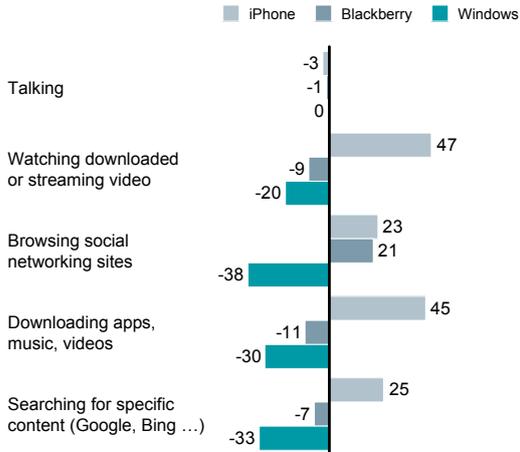
From a tactical standpoint, when thinking about new product offerings for online consumers, operators should also consider additional segments. For example, the video game console segment holds great potential. Fifty percent of console owners indicated that access to advanced TV features was a key driver for their online console subscription – in 2010, only 28 percent said the same. Furthermore, 37 percent view access to

Smartphone users' average spend per month is strongly related to device type, and usage varies significantly by activity

Spend per month, Android vs. other operating systems



Weekly usage comparison by activity among different operating systems (indexed; 100 = Android)



SOURCE: iConsumer Europe

Exhibit 3

social networking sites an important feature, compared to 29 percent in 2010. By providing tailored offers for various smartphones, subscription models for multi-device users, and creating new product offers for non-traditional customer segments, mobile service providers can meet the needs and expectations of online consumers.



For mobile network operators, the online customer segment is sizable, attractive, and sophisticated – making it well-suited for customized offers and marketing approaches. The development of such offers and advertising is critical for operators who want to be successful in this cost-efficient channel as well as capture a customer segment vital to an industry that is increasingly dependent on data consumption.

iConsumer maps shifts in digital behavior around the globe

This article is one of a series documenting the changing digital lives of consumers. Previous reports – *The World Gone Digital* and *Gaming Expands Its Presence in the Digital Universe* – are available on McKinsey.com. McKinsey began its exploration of digital consumer behavior in 2008. By the end of 2011, the firm had surveyed more than 180,000 consumers across North America, Europe, Brazil, and China to understand how consumers conduct a range of activities, from core communications like e-mailing or social networking to content consumption (video, audio, games, etc.) to commerce and creative applications. iConsumer research now covers 15 countries globally. As discussed in this article and in previous reports, digital has upended how we interact, how we entertain ourselves, how we buy, and how we work. The analytics and insights from our iConsumer data can help companies identify new trends at the global, market, and consumer segment levels as well as isolate consumer use, buying factors, and attitudes. iConsumer has been used to identify investment themes, augment proprietary research and segmentation, improve multi-channel execution, and build value-creating customer lifecycle management capabilities.

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