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GrassrootsSM Research

Emerging Markets Monitor – Third Quarter 2009

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Global Mobile Handset Demand



To monitor unit sales and market share shifts for mobile handsets, GrassrootsSM commissioned interviews with retailers in Europe, Asia, North America and South America. According to sources, **Nokia** currently is the bestselling handset brand in Germany, China, India and Brazil; **Research in Motion's** BlackBerry holds the No.1 position in the U.S.; and the **Apple** iPhone is the bestseller in France. One in the U.S. said, "BlackBerry has the most units out now—the Curve, the Pearl, the new Tour—and they are at a good price point. People like them, because they can get their email and Internet on the go."

Regarding handset sales in the second half of July 2009 vs. the same time in June, sources reported that they are up in the U.S., France, Germany, China and Brazil, while they are down in India. Meanwhile, in Germany, China, India and Brazil, **Nokia** and **Samsung** reportedly have the greatest number of newly launched models that are gaining traction, while in the U.S., the BlackBerry Tour, BlackBerry Curve and **LG** Envy Touch are gaining. A source in China commented, "As to new handset models that are gaining traction, I think the Nokia N97 and

Nokia 5800 are the top two. ...[The N97] is called the 'king of handsets' and has very strong functions and configuration. The current price is within an acceptable level for many consumers who are waiting for this handset. Meanwhile, the Nokia 5800 remains the most popular handset in my store after the price drop. People love its touch screen."

Meanwhile, sources said touch screen functionality is not a requirement in the U.S., France and Germany when consumers choose handset models, while it is a requirement in China and India. At the same time, in Brazil, consumers' opinions regarding touch screens reportedly are mixed. As to white-brand handsets, sources said they continue to lose market share to branded handsets in China, India and Brazil. One in India remarked, "White-brand handsets are losing share, as they are expensive to repair and prone to malfunction. This is one reason they are not preferred."

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Bank Branch Managers' Expectations in Asia and Australia



Interviews with branch managers of banks in Asia and Australia revealed that sources expect loan amounts to increase an average 8% in China, 7% in India, 3% in South Korea and 3% in Australia in third quarter 2009 vs. second quarter. In all countries surveyed, sources said real estate and construction generally were the top industries that bank branches lent to in second quarter 2009. Looking ahead, those in China, India and South Korea expect these to remain the top industries that bank branches lend to in the third quarter, while those in Australia were uncertain.

Regarding the fastest-growing loan categories in second quarter 2009, sources in China, India and Australia cited home loans, while those in South Korea cited SMB loans. Looking ahead, the fastest-growing loan categories in the third quarter are

expected to be home loans in India and Australia and SMB loans in China and South Korea.

Meanwhile, sources expect deposits in third quarter 2009 to increase slightly in China, Australia and South Korea, while they likely will remain flat in India. Those in China, India and South Korea expect more demand deposits vs. time deposits in third quarter 2009 vs. second quarter, while those in Australia expect more short-term time deposits vs. demand deposits. As to net interest rate margins in third quarter 2009 vs. second quarter, sources in China and South Korea expect them to remain flat, those in India expect them to contract, and those in Australia expect them to widen.

Sources said real estate and construction generally were the top industries that bank branches lent to in second quarter 2009.

Demand for Construction Machinery in China



Interviews with construction machinery dealers and distributors in China revealed that overall inventory of construction machinery decreased in second quarter 2009 vs. first quarter for about two-thirds, mainly due to strong demand after January and limited manufacturing capacity. One source said, "Starting in February 2009, demand increased dramatically under the government's economic stimulus policies. It cleared all excess inventory from past months." According to sources,

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infrastructure construction is the primary sector driving demand for construction machinery. The real estate industry reportedly is also driving demand, along with the recovery of the market.

Meanwhile, sources said the major competitive advantages of domestic vs.

foreign brands, particularly in the low-end segment, are low after-sales costs, a high price/performance ratio and a narrowing technology gap. At the same time, the major disadvantages of domestic brands reportedly include low reliability and durability, less product variety, weak technological innovation, low brand recognition, and low residual value on the second-hand market. Still, sources said domestic brands are gaining share vs. foreign brands in the hydraulic shovel market, particularly in the low-end segment. So far this year, the bestselling brands of hydraulic shovels reportedly are **Komatsu**, Daewoo (**Doosan Infracore**), **Hitachi Construction Machinery** and Kobelco (**Kobe Steel**).

Regarding the volume of requests for price quotes both for overall construction machinery and hydraulic shovels, sources said it likely will increase further in second half 2009 vs. first half. Government stimulus policies, such as heavy investment in infrastructure construction, as well as the recovery of the property market are expected to be the key factors driving requests for price quotes.

Rural Home Appliance Rebate Program in China



To gauge the effects of the home appliance and consumer electronics stimulus rebate program in China and determine if retailers and distributors have increased inventory due to the rebates, GrassrootsSM commissioned interviews with representatives from retailers and distributors as well as Rural Home Appliance Rebate Program managers. Sources have increased their inventory kept on hand and orders placed with OEM suppliers an average 29% above normal levels due to the improvements in the stimulus rebate program and the increase in product variety allowed in the program.

Looking ahead, sources expect strong demand from rural residents to last another 19 months on average—due to improvements in the stimulus rebate program, rising demand for home appliances, increasing product variety and technology,

and improvements to rural infrastructures (including water and power supplies)—after which time, inventory and orders likely will return to normal.

Meanwhile, sources reported that the products that sales have increased for the most since the stimulus rebate program took effect are refrigerators, washing machines, TVs, water heaters and air conditioners, for which sales are up an average 44%, 19%, 18%, 13% and 9%, respectively, vs. last year. One commented, "The weather, together with the stimulus rebate program, greatly boosted demand for home appliances in rural areas.... Since May, our company's supplier has been operating 24 hours a day. Even so, supply still cannot meet demand."

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Cosmetics Market in China



Interviews with representatives from department stores in China revealed that sales of cosmetics and skin care products are expected to increase nearly 10% in 2009 vs. 2008 due to the increasing awareness of women in China of their appearance, as well as more sales promotions. Meanwhile, sources said most consumers in China rank Japanese brands higher than South Korean brands due to their higher technological content. In addition, most consumers in China

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reportedly are able to distinguish between Japanese and South Korean brands.

As to specific brands, sources said **Shiseido's** competitive advantages in the cosmetics and skin care market include high brand recognition, good brand image, good

product quality, reasonable quality/price ratio, and a loyal and stable customer base, while its disadvantage is that some consumers in China are unwilling to purchase Japanese products due to nationalistic beliefs. Regarding **AmorePacific**, its competitive advantages reportedly include natural ingredients, relatively low pricing and the increasing popularity of South Korean TV shows, while its disadvantages are relatively low brand recognition and poor product quality.

Meanwhile, sources reported that Aupres (Shiseido), **L'Oréal** and **Olay** are the top three bestselling cosmetics brands. One said, "Aupres enjoys almost the highest loyalty among its customers. The brand's pricing level is acceptable to ordinary consumers. It moisturizes well, works effectively and is suitable to use particularly in the dry climate of northern China." At the same time, sources said both Shiseido and AmorePacific rank eighth in popularity among all brands.

Dairy Product Market in China



To examine sales trends in the dairy market in China, GrassrootsSM commissioned interviews with representatives from milk distributors and supermarkets. According to sources, sales of dairy products are down more than 20% so far this year vs. the same time last year (i.e., before the melamine incident). Looking ahead, a full recovery is expected later this year or next year. Meanwhile, sources reported that, following the incident, consumers still prefer domestic brands, ultra-high-temperature processed (UHT) milk and regular-line products. So far this year, UHT milk, yogurt and fresh milk reportedly are seeing the most growth, while milk beverages and functional milk are seeing the least.

As to market share, sources reported that **China Mengniu Dairy** and **Inner Mongolia Yili Industrial Group** are gaining, while **Bright Dairy & Food**, **Nestlé** and small regional brands are losing. In addition, China Mengniu Dairy

reportedly still is the leader in the dairy product market due to its quality, reputation and marketing. Meanwhile, sources noted that the market's reception of newly introduced high-end, functional dairy products from China Mengniu Dairy, Inner Mongolia Yili Industrial Group and Bright Dairy & Food is lukewarm at best.

Regarding the promotional and discounting environment in the dairy product market, sources reported that it is much more intense than before the melamine incident. One commented, "In order to please customers and quickly regain market share after the melamine incident, many brands launched unprecedented market campaigns and promotions."

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Beverage Trends in China



Interviews with managers at beverage wholesalers and retailers in China revealed that orders for hard liquor were flat to down in second quarter 2009 vs. first quarter, while orders for beer were up for all—mainly due to seasonal shifts in drinking habits. Meanwhile, no shift from Western brands to local brands as a result of the economic downturn was noted, although some consumers have shifted from high-end to midrange and low-end brands or reduced consumption

No shift from Western brands to local brands as a result of the economic downturn was noted by sources.

volume. Regarding price sensitivity in light of the economic downturn, half of sources said there is no change, while half noted that consumers are more sensitive to prices and are trading down brands and more responsive to promotions.

Meanwhile, sources said the brands most affected by trading down as well as reduced consumption are Chivas (**Pernod-Ricard**) in the whiskey category and Rémy Martin (**Rémy Cointreau**) and Hennessy (**LVMH Moët Hennessy Louis Vuitton**) in cognac/brandy. At the same time, beer and white spirits/rum reportedly are much less affected by trading down and reduced consumption than other market segments.

As to the bestselling Western brands in China, sources cited Budweiser (**Anheuser-Busch InBev**) in the beer category, Johnnie Walker (**Diageo**) and Chivas in whiskey, Absolut (**Pernod-Ricard**) and Bacardi in white spirits/rum, and Hennessy in cognac/brandy. The bestselling domestic brands in China reportedly are Tsingtao (**Tsingtao Brewery**) for beer and Wuliangye (**Wuliangye Yibin**) and Moutai (**Kweichow Moutai**) for Chinese white liquor.

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