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Grassroots<sup>SM</sup> Research

Market Monitor – First Quarter 2010

# Grassroots<sup>SM</sup> Research Market Monitor

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## Holiday Shopping in the U.S.



Interviews with consumers in the U.S. revealed that, although still negative, net holiday spending has improved from -53% to -28% since the November 2008 Grassroots<sup>SM</sup> survey, while the number who plan to spend more has remained relatively flat. Although net spending remains negative, trends reportedly are improving. Areas in which sources plan to spend more vs. November 2008 include the household/furniture/kitchen (5%) and clothing/apparel (4%) categories. Meanwhile, nearly half do not shop over Thanksgiving weekend, while the number who routinely do, and who plan to do so this year, increased 7% vs. November 2008.

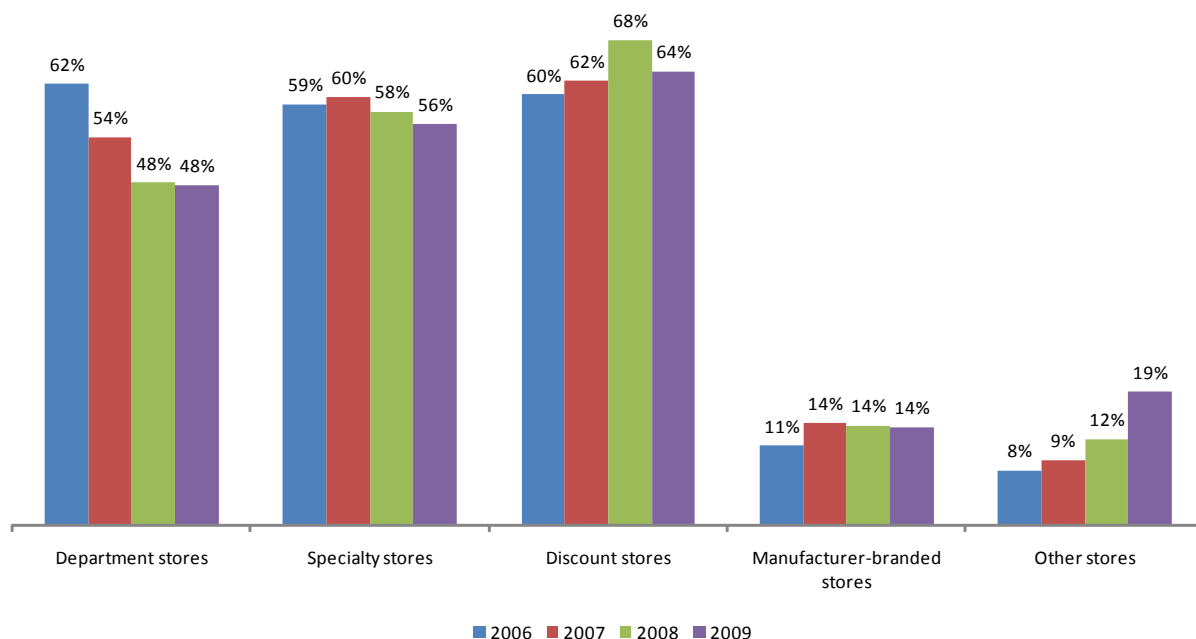
As to the individual stores most frequently cited for increased spending this holiday season, sources named **Target, Wal-Mart Stores, Best Buy** and **Kohl's**. Regarding mobile phone brand preferences, the largest gainers vs. the December 2008 Grassroots<sup>SM</sup> survey were **Samsung** and **LG**, while the brands losing the most were **Apple** (5%) and **Nokia** (4%). Indeed, the number of sources with no interest in purchasing an Apple iPhone within the next six months increased 7%

vs. December 2008: 14% are likely to buy an iPhone within the next six months, while 25% are likely to wait.

Most sources do not plan to make any holiday electronics purchases, while 21% plan to purchase a mobile phone/smartphone after Christmas and 18% a laptop. Most said no discounts would make them change their purchase plans, although a 50% reduction on laptops and/or TVs would make some change their minds. Meanwhile, the number of sources “not at all concerned” about changes in the U.S. economy affecting holiday spending increased from 14% to 28% vs. December 2008, while the number “significantly concerned” decreased from 36% to 21%. While sources’ general consensus of their overall financial situation is stable, the number who believe their situation is “worsening somewhat” decreased 8% since the August 2009 Grassroots<sup>SM</sup> survey, while the number who believe it is “worsening significantly” remains at 6%.

The number of sources “not at all concerned” about changes in the U.S. economy affecting holiday spending increased vs. December 2008.

Popularity of Store Types for Holiday Purchases



## Global PC Demand



Interviews with managers at PC retailers in the U.S., Europe and Asia revealed that desktop sales in third quarter 2009 are up slightly quarter-to-quarter in the U.S., Taiwan, China and India, while they are down in the U.K., France and Germany. As to sources' laptop sales in third quarter 2009, they are up quarter-to-quarter in all countries surveyed except the U.K. and Germany, where they are down slightly. Regarding netbook sales during this time frame, sources said they are up in all countries surveyed except the U.K., where they are down slightly.

Meanwhile, the percentage of netbooks among overall third quarter 2009 laptop sales is in the double digits in all countries surveyed, according to sources. Looking ahead, in fourth quarter 2009, the percentage of netbooks among overall laptop sales is expected to increase slightly or remain flat in all countries surveyed except Taiwan, where it likely will decrease.

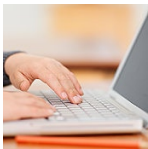
According to sources, laptops with an **Intel** CULV processor have not been well received in the U.S., the U.K., France and India—mainly due to their lack of

visibility and poor introduction to the market—while they are gaining popularity in Germany, Taiwan and China.

In fourth quarter 2009, sources expect desktop, laptop and netbook sales to increase quarter-to-quarter in all countries surveyed except France, where desktop sales likely will decrease slightly. As to market share, **Hewlett-Packard** reportedly is gaining the most overall in desktops and laptops, followed by **Acer**. Regarding netbooks, sources said **Acer**, **ASUS (Asustek Computer)** and **Samsung** are gaining, while **Sony** and **Fujitsu** frequently were cited as losing. A source in China said, "A few foreign brands, such as Fujitsu and Sony, are losing share due to their high prices. Moreover, their design and quality are not as good as they were in the past."

In fourth quarter 2009, sources expect desktop, laptop and netbook sales to increase quarter-to-quarter in all countries surveyed except France.

## Microsoft Windows 7 OS Sales Trends in Europe and Asia



To gauge sales trends for **Microsoft's** Windows 7 OS, Grassroots<sup>SM</sup> commissioned interviews with representatives at electronics retailers in Europe and Asia. Current sales are exceeding expectations for more than half of sources in India, while they are meeting for more than four-fifths in Japan,

Customer feedback on Windows 7 reportedly has been overwhelmingly positive so far in all countries surveyed.

about three-fourths in the U.K. and China, and about half in France and Germany. In addition, all in France and Japan, four-fifths in the U.K. and India, two-thirds in Germany, and half in China said sales of Windows 7 since its launch are exceeding those of the Microsoft Vista OS following Vista's launch two years ago.

Among customers upgrading to Windows 7, an average 90% in India, 86% in Japan, 74% in the U.K., 72% in France, 68% in Germany and 35% in China are doing so by purchasing new PCs, according to sources. Customer feedback on Windows 7 reportedly has been overwhelmingly positive so far in all countries surveyed.

Meanwhile, sales of PCs per day are up an average 500% in Japan, 32% in India, 25% in the U.K., 22% in Germany, 20% in China and 10% in France since the Windows 7 launch, according to sources. When asked which brands have been gaining the most market share since the launch, sources cited **Hewlett-Packard** in the U.K., France and China; **Acer** in the U.K. and India; **Dell** in India and China; **Toshiba** in the U.K. and Japan; **Samsung** in Germany; **Sony** in India; and **Lenovo** in China—although their popularity seems due to the brands themselves, not the Windows 7 launch.

## Advertising Trends in Europe



Interviews with media buyers at major advertising agencies in Europe as well as industry experts revealed that advertising spending is expected to decrease an average 12% in Spain, 10% in the U.K., 9% in France and 3% in Germany in second half 2009 year-to-year, although in third quarter 2009, there has been some improvement in spending, particularly in Germany and the U.K. Looking ahead, sources expect the advertising market to grow again in second half 2010 in Spain and the U.K., and after first half 2011 in France, while opinions in Germany were mixed.

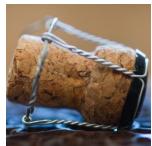
As to advertising rates, sources expect them to decrease an average 18% in France, 12% in the U.K., 6% in Spain and 3% in Germany in second half 2009 year-to-year. A U.K. media buyer said, "Clients have got less money, so predictably, there's less demand and higher supply."

Meanwhile, the popularity of online advertising is up vs. a year ago, and sales are up an average 13% in Germany, 10% in Spain, 7% in the U.K. and 4% in France, according to sources. Within online advertising media, search, affiliate and video advertising reportedly are becoming more popular in all countries surveyed, while interest in nonvideo display is decreasing.

Looking ahead, among all advertising media, most sources in Germany and Spain expect online advertising spending to develop the most strongly in fourth quarter 2009, while those in France and the U.K. cited TV advertising. At the same time, sources in all countries surveyed said fourth quarter 2009 spending likely will develop the weakest in print advertising.

A U.K. media buyer said, "Clients have got less money, so predictably, there's less demand and higher supply."

## Demand for Champagne in Europe



To assess sales, inventory, pricing and the competitive environment for champagne, Grassroots<sup>SM</sup> commissioned interviews with managers at stores selling champagne in France and the U.K. In both countries, sources' champagne sales in fourth quarter 2009 vs. fourth quarter 2008 are mixed, although nearly half said sales are up. Looking ahead, most in both countries expect sales in first quarter 2010 vs. first quarter 2009 to be flat.

Sources reported that the bestselling champagnes in fourth quarter 2009 are retailers' private-label brands, followed by **Nicolas Feuillatte** in France and Moët & Chandon (**LVMH Moët Hennessy Louis Vuitton**) and **Lanson** in the U.K. The worst-selling champagnes reportedly are Veuve Clicquot (LVMH Moët

Hennessy Louis Vuitton) in both countries as well as Dom Perignon (LVMH Moët Hennessy Louis Vuitton) in the U.K. Meanwhile, in both countries, sources said current inventory levels mostly are flat vs. the same time last year.

As to current pricing, sources in France reported that it is flat to up vs. the same time last year, while those in the U.K. said it is flat to down. There reportedly are strong signs of customers trading down to lower-priced champagne, including retailers' private-label brands. A source in France said, "[Customers] are more careful about prices, even here in this privileged area. The average budget per bottle has decreased."

Most in both countries expect champagne sales in first quarter 2010 vs. first quarter 2009 to be flat.

## Athletic Apparel and Footwear in China



Interviews with consumers in China revealed that more than half wear athletic apparel as casualwear/streetwear, a trend expected to continue in the next 12 months. In addition, half are spending about the same amount of money on athletic apparel and footwear in 2009 vs. 2008. The most popular price point for athletic apparel and footwear among sources is CNY100 (US\$15) to CNY500 (US\$73).

Looking ahead, spending on T-shirts/polo shirts and all-purpose athletic footwear likely will increase in the next 12 months, while spending on accessories and undergarments likely will decrease. Meanwhile, quality and brand name reportedly are the most important factors affecting brand choice, while endorsements from famous athletes as well as advertisements are the least important.

As to specific athletic apparel and footwear brands, **Nike**, **adidas** and **Li Ning** are the most popular among sources. Indeed, these three brands reportedly have gained the most appeal in the past 12 months, while Hongxing Erke (**China Hongxing Sports**), 361 Degrees (**361 Degrees International**) and Anta have lost the most. Meanwhile, Li Ning has the best price/value ratio among all major athletic apparel brands, according to sources. Still, most sources reported that Nike and adidas provide the most value for money even though they are expensive. Regarding discounts for athletic apparel and footwear, Li Ning, Anta and 361 Degrees reportedly offer the biggest, while adidas and Nike offer the smallest. Looking ahead, in the next 12 months, half of sources will only purchase athletic apparel and footwear during promotions and discounts.

Quality and brand name reportedly are the most important factors affecting brand choice.

Director: Kelly Reuba  
Editors: Heather Sprung, Vicki Van Ausdall  
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RCM  
555 Mission Street, Suite 1700  
San Francisco, CA 94105  
phone: 415.954.5400  
e-mail: grassroots@rcm.com  
online: www.grassrootsresearch.com

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