

GrassrootsSM Research 

Market Monitor

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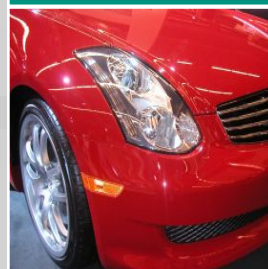
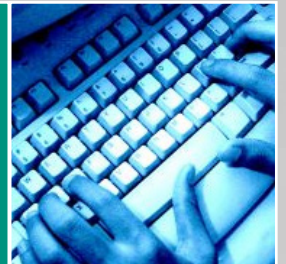
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Q1
2012



GrassrootsSM Research Market Monitor

First Quarter 2012

Global IT Spending Trends



Interviews with IT managers and directors in the U.S., Europe and China revealed that IT capex as a proportion of overall IT budgets increased in 2011 year-to-year for slightly more than two-thirds in China, while opinions were mixed in the U.S., the U.K., France, Germany and Spain. Looking ahead, slightly more than two-thirds of sources in China expect overall IT expenditures to increase in second half 2011 vs. first half, while expectations primarily were flat in France and mixed in the U.S., the U.K., France, Germany and Spain. Meanwhile, half in the U.S. have experienced push-outs or cancellations of IT projects in the past 90 days as a result of macroeconomic concerns, while most in other countries surveyed have not.

IBM, Dell, HP and EMC were most frequently named as storage leaders among all countries surveyed.

Regarding IT spending by category, sources expect their spending on servers, server virtualization and networking equipment to increase in 2011 year-to-year, most significantly in the U.K. and France. **HP, Dell, IBM, VMware and Cisco Systems** were cited most frequently as leaders in these categories among all countries surveyed. As to storage and software spending in 2011 year-to-year, sources' expectations were mixed among all countries surveyed, with notable strength in France, while weakness is expected in Spain for software spending. IBM, Dell, HP and **EMC** were most frequently named as storage leaders, and **Microsoft** as a software leader, among all countries surveyed.

Meanwhile, the half of sources among all countries surveyed who use analytic appliances most frequently cited solutions from **Oracle**, Microsoft, IBM, Dell and **SAP**. One in China commented, "Oracle is a dominating vendor in large to midsized corporation data warehousing and analytical services."

Advertising Trends in Europe



Interviews with sources at major advertising agencies as well as industry experts revealed that advertising spending is expected to be flat to up slightly in France, Germany and the U.K. in second half 2011 year-to-year, while it is expected to decrease in the high single digits in Spain. Meanwhile, most in Germany and the U.K. reported that the advertising market is flat, while most in France said it is growing but growth is slowing, and most in Spain said it is declining.

Most sources in Germany and the U.K. expect advertising rates to be flat or up slightly in first quarter 2012 year-to-year, while most in France and Spain expect them to be flat. One in France said, "The French elections will have little impact, as all candidates get equal time on television. There is no media space buying like in the U.S."

As to online advertising, sales are up an average 13% in Spain and 11% in the U.K. compared to a year ago, while they are up an average 9% in Germany and 7% in France, although some sources in Germany and France said they are slowing down. One in Germany commented, "The popularity of online advertising is up ... as a result of being able to directly reach out to target groups." Meanwhile, sources in Germany, Spain and the U.K. expect online advertising spending to develop the most strongly among all advertising media in fourth quarter 2011, while in France, online and radio advertising were cited.

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Global Harley-Davidson Sales



Interviews with authorized **Harley-Davidson** dealers in Canada, Mexico, Brazil, Europe, Japan and China revealed that new Harley-Davidson motorcycle sales are up an average 5% in second half 2011 vs. the same period last year among all countries surveyed. Meanwhile, sources at dealerships surveyed

that offer used Harley-Davidson motorcycles said sales are flat on average in second half 2011 vs. the same period last year among all countries surveyed.

Current inventory of new Harley-Davidson motorcycles is just right for two-thirds among all countries surveyed.

As to current inventory of new Harley-Davidson motorcycles, it is just right for two-thirds of sources among all countries surveyed, although a few in Mexico and Spain have too much, while one-third in France noted a midsummer shortage

between the end of the old model year and delivery of the new models. In addition, sources' inventory is low in Canada, Germany and Japan due to delivery issues from the manufacturer. Meanwhile, at dealerships surveyed that offer used Harley-Davidson motorcycles, current inventory is just right for two-thirds among all countries surveyed, although inventory is too low in Brazil, while it is too high for half in Germany, and opinions were mixed in Spain.

Among all countries surveyed, sources' opinions were mixed regarding pricing for used Harley-Davidson motorcycles in second half 2011 vs. the same period last year. Meanwhile, nearly two-thirds among all countries surveyed said macroeconomic factors in second half 2011 are not affecting Harley-Davidson motorcycle sales. Looking ahead, nearly half of sources expect continued macroeconomic underperformance to have negative effects, although the reasons and severity vary by country.

Luxury Car Sales Trends in China



To examine current sales trends and assess the competitive environment for luxury cars in China, GrassrootsSM commissioned interviews with luxury car dealers in first- and second-tier cities. Slightly more than half of sources expect sales of luxury cars to be up in third quarter 2011 vs. third quarter 2010, while two-fifths said flat. In addition, three-fifths cited no deceleration in sales growth for third quarter 2011 year-to-year due to still strong demand among high-end consumers, while two-fifths cited some slowdown due to the overheated market. Looking ahead, most sources expect sales momentum for luxury cars for the rest of 2011 to be the same or better vs. the current level.

As to brands, **BMW** and Mercedes-Benz (**Daimler**) are selling well in the luxury segment, according to sources. One said, "In China, these two brands are simply

the definition of success.... I think this trend will continue for the foreseeable future." At the same time, sources said **Volvo**, **Volkswagen** and **GM** are suffering from the sales growth of competing brands in the luxury segment.

Meanwhile, sources' sales commissions for imported and locally produced cars are similar in terms of percentage but vastly different in terms of absolute value. One said, "As imported luxury cars are usually two to three times more expensive than locally produced luxury vehicles, sales commission at the same percentage as the locally produced cars will generate significantly more income for the dealers."

One source said, "In China, [BMW and Mercedes-Benz] are simply the definition of success.... I think this trend will continue."

All-Terrain Vehicle Sales in the U.S.



To check on sales of all-terrain vehicles (ATVs) in third quarter 2011, GrassrootsSM commissioned interviews with dealers in the U.S. Sources' Polaris (**Polaris Industries**) ATV sales increased an average 10% in third quarter 2011 year-to-year—due to easier financing and the continued growth in popularity of side-by-sides—and an average 3% in third quarter 2011 vs. second quarter—primarily due to year-end clearance sales and promotions by the manufacturer.

Sources reported that Polaris continued to gain the most market share among ATV brands in third quarter 2011.

Indeed, almost no sources saw a slowdown in Polaris sales in September 2011 vs. August, due to demand from year-end clearance promotions as well as the beginning of the ATV driving season for some in the

Southwest and farming communities as the harvest season approached. One source said, "We're probably up 20% from last month, definitely seeing an increase now that we're moving into the driving season. July and August are definitely the down times because of the heat, and now with the incentives and little downturn in the local economy, we're seeing a big boost."

In addition, sources reported that Polaris continued to gain the most market share among ATV brands in third quarter 2011, especially in the side-by-side category. All consider side-by-side the fastest-growing category of ATVs, with Polaris the dominant player and having the most market share. According to sources, Polaris' promotions, financial incentives and marketing are the most aggressive in the market. One commented, "Polaris takes sales staff off-road to ride with the competition, which nobody else does, and I come away thinking, 'Why would you buy anything else?'"

Waste, Wastewater and Waste-to-Energy Treatment in China



Interviews with public officials in China involved in waste, wastewater and waste-to-energy projects revealed that nearly all believe wastewater projects will see the largest growth (among water, wastewater and waste-to-energy projects) in the next three years, as central and local governments are increasing investments in this field, and the rate of return is rising. Meanwhile, slightly more than half of sources expect the number of waste-to-energy projects to remain the same in the next three years vs. the past three years, as the market is in its early stages and large investments with long payback periods are required, while two-fifths expect the number to increase due to high demand and higher government investments.

Looking ahead, all sources expect tariffs for water and wastewater utilities to increase in the next three years—due to a government plan to attract more investment into the water and wastewater industry by boosting the allowed rate of return.

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Meanwhile, nearly half of sources noted an increase in the level of bidding for projects from foreign water and wastewater utilities due to the high level of growth of such projects in China, while nearly half reported no change, because the payback period is too long and the rate of return is too low for foreign utilities.

Demand for Vitamin D Tests in the U.S.



To assess the growth outlook for vitamin D testing in the U.S., GrassrootsSM commissioned interviews with managers at diagnostic centers. Sources expect vitamin D test volume to increase an average 15% in 2011 vs. 2010. At the same time, they expect growth in the volume of vitamin D tests to begin to level off next year, with an average 7% increase anticipated in 2012 vs. 2011. One source commented, "The number of tests will continue to increase, but not at the same level—it might hit 10% as compared to 15% this year. We have pretty much captured what we are going to get."

Meanwhile, sources said competition in the market for vitamin D testing equipment is on the rise, with the Food and Drug Administration (FDA) approval of a new assay for the popular **Siemens** platform and a new assay approval

imminent for **Abbott Laboratories**. Currently, **DiaSorin** reportedly is widely used in medical laboratories. One source noted, "Our vitamin D tests are run on the DiaSorin Liaison machine. It is accurate and convenient in terms of time—it is faster than the others."

Looking ahead, sources expect prices to decrease in the next 12 months, with new competition entering the market. In the next three to five years, most expect prices to stabilize. One source said, "I think [prices] will go down for the next few years, because there is more competition out there—and then prices will stabilize. Everyone will want to try to keep prices up there; it is still going to be one of the most expensive tests."

Sources expect vitamin D tests volume to increase an average 15% in 2011 vs. 2010.

Internet Gaming in China



Interviews with PC café managers and game room operators in China revealed that currently, the three most popular online games are World of Warcraft (**Activision Blizzard/Netease.com**), Cross Fire (**Smile Gate/Tencent Holdings**) and QQ Dazzle Dance (**Beijing Horizon 3D/Tencent Holdings**) due to story lines, interactivity, graphics and sound effects. At the same time, sources reported that Fantasy Westward Journey (Netease.com) and World of Legend

Sources reported that ... Shanda and Tencent are the best online game developers/distributors in China.

(**Shanda Interactive Entertainment**) are losing popularity in 2011.

Regarding the most anticipated games in the next 12 months, sources cited Jiu Yang Zhen Jing (**Game Snail**), Star Wars Online: The

Old Republic (**Electronic Arts**) and Secret World (**Funcom Productions**). One said, "Secret World and Star Wars Online are major productions from large game development and distribution companies. It is widely believed that one of these games has a high probability of becoming the next big thing. Many gamers are anxiously waiting their release."

Meanwhile, sources reported that due to development and operation capability, quality of games, support, and service, Shanda and Tencent are the best online game developers/distributors in China. One noted, "Tencent and Shanda pretty much dominate the Chinese game developing and distribution business. Netease is trying to catch up but is still a significant distance away. Backed by a mature development team and large user base, Shanda and Tencent are likely to maintain the upper hand for the foreseeable future."

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