GfK Retail and Technology

MARKET **INSIGHTS**: JANUARY-JUNE 2011

GfK findings for IFA: Consumer Electronics Unlimited

- Challenging climate for consumer electronics
- European IT market is becoming more complex
- Mobile internet – driver for mobile communications market
- Major domestic appliances: growth trend continues worldwide
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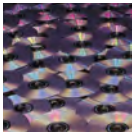

Challenging climate for consumer electronics

The consumer electronics (CE) market has registered a significant deterioration in the first half of 2011. In the first six months of the year, sales in Western Europe declined by a total of 11.3% in comparison with the same period of the prior year. This is attributable to a lack of stimulus from major sporting events, the shutdown of analog TV in some European countries pushing forward purchases, and the financial and economic crisis in the Eurozone. Nevertheless, innovative segments are growing within all product groups.

In comparison to last year, when events such as the Winter Olympic Games, the Football World Cup and the shutdown of analog TV signals, for example in France and Italy, provided major boosts to the CE market; similar stimuli are lacking in 2011. Added to this is the fact that the ongoing financial and economic crisis continues to unsettle European consumers. Consequently, in the first half of the year, both sales revenue and unit sales declined significantly in the CE segments in the six Western European countries of France, Germany, Italy, the Netherlands, Spain and the UK.

Televisions: large screens popular

Western European countries show a sales decline of 14% for the TV market. In comparison with 2009, a year in which there were also no notable stimuli such as sporting events, a considerable increase of 28% has been recorded in television sales.

The sales share of TV sets within the CE sector is continuing to rise and currently stands at just over 73%. However, compared to the first half of 2010, sales units for Flat-TVs decreased by 8% and prices are still declining. Innovations, including HDTV, 3D and internet-capable devices, are currently not able to prevent this trend, although customers are prepared to dig a little deeper in their pockets for these products. LED televisions, which registered a sales share of 56% in the LCD TV segment in the first half of 2011, are particularly popular because of their sleek design and energy efficient technology. Internet-capable TVs generated a third of sales in the television market in the first six months of the year.

32-inch TVs remain the most popular category, although the sales share fell to 28% in the first half of 2011. The purchasing trend within the LCD market is for larger screens. Televisions with screens that are 40-inch or larger constitute a sales share of nearly 50%; a figure which is still growing.

The integrated digital tuner and full HD are already standard features. 3D-capable TVs now have a sales share of 16%. The average price of a TV set has nonetheless declined by 7% in comparison with the first half of 2010 and the price drop was even higher, at 39%, in both the LED and 3D segments. With an average price of EUR 459 for an LCD TV and EUR 748 for a plasma television (as in H1 2011), consumers are spending significantly less than they did one year ago, while the product features have become more advanced.

In Western Europe, unit sales of 39 million TV sets in total are forecast for 2011. The future is extremely promising for 3D-capable televisions, in particular, with GfK Retail and Technology predicting total unit sales of 6.4 million 3D-TVs in Western Europe.

DVD/Blu-ray players and recorders: customers shift to High-Definition and 3D

The Western European market for DVD and Blu-ray players and recorders has remained in decline in the first half of 2011. Sales of DVD and Blu-ray players plummeted by more than 40% in some countries, e.g. Spain, however the drop in Germany has been comparatively moderate at 12%.

The main cause for the decline has been the heavy reduction in demand for traditional DVD players, with 29% fewer units sold in Western Europe. In contrast, the Blu-ray player market developed much more positively, with a 20% increase to around 1.5 million unit sales. However, as a result of the considerable reduction in average prices of Blu-ray players, sales revenue only increased by 5%. Blu-ray recorders continue to be a niche product. At around 34%, the share of 3D-capable Blu-ray players is considerably higher than the share for 3D televisions. This is partly attributable to the fact that former high-end features, such as 3D and network connections, can now also be found in mid-range Blu-ray players. In general, it transpires that 3D televisions are usually purchased together with a compatible 3D-capable Blu-ray player.

Camcorders: multimedia cameras and HD technology in demand

In Western Europe, the camcorder market suffered a decline of 12% in H1 2011 in comparison with the same period last year and recorded overall unit sales of 1.7 million. Sales revenue fell by 21% to just under EUR 400 million. Only the camcorder market in the UK recorded an increase in unit sales (+8%), with multimedia cameras being the main driver. However, the lower average price means that here, as in all other countries, sales revenue dropped by 20%.

Although sales of multimedia cameras are virtually stable in Western Europe, unit sales of traditional camcorders decreased by 17%.

The method: Through its retail panel in more than 90 countries around the world, GfK Retail and Technology regularly collects data on TV and video devices, portable audio products, camcorders, hi-fi and home cinema systems, in-car electronics and storage media. Unless otherwise stated, this evaluation is based on information from six Western European countries: France, Germany, Italy, the Netherlands, Spain and the UK.

Despite an ongoing trend towards HD camcorders, which now have a 57% share of sales and 72% of sales revenue, unit sales still fell by 10% overall.

Hi-fi/home theater systems: docking systems and internet radios popular

Customers in Western Europe are now paying just under 7% less on average for hi-fi products and home theater systems than in the first half of 2010. In comparison with other Western European countries, Germany stands apart as it recorded a sales increase of 4.6%, while other markets largely reported negative performances.

In the home audio market, the growth segments continue to be fully equipped audio systems with integrated MP3 docking stations (generating 20% of sales), systems with internet radio (40% sales increase) and surround sound products. Devices with integrated Blu-ray players remain in high demand and recorded a sales increase of 46%. The volume sales share of home theater systems increased to 37%. Despite virtually stable demand in terms of sales units, the loudspeaker segment suffered a decline of 8% in terms of sales value. "Sound bars" are currently extremely popular and, concurrently with rising sales of large-screen LED TVs, sales have increased by 25%.

Portable audio devices: competing with smartphones

In the first half of the year, Western European consumers spent around 17% less on portable audio devices. This is primarily attributable to the fall in demand for MP3 and MP4 players, of which 19% fewer were sold. These audio specialists are facing increasing competition from smartphones and mobile phones, which, with few exceptions, have the ability to play music as well. In the extremely important UK market, the sales drop was exceptionally dramatic (-29%), while declines in Germany and Italy were much lower, at -13% and -12% respectively.

The situation is also difficult for traditional portable audio devices. However, development has been thoroughly positive in specific segments, including stand-alone internet radios, design-oriented tabletop radios and radio recorders to which portable media players can be connected. GfK does not yet foresee a trend reversal, as the digital radio market is still in its infancy in most European countries, with the exception of the UK and Switzerland.

In-car electronics: media network in the car with sat navs

In the first six months of 2011, the in-car electronics segment experienced further sales deterioration of 14% in Western Europe. With declines of 9% and 12% respectively, France and Germany emerged as noticeably more robust than Spain (-17%), Italy (-23%), the Netherlands (-18%) and the UK (-15%). However, in general, the decrease is considerably less dramatic than in the previous year.

When it comes to portable navigation devices, both the average price and demand are falling. Consequently, sales have diminished by some 15%. However, the downward trend is significantly less steep than it was in the same period of 2010. Devices with 5-inch screens have made a positive contribution, as this segment has been able to evade the general market trend and achieve dynamic growth. The development of internet-capable devices has also been promising, as they provide an affordable method of establishing an in-car media network via portable navigation devices.

In the car radio segment, demand dropped 8% and sales fell 16% in a year-on-year comparison. The trend towards products that enable mobile phones, MP3 players and USB sticks to be easily connected has not been able to offset the price deterioration of 9% in the car radio market as a whole. Car radio reception is currently still available via traditional FM reception, but in the medium term it will be supplemented by digital (DAB+) and internet radio, and potentially replaced in the longer term. These technological advancements make it possible to receive more programs with better sound quality, and consequently consumer interest may well begin to rise again in future.

Outlook

Considerable recovery in the second half of the year

Even though the market environment is currently challenging, a number of innovative growth segments exist. These are, among others, HDTV, 3D and internet-capable TVs, Blu-ray players, HD camcorders, audio home systems with MP3 docking stations and portable navigation devices with 5 inch displays and internet access. Overall GfK Retail and Technology is expecting a perceptible recovery for the industry during the second half of the ongoing year.

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European IT market is becoming more complex

The IT markets in Europe have become significantly more heterogeneous in the first half of 2011 than in previous years. The industry has nevertheless demonstrated that it can adapt to the particular market situation. Overall, the IT sector in Europe recorded a rise of 11% in the first six months.

At present, differing market trends can be observed in Western and Eastern Europe as well as in the private and business customer segments. The tablet PC is at the center of hardware interest across all European countries. The next few quarters will certainly see further product innovations from various manufacturers in this area. As a result, the outlook for this sub-market is generally acknowledged to be bright, with very high growth rates expected both this year and next. Although private customers are currently mainly interested in iPads and similar devices, consumers are not buying tablet PCs instead of, but rather in addition to their existing IT equipment. There is currently no cannibalization of mobile computers by tablet devices, and none is expected in the medium term. The wide variety of computing devices, from tablet PCs through netbooks and notebooks, to all-in-one computers and desktops, is a reflection of the diverse nature of the digital lifestyle.

Central and Eastern Europe: positive developments

The markets in Central and Eastern Europe are recovering progressively from the financial and economic crisis, as demand remains positive both in the private commercial sectors. Sales of IT products grew by 33% in the first half of 2011. GfK Retail and Technology is optimistic that this trend will continue over the whole year.

Desktop computers are currently the primary beneficiaries of this pleasing development, both in the case of business customers and the more price-sensitive private consumers. The Windows 7 operating system is the reason for replacing hardware. Consumers in Eastern Europe are also increasingly buying mobile computers. As is the case with their Western neighbors, these devices are becoming more and more the standard computer in private households, even though their average prices are higher. A similar trend can be seen in small and medium enterprises (SMEs), which benefit from more flexible and individual computer usage by their employees.

The method: Through its retail panel, GfK Retail and Technology regularly gathers data on hardware and software, IT accessories, office equipment and supplies in more than 90 countries worldwide. The present analysis is based on current developments in the IT market in 26 European countries: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Estonia, Denmark, Finland, France, Germany, Great Britain, Italy, Hungary Kazakhstan, Latvia, Lithuania, Netherlands, Poland, Portugal, Romania, Russia, Slovakia, Spain, Sweden, Switzerland and Ukraine.

Western Europe: notable differences between private and business customers

The IT markets for private customers in Western Europe are evidently saturated for the most part. The first six months of the year have seen sales 4% lower than a year before. Only some niche markets, such as large-format monitors, portable external hard disks and tablet PCs, are posting a rise in demand. In Germany for example, a situation where households are well-equipped with IT products and there is a restraint in making new investments, stagnation exists in the computer and monitor market, with -3% in the first half of 2011. In Southern European countries such as Portugal, Italy, Greece and Spain, on the other hand, the tough economic situation together with consumer unease has even led to a decline in private demand. In addition, there is no real innovation in many segments, so European consumers barely see any reason to make new purchases.

Completely the opposite picture can be seen in Western Europe in relation to business customers, with sales rising by 22% in the first half of the year. The trend towards cloud computing is having a highly positive effect. Businesses are currently investing primarily in the basic technical requirements so that they can offer and use these services on a greater scale in future. This trend should continue until mid-2012 since digital content in HD quality and high user numbers require a correspondingly powerful infrastructure. Because of this, demand for products such as switches, routers and network storage, is extremely positive at present. As in the previous year, this is supplemented by PC replacement purchases due to the introduction of the Windows 7 operating system into companies.

Outlook

Single-digit growth in 2011

The IT sector is now much more complex than in the past. The trend towards strong growth in niche markets that are technologically sophisticated, together with the impact of replacement purchases, saturated sub-markets and cloud computing products will increase further in the future. GfK Retail and Technology expects positive growth of the overall IT market in the single-digit range in Europe, both for this year and next.

> "The IT sector in Europe recorded a rise of 11% in the first six months."

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Mobile internet – driver for mobile communications market

The mobile communications market has been experiencing a global upswing. Smartphones, in particular, are appealing to even more consumers. This year, it is anticipated that around 400 million smartphones will be sold around the world. Above all, in Western industrialized nations, this boom is occurring at the expense of feature phones, which do not offer the diverse range of smartphone functions.

The global mobile communications market is currently in a period of transition from standard mobile phones to multimedia devices, which make accessing the internet easy and appealing. Consequently, it is important that manufacturers position themselves as innovative smartphone providers to avoid being trapped in the stagnant declining feature phones market, which also generates weaker sales on the whole. In the first half of 2011, the number of smartphones sold noticeably increased in Western industrialized countries and Asia in particular. The share of overall sales of these devices in South-East Asia and China (including Taiwan and Hong Kong) already stands at 22% and 29% respectively. As a result of lower purchasing power and the focus of infrastructure networks on vocal transmission, the share of sales attributable to smartphones in emerging and developing states is lower, at less than 10% in India and below 15% in sub-Saharan African countries. The majority of sales in these regions are still generated by feature phones.

Europe:
smartphones ensure growth

Despite restrained consumer sentiment in the eurozone, the European mobile phone market has developed positively, which is primarily attributable to the rising popularity of smartphones. In the first six months of the year, sales of mobile phones in Europe increased by 4%. Smartphones, in particular, experienced a real boom, with a 79% rise in the number of devices sold, and were therefore able to compensate for the 15% sales decline of feature phones, which are mobile phones that have proprietary operating systems. Currently, more than one in three mobile phones sold in Europe are smartphones, and this is set to increase further. Competition in the premium segment is determined by technical innovations, such as faster processors and larger display screens.

Industry and network operators are expanding their range for consumers who are looking for a smartphone in the entry-level segment; this includes offering comparably cheap models, affordable monthly flat rates for mobile internet access and prepaid services. At the same time, the Android open operating system has further increased its market share, with almost 43% of smartphones sold in June 2011 using this system. Android has also removed entry barriers for new operators; this has resulted in a rapidly expanding diversity of products and intense competition, which ultimately leads to falling prices. While one year ago, European customers paid an average EUR 376 for an Android smartphone (handset only, without contract), the average price in June 2011 had dropped to EUR 308.

The method: Through its retail panel, GfK Retail and Technology regularly collects data on mobile phones and landline telephones, mobile broadband dongles, mobile phone accessories, radio devices, phone tariffs and mobile content such as games and ringtones in more than 90 countries around the world.

"Industry and network operators are expanding their range for consumers who are looking for a smartphone in the entry-level segment."

Germany: positive market trend

Sales of mobile phones in Germany increased by 6% in the first half of 2011 and, at present, every second mobile phone sold is a smartphone. Germany's mobile phone market sets itself apart from the five major Western European countries; France, Italy, the Netherlands, Spain and the UK. The comparatively good consumer sentiment in Germany certainly plays a significant role.

Approximately one million operator-specific mobile broadband dongles providing internet access on the move have been sold since the start of this year. The rapid data transmission offered by dongles is a strong selling point. Retailers already offer products with download rates of up to 21.6 megabits per second (HSPA+), and in some areas the first dongles offering even more rapid data transmission of up to 50 MBit/s via the 4G network are available. In future, the smartphone segment will particularly benefit from the fact that consumers want to be able to comfortably use the internet on the move. In comparison to traditional computers, smartphones do not involve significant organizational and administrative effort. As a result, interest in online data storage, known as "cloud computing", will also rise. Mobile internet access will become increasingly popular due to the modern, high-performance 4G network.

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Major domestic appliances: growth trend continues worldwide

The pleasing trend for major domestic appliances has continued in the first half of 2011. In Europe, particularly Eastern Europe, markets are once again showing very positive rates of growth. In Africa and the Middle East, demand is steadily increasing and Asian countries still have a large share in global developments. North America, on the other hand, has declining tendencies due to the difficult economic situation, whereas South America has still been able to increase sales revenue.

On the one hand, the positive trend is due to the rising demand in the emerging countries. On the other hand, the trend for high-quality and energy-efficient products also explains part of the growth. Besides consumers in Europe and North America, the growing middle class in emerging countries is showing a clear interest in premium products, which is partially promoted by government incentive schemes.

All the signs point to growth in Europe

In Central and Eastern European countries, all signs point to growth once again. Sales in Russia have reached their highest level since 2006 due to double-digit growth rates. There are also clear indications of recovery in Poland, Romania, Slovakia and the Czech Republic. The Western European markets have continued to develop positively, with the exception of the "PIIGS" countries, Portugal, Italy, Ireland, Greece and Spain.

Despite the persisting trend for higher quality and more energy-efficient appliances, such as more energy efficient no-frost fridges, the average prices for washing machines with load volumes over seven kilograms, heat pump tumble dryers and induction hobs are nevertheless falling in some markets. Besides the PIIGS countries, they are dropping particularly sharply in France, Poland, Russia and the Czech Republic. While in the PIIGS countries the general economic situation is probably the main reason for the decrease, the dramatic increase in sales via the internet in other countries is causing prices to tumble. In the Czech Republic, for example, almost a quarter of white goods are already purchased via the internet. In most other Eastern European countries, as well as Germany and the United Kingdom, average prices are still rising. In Germany, this development is due to the trend towards higher quality appliances, especially in the areas of refrigeration, drying and the built-in segment. In the UK, the low average price based on a European comparison is rising, which is primarily attributable to higher prices in the areas of refrigeration and cooking.

Upward trend in the Middle East and Africa continues

The strong growth in the Middle East and Africa was also maintained in the first half of 2011. With a sales increase of over 30% for refrigerators, washing machines, microwaves and ovens, Saudi Arabia is one of the leaders. Continuously high growth rates are also expected in the near future in Saudi Arabia, which has a comparatively young population. This trend is also supported by rising household figures (according to estimates from different economic experts, approximately 1.5 million new households are to be created by 2015), the introduction of minimum wages and government subsidy schemes. Smaller countries in the Middle East, which were shaken by political unrest at the start of the year, are stabilizing. This is mirrored in the demand for domestic appliances, which has slowly recovered – particularly in the last few

The method: Through its retail panel, GfK Retail and Technology regularly collects data on washing machines, tumble dryers, dishwashers, refrigerators, freezers, cookers and ovens, hobs, extractor hoods and microwaves in more than 90 countries around the world. The information for the North American market comes from the market research organization NPD Group.

months. Further growth is expected here with the start of the festive season of Ramadan.

African markets also grew in the first few months of 2011. Refrigerators are especially popular and account for more than half of total sales. The rising demand for washing machines and solo stoves highlights the trend for more modern kitchens and domestic appliances. Besides South Africa, which generates a large portion of sales, Western and Eastern Africa are also increasingly gaining in significance.

Asia remains sectoral growth engine

Asia remains one of the growth engines for the global domestic appliance market. In the first half of 2011, the major markets, China and India, grew somewhat more slowly than in previous years. According to the National Bureau of Statistics of China, the slightly lower growth momentum in China can be explained by the deterioration in consumer sentiment due to higher inflation rates and the government controls on real estate. In India, prices are rising for technical consumer goods, as manufacturers are passing the higher costs for raw materials on to customers. Based on a worldwide comparison, markets are nevertheless growing at an above average rate in both India and China and in most other Asian countries. The trend towards premium products, such as double-door side-by-side fridge freezers, front loader washing machines, and tumble dryers, is being strengthened by the growing middle class. Energy efficiency is also becoming an increasingly important topic in Asia, which is supported by government subsidies in individual countries.

Market for domestic appliances in North America under pressure again

In North America, the domestic appliance market was in decline in the first half of 2011 due to the ongoing economic uncertainty, the difficult housing market and the shortage of government schemes. In contrast, Latin American countries posted sales growth in the first half of 2011, although unit sales of appliances have fallen slightly in Brazil. Tax cuts on certain goods, including domestic appliances, in the period between April 2009 and January 2010, had a positive effect in Brazil, the most important market in the region. For this reason, sales especially increased in the second half of 2009 and the first half of 2010. Unit sales in the first half of 2011 were nevertheless still higher in Brazil than in the first half of 2009.

Outlook

Positive prospects for global development

The market for major domestic appliances is continuing to develop positively worldwide. The trend towards higher quality and energy-efficient products is a growth driver in both highly developed and emerging countries. Environmental protection aspects are becoming an increasingly important sales argument. The growing middle class in the emerging countries will continue to have a positive impact on the development of the domestic appliance market and expand the proportion of consumers that purchases goods via the internet.

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Small domestic appliances on upward trend in Europe

The European market for small domestic appliances (SDA) has continued to stay on the growth path in the first six months of the year. While Western European markets recorded a sales increase of 5% in comparison to the previous year, Eastern European countries registered a staggering increase of 25%. For Europe as a whole, this equates to growth of 8%.

Russia is the most important growth market in Europe, owing to its market size and the positive developments in the first half of 2011. However, consumers in Germany, France and the United Kingdom were also eager to spend on SDA products. In the first quarter in particular, the sector reported business success and increases in all European countries. Double-digit sales growth was achieved in the Ukraine, Poland, Russia and the Czech Republic, which contributed to the upward trend of the market as a whole. The economic crisis, which weakened sales of small domestic appliances in 2009, appears to have been overcome.

Which products are making the largest contribution to this success? In the first half of the year, the sales increases in Eastern Europe were primarily attributable to cylinder vacuum cleaners, water kettles, food preparation appliances and steam irons, as well as fully automatic coffee-/espresso machines. In Western Europe, it is principally sales of fully automatic coffee/espresso machines, robotic vacuum cleaners, food preparation appliances, electric toothbrushes and espresso pump portioned closed systems which are responsible for positive market developments. There are two reasons for the growth in both Western and Eastern Europe; consumers are purchasing a significantly higher number of appliances than in the previous year and they are also spending more money on the new appliances.

Czechs, Germans and Dutch like to buy online

Both traditional retailers and online sales are contributing to the sales increase for SDA. The share of online sales increased by 3 percentage points in both Western and Eastern Europe, to 13% and 8% respectively. Europeans particularly like to purchase high-value products such as kitchen machines, fully automatic coffee/espresso machines, and robotic vacuum cleaners over the internet. Among Western European consumers, online shopping is especially popular in Germany and the Netherlands, with 18% and 19% of sales respectively attributable to online purchases. In Eastern Europe, internet shopping is most popular in the Czech Republic, where one out of every five euros was spent online.

Energy efficient vacuum cleaners more popular in the West

A closer look at individual product groups shows that vacuum cleaners continue to be the driving force in the SDA sector and make a significant contribution to its growth. Food preparation appliances, fully automatic coffee/espresso machines, espresso pump portioned closed systems, water kettles, irons and electric toothbrushes have demonstrated similar performances.

Two thirds of overall vacuum cleaner sales in Europe continue to be generated by cylinder vacuum cleaners. A large part of growth in this segment is attributable to energy efficient appliances, though consumers

The method: Through its retail panel, GfK Retail and Technology regularly collects data on small domestic appliances in the segments of beverages, kitchen appliances, body care, home comfort products and consumables in more than 90 countries around the world. For the Western European market, this evaluation is based on information from France, Germany, Italy, the Netherlands, Spain and the UK. Data for the Eastern European market is taken from six countries: the Czech Republic, Hungary, Poland, Romania, Slovakia and the Ukraine.

in Western Europe are more interested in these environmentally friendly products than those in the Eastern countries. Some smaller segments are the most dynamic ones. Wet and dry vacuum cleaners and battery operated rechargeable handsticks recorded double-digit growth. The top performers were robotic vacuum cleaners, which increased sales twofold and have now attained a market share of almost 5%. At the moment, the popularity of robots is extremely different around Europe; in Southern Europe, especially Italy and Spain, there is a high demand for these products.

Coffee and espresso machines favored by consumers

When it comes to the daily cup of coffee, fully automatic coffee/espresso machines and espresso pump portioned closed systems are currently the most successful, achieving double-digit growth. In contrast, sales of filter coffee and coffee pad machines have experienced slight declines. Last year's downward trend for fully automatic coffee/espresso machines sales therefore seems to have been overcome. However, 80% of total sales in this segment in Western Europe are attributable to Germany. Consequently, the impact of increased purchasing by German consumers is important when analyzing the overall market. Sales also increased at a double-digit rate in Russia and Poland.

Body care segment booming in Eastern Europe

The body care segment, which includes electric toothbrushes, hairdryers hairstyling appliances, epilators, men's shavers, hair clippers and trimmers, recorded an increase of 7% for the first half of the year in a year-on-year comparison. Sales growth is significantly higher in Eastern Europe than Western European countries, at almost 18% and 5% respectively. The main growth drivers in this region are the Russian and Ukrainian markets.

Electric toothbrushes, hairstyling appliances, men's shavers and laser/IPL-based devices for hair removal have been selling particularly well, although laser/IPL devices are primarily available in Western Europe. The men's shaver segment has maintained the upward trend of the previous year. Russian consumers in particular, are switching to electrical shavers and trimmers, generating a rise in sales for the segment.

"Russia is the most important growth market in Europe."

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