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THE US MARKET ENTRY NEWSLETTER

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The US Market Entry Newsletter is designed for international marketing professionals. It contains marketing perspectives, business insights, and facts that will assist marketers, international trade specialists, and organizations that work with SMEs in exploring US market opportunities.

In This Issue:

US CONSUMERS ADAPT TO RISING FUEL PRICES

According to a recent survey by Harris Interactive rising **fuel prices are impacting consumer behavior as evidenced by curtailing spending on non-essential items, spending more time at home, and by shopping more from home instead of shopping at stores.**

- 85% are cooking at home instead of going out
- 55% are renting movies instead of going to theaters
- 25% are shopping from home because of rising gas prices

Retailers are adapting their strategies in response to changing consumer patterns. In efforts to reach the growing numbers of home-shoppers they are focusing on the convenience of the shopping process and many offer free shipping and coupons for future purchases.

The National Retail Federation (NRF) reports that **76% of consumers believe fluctuating gas prices have impacted their spending habits**, up from 67.2% in 2005 and 56.8% in 2004.

The NRF report says consumers have already found a variety of ways to cope with higher fuel costs: 44.8% will drive less; 37.2% will decrease vacation and / or travel; 36.2% will cut back on dining out, and 22.2% say they will delay a major purchase such as a car or television.

The study also revealed that **69.3% of affluent shoppers (household incomes of $50,000+) concede that gas prices are negatively affecting spending compared to 59.1% in 2005.**

HALLOWEEN: A TREAT FOR US RETAILERS

US consumers are expected to spend $4.96 billion this Halloween versus $3.29 billion in 2005. The average consumer will spend $59.06, up from last years $48.88 to decorate their home or yard. Spending by young adults goes to large parties and elaborate costumes.

— National Retail Federation's Consumer Intentions and Actions Survey

SOLAR POWER AND INCENTIVES ATTRACT US HOMEOWNERS

As energy costs increase, **eight out of 10 Americans believe home builders should offer solar power as an option in new home construction.** A Roper survey reports that half of those surveyed said they would pay up to 10% more for a solar-equipped house.

The real cost of solar power is falling due to cash rebates, tax credits and other financial incentives from the Energy Policy Act of 2005. According to the National Association of Home Builders' Green Building Program, homebuilders and consumers can receive up to $2000 in tax credits and in some states, rebates reduce the cost of solar equipment by 70%. In California a combination of federal, state, local government and utility incentives can bring the cost of a $15,000 solar system down to $8000.

Given current trends and the uncertain future for rising energy costs, **manufacturers of energy saving home solar systems are aggressively marketing the benefits of their products and services**. Homeowners and home building companies alike stand to benefit by taking an increased interest in the environmental performance of a home.

Homeowners can expect lower utility bills and an overall healthier and more comfortable living environment. Homebuilders may enjoy improved market differentiation, enhanced regulatory approvals and home sale premiums.

MULTI-CHANNEL SHOPPERS CHALLENGE MULTI-CHANNEL RETAILERS

US consumers are selective shoppers. **Price, quality, value and convenience determine how and where they buy.** As we've noted in previous issues of The US Market Entry Newsletter, they do their homework.

Forrester Research reports that **cross-channel shoppers influenced more than $125 billion in offline sales in 2005—up 8% over 2004.** The survey indicates that 55% of US online consumers cross-channel shop by researching a product online and buying it offline.

Cross-channel shoppers are better educated and have higher incomes than those who don't shop cross-channel—49% have college degrees, compared with 31% of non-cross channel shoppers; their average household income is $74,302 compared to $58,673.

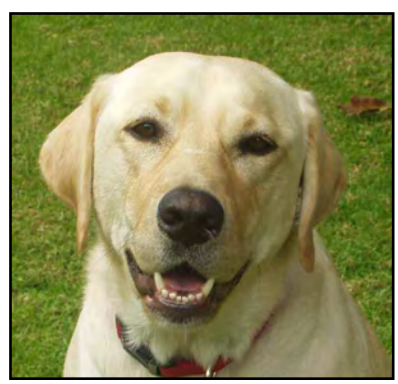
Of the $125 billion cross-channel shoppers spent offline after researching online, complex purchases such as consumer electronics, appliance and computer hardware captured the largest dollar share ($44.5 billion). **Wal-Mart**, **Target** and **Home Depot** captured the most cross-channel shoppers in the offline world. **Amazon**, **eBay** and **Overstock.com** captured the largest share of cross-channel shoppers online spending.

While cross-channel shoppers spend big in stores, they don't necessarily carry store loyalty across channels—49% of those surveyed bought their most recent cross-channel purchase from a different offline retailer than the one where they conducted their online research.

AMERICANS LOVE THEIR PETS

The American love affair with their pets continues. The American Pet Products Manufacturing Assn. estimates that **consumers will spend $38.4 billion on their pets this year; that would mean an increase of $2.1 billion, or 5.8%, over 2005**. For services like grooming and boarding, pet owners are expected to spend $2.7 billion this year.

The increase in spending is partly a result of rising pet ownership: **about 63% of US households now have pets**, compared with 58% in 1988. For marketers of pet products the dramatic growth of the industry is an indication of the changing role of the pet in the family and growing emotional ties between owners and pets.



US CONSUMERS CONTINUE TO EXTRACT WEALTH FROM HOMES

Americans are expected to extract $257 billion of wealth from their homes this year—a 9.4% increase from 2005. The extra cash is expected to fuel the economy through direct investment in homes and furnishings or in general consumption.

As rates on adjustable loans reset due to higher interest rates, consumers are refinancing and extracting equity from their homes. In the process, it's easy to take $10 - $20 thousand dollars thanks to the housing boom and the increase in the value of their homes. **Consumers now view their home as a "financial asset"** versus previous generations when the goal was to pay off the mortgage.

The result of these activities is that **Americans are becoming "house poor."** In 2005 homeowners spent nearly 21% of their incomes on housing costs. The Census Bureau says housing costs are excessive if they top 30% of household income. Nationally, 34.5% of homeowners with a mortgage exceeded this benchmark. Housing costs are defined as mortgage payments, taxes, insurance and utilities.

California has some of the highest housing costs in the US and nearly 48% of homeowners spent more of their incomes on housing costs. The state ranks #1 in median home value, at $477,700; second (behind New Jersey) in monthly housing costs, at $1,912; and second (behind Hawaii) in monthly renter costs, at $973.

SPECIAL FOCUS:

US MOBILE MARKETING

The mobile phone is increasingly attractive to advertisers and marketers. *Business Week* reports that **US mobile advertising and marketing spending will increase from $104.4 million in 2005 to $602.3 million in 2009.** While mobile advertising is not new, consumers are wary of receiving advertising messages on their mobile phones. There are now more users with advanced multimedia handsets and consumer interest in multimedia content is growing. Currently, 207.9 million Americans have a mobile phone and this is expected to reach 296.8 million by 2010—or 95% of the US population.

Wireless Revenue is Big Money

The Telecommunications Industry Association reports that **US mobile phone subscribers delivered $118.6 billion in revenue in 2005**. The average monthly user spent $50.

When compared to mobile revenues, Landlines generated $192.3 billion; Broadband Internet generated $20.2 billion and Basic Subscription TV generated $86.6 billion.

US Mobile Data Revenue: 2009 Projections

The Yankee Group conservatively projects data revenue will total $15.9 billion by 2009. **The leading categories are Messaging with $8.2 billion, Entertainment with $4.6 billion and Information with $3.1 billion.**

Within these category projections, **Text messaging (texting)** is currently the largest single component of non-voice mobile spending accounting for 33% of revenues or $2.7 billion. **Games** are the most popular segment in Entertainment with $1.2 billion or 26% of revenues. **Information** (news / sports / travel, etc.) accounts for 63% of revenues or $2.0 billion.

Competitive Perspective

As competition intensifies and market penetration matures, **US carrier subscriber revenues for mobile voice users will decline**. Wireless service providers are hoping that non-voice revenues will fill the gap.

US industry sources believe that the "walled garden" approach is holding up the growth of mobile data sales in the US. Why? Mobile carriers have created separate and mutually incompatible platforms for selling games, music and other applications to create customer loyalty but the approach works against creating total industry growth.

Consumer lifestyle and personalization choices drive the selection of phones and service provider. Therefore, mobile service providers will continue building their networks and developing applications that will make their service package an inseparable part of life. And in the process they will create opportunities for advertising and marketing activities.

Marketing & Advertising Opportunities

While marketers are still studying ways to use this new medium, some have already begun. **Adidas** has launched a soccer game that **Nokia** users can download. **Anheuser-Busch** and **Coca-Cola** are sponsoring promotions as part of their branding strategies. Mobile users essentially "opt-in" when they enter a sweepstakes or trivia game by phone.

Text messages are currently the easiest way to market to 170 million US mobile users whose handsets are capable of receiving text messages. US cell phone users send 2.5 billion text messages per month according to the Mobile Marketing Assn. The demographics are attractive. The largest group of texters are the prized teenagers to late-20s that marketers try to reach. Entertainment companies are most interested in utilizing texting to promote movies, CDs and television programming.

The real marketing and advertising potential may be realized once US wireless handsets have the capability to support media-heavy games and video. Until then, mobile marketing is still taking shape. According to Business Week, industry observers think that mobile marketing won't look like traditional marketing or even typical e-mail marketing. As people spend more time using their cell phones, it's likely that marketers and advertisers will follow.

OBSERVATIONS

In the business world, the rearview mirror is always clearer than the windshield.

—Warren Buffett

Money is better than poverty, if only for financial reasons.

—Woody Allen

The most important thing in communication is to hear what isn't being said.

—Peter F. Drucker

ABOUT MGSE

Founded in 1999, MGSE is based in Santa Monica, California and is a member of the British American Business Council Los Angeles (BABC LA). The company's co-founder, Stephen Esbin, serves on BABC LA's Board of Directors. The firm, which specializes in developing marketplace evaluations and provides on-going marketing support, works with SMEs in the US, UK and Europe who desire to introduce their products and services to the US market. MGSE has a strategic alliance partner, Metzmedia, which is based in Maidenhead UK. Key US market entry services include marketing, operations management, strategic planning, opportunity assessments, brand development, identifying market niches, and creating new revenue streams.

Comments & Inquiries

Contact Stephen Esbin at stephen@mgse.us or visit http://www.mgse.us.

When Columbus discovered America, the market was wide open.

It still is.

It was 1492 when Christopher Columbus first came upon our shores. Back then and even today, US market entry is a challenging undertaking. That's why companies and international trade organizations turn to MGSE. We specialize in facilitating market entry, developing and executing your marketing plan and then managing your day-to-day business needs. Opportunity assessments, competitive reviews, positioning, branding, distribution analysis, lead generation, communications planning and generating new revenue streams are just some of the things we can do for you. What's more is we have a strategic partner, Metzmedia, which is based in Maidenhead UK to work with you and us. It's not what you know about the US market—it's what you can do with what you know when deciding about US market entry. If you are interested in achieving successful US market entry drop us a line and say Columbus sent you.

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