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## D-t-A Converter Makers: Marking a Change in the CE Landscape?

February 17, 2009 will not only mark the end of U.S. analog TV but it may also mark the end of an era in the consumer electronics industry where companies with valuable brands design, make and market products.

Many industry players will have benefited from the impending U.S. analog shut off by providing boxes for this unique event. Sales have been strong with DTC estimating that more than 18 million boxes have shipped in the first three quarters of 2008.

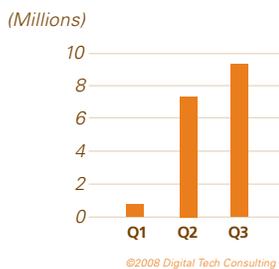
At first glance, the converter-box market seems to be dominated by familiar big-brand suppliers – RCA, Zenith and Magnavox, for example. These three brands are among the top-selling converter boxes to date. Conspicuously absent from the line up are Panasonic, JVC and other popular TV and consumer-electronics brands. And, with the exception of Zenith (owned by LG), the big-brand converter box suppliers are lesser-known companies that have simply licensed brand names.

Most converter-box brands, Digital Stream, AccessHD, Sansonic, Best Buy's Insignia, and Venturer, are not well known. Although they aren't capturing as much share as the more prominent brands, the lesser-known brands are turning in significant sales – an estimated 42% of all converter box sales through September, 2008.

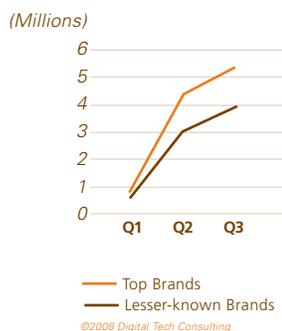
Of course, selling low-cost, off-shore manufactured consumer electronics products in the U.S. is nothing new. Established CE players have been doing it for years but they have mostly kept their hand in product development. But the off-loading of brands, divisions, and sales and marketing duties by long-standing CE standard bearers, such as actions taken recently by Philips and Thomson raises some questions.

Is there a wholesale trend of CE standard bearers getting out of the business of actually developing and making products? Do recent events portend a greater increase of the CE

**ESTIMATED 2008 D-t-A CONVERTER BOX SHIPMENTS**



**ESTIMATED UNITS SHIPPED BY BRAND TYPES**



giants doing more brand and technology licensing and less developing, making and marketing of TVs and other consumer-electronics products?

Although the DtA converter box market is a one-time anomaly, it may be more representative of general market trends than one may conclude at first glance. The boxes are low-margin, commoditized products that are being made off shore by companies that are either licensing a brand, or building market share by securing shelf space at big-box discount retailers where low price carries more weight than brand recognition.

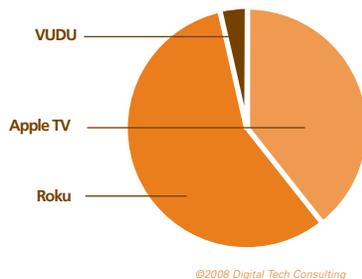
In the past this arrangement worked when an established CE company developed the products and sent those reference designs to China for manufacturing. There is now a greater degree of design development handled by Chinese companies. For established products employing standards-based technologies and “off-the-shelf” components, product development and manufacturing can be done by this emerging breed of supplier. For companies that have a bank of high-tech intellectual property and famous brands to license, there may little “bottom line” reason to invent and make products anymore.

*For more information on DTC’s converter box tracking service, contact Myra Moore at 214.915.0930.*

## Web STBs Foreshadow Future Content Trends

*by Antonette Goroch, Senior Analyst*

ESTIMATED 2009 DCA MARKET SHARE



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Web-enabled digital content appliances (DCAs), set-top boxes which allow users to access various forms of content over the Internet, have just recently begun to gain traction with consumers despite having been around for some time. Even AppleTV, fueled by the iTunes store and Apple’s powerful content distribution ecosystem, has shipped fewer than 500,000 units since its launch in early 2007. The notable exception to this track record is the Netflix Player by Roku, which debuted in May of 2008 and sold 100,000 units in just two months. The Roku experience is instructive in demonstrating both the evident demand for such products/capabilities and some of the key factors necessary for tapping into this potentially robust market.

One clear area of difference among the products is price. The Netflix Player is just \$99, while others, such as AppleTV or VUDU, are still around \$300, despite recent price drops. Another key element is access to existing customers and accounts. This has been a source of strength for the market leaders, Apple and Roku, which have benefited from both marketing and the Web-based customer/commerce infrastructure of the iTunes Store and Netflix, respectively.

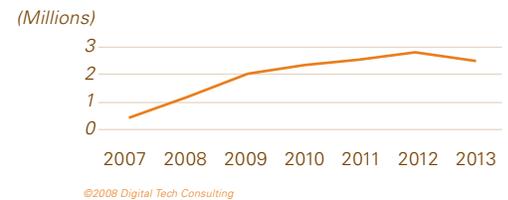
Interestingly, mainstream content libraries have become less of a differentiating factor, since content owners have become less restrictive in the licensing of programs. Indeed, large content owners are licensing assets to a wide variety of online platforms, making programming available through a number of different outlets using subscription, VOD and ad supported business models.

This means strategies for future content differentiation among DCAs will likely be focused on greater accessibility to many types of content available on the open Internet, rather than content kept behind walled gardens like iTunes or Netflix. Roku has already turned its attention in this direction recently announcing plans to open the box enabling access to non-Netflix content like YouTube and others. If this proves successful, others hardware makers will soon follow suit.

While DTC believes the ultimate prospects for these standalone DCA’s will be limited in the long run (how many consumers really want yet another STB that does only one thing to

add to the stack?), we also believe they represent some important trends for content distribution more broadly. Fundamentally, it's clear that if consumers can get mainstream content through a Web-PC-TV integrated platform, they will buy it. Roku/Netflix proved the demand was there if certain factors were met. But this is likely to push existing STB manufacturers to integrate such features into their own products to remain competitive. Hence, DTC's estimate of market growth through 2012 with shipments dropping in subsequent forecasted years. Perhaps more significantly though are the implications for the "walled garden" approach to delivering TV content, whether on the Internet or in pay TV networks. As the pressures of differentiation lead both product vendors and service retailers to align themselves with the vast breadth of content widely available on the Internet, the walls of the garden just may come tumbling down.

#### ESTIMATED WORLDWIDE DCA SHIPMENTS



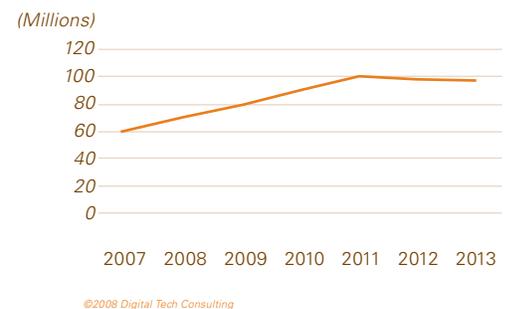
## Convergence and the Personal Media Player: What the Future Holds

With the lure of convergence looming everywhere, what will the trend of cramming as many functions as possible into one device have on the robust Personal Media Player (PMP) market?

Convergence is evident everywhere from cell phones that double as music players to Video Game Systems that playback video. Initially the benefits of converged devices seem obvious but not all consumers will buy into the idea that one device with multiple functions is as efficient as multiple devices with one primary function.

Despite the fact that device convergence ranks as one of the most talked about trends in the digital media industry, it doesn't come close to dominating in the PMP market where one can argue it has the most promise evidenced by Apple's successful convergence of the iPod and the mobile phone. The convenience of the PDA/PMP/mobile phone device comes with some trade offs: Increased price and complexity, and a deep thirst for battery power. Consequently, DTC believes that the stand-alone market for PMP devices will remain fortified regardless of the benefits of cramming in as many features as possible.

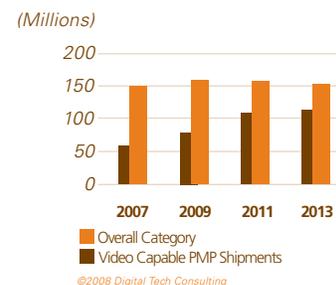
#### VIDEO CAPABLE PERSONAL MEDIA PLAYERS



Since Apple changed the PMP game with its entry into the market in late 2005, the PMP landscape has grown in leaps and bounds, continuously posting double digit year-over-year growth and boasting robust yearly shipment estimates. And with the recent focus of the market toward adding video playback capability to devices, DTC does not foresee a market slowdown for at least the next few years.

The convergence of these features into a single device is inarguably a trend, but one that DTC believes is not yet strong enough to threaten the stand-alone PMP market in the foreseeable future. DTC forecasts the continued growth of the dedicated PMP market over the next four years, going from nearly 60 million in 2007 to 107 million in 2011 - driven largely by the continuous decline in the incremental cost to add video capability to MP3 players.

#### TOTAL MEDIA PLAYER MARKET



## Missing Revenue?

Have you suspected that you may be leaving revenue on the table when evaluating how to use your intellectual property in the emerging-technologies markets? It's important to understand the market potential of your IP and once you've designed a licensing program, you want to make sure that you know who is using your IP and that they are accurately reporting sales. Such critical issues deserve tailored market-research expertise concentrated in quantifying technology use and potential revenue. DTC's more than 10 years of experience in helping companies manage their IP has resulted in the foundation of solid market-forecast models that account for both products and services

that use very specific and sometimes obscure technology. DTC's intellectual-property services are put to work in a number of varied situations. Our clients have employed our expertise: to forecast potential revenues for technology IP they own; conduct due diligence for IP acquisitions; identify companies using their technology; to apply our critical technology market and licensing knowledge to help in developing sound licensing terms.

For more information about DTC's technology IP services and client case studies, please contact Myra Moore at 214.915.0930, or [myra@dtcreports.com](mailto:myra@dtcreports.com).

## RESEARCH SERVICE

### Quantification Model Services

The detailed level of customization that DTC has built up over 10 years in the market research and analysis field has led to the development of proven and trusted models by which we quantify market size, product proliferation, and revenue projections. These models have been developed in conjunction with real world projects using data from experienced DTC analysts and researchers.

*DTC's proven Quantification Models include:*

- Global market size forecasts by product categories and or technology used Product shipment by supplier and major world regional divisions
- Revenue and royalty forecasts based on market size and supplier participation
- A 5 year forecast for the overall market size

*For more information, please contact Myra Moore at 214.915.0930 or [myra@dtcreports.com](mailto:myra@dtcreports.com).*

*Digital Tech Consulting is a market research firm providing strategic information and analysis to help companies succeed in the consumer digital marketplace. To learn more about DTC and how our analysts might help your company, please contact us at the information below.*

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