

Television Manufacturing Wars of Today & Industry Battles of Tomorrow

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OVERVIEW:

Significant consumer and industry dynamics are currently afoot in the TV set industry. Rapid changes in technology and industry structure present unique challenges to all players in the value chain of video content development and delivery. Understanding these dynamics, designing strategies to benefit from them and executing business operations is vital for TV set manufacturers and adjacent industries to thrive in this dynamic industry.



THE GLOBAL TV INDUSTRY:

TVs are a fundamental staple of the consumer electronics market, consistently representing around 30% of annual global consumer electronics product sales. Manufacturers shipped an estimated 210 million TV sets in 2009, representing a modest 3.1% CAGR in the last 5 years. As global economic growth has slowed in the last two years since 2007, TV set growth fell to 2.5% annually.

Stark regional differences exist in TV set shipments but global growth overall is slow and likely to be slowing further. In the developed world, consumers are replacing their tube TV sets with flat-panel TVs. In 2009, 36 million such sets were shipped to the US and 45 million were shipped to Europe, a 12.4% compound annual growth rate since 2007. But growth will slow quickly in these regions as the replacement cycle of tube TVs by flat panels matures. The developing world has seen flat to slightly negative growth in TV set shipments in the last two years, reflecting a modest slow down in wealth accumulation. Growth will increase in the

FOUR DYNAMICS IN THE TV INDUSTRY:

1. Maturity

Market maturity in the developed world and the near end of the replacement cycle portends slow growth in global TV shipments despite modest growth in the developing world. Market maturity tends to shrink margins and force manufacturers to look for growth in other lines of business.

The research firm, DisplaySearch, projects flat-panel television shipments will increase by 6% in 2010 Y/Y but the fastest selling segment of LCDs will be with screens smaller than 40"; indicating some large-screen market maturity and price-consciousness consumer purchasing behavior.

2. The Race for Scale

Diminishing profit margins in TV manufacturing will force competitors to pursue market share to contribute absolute margin in lieu of percentage margin. Scale will enable the reduction of some operating costs and help larger firms compete as prices drop.

For manufacturers, scale is almost always vital. As flat-panel technology matures and sales figures weaken, sustainable competition will hinge on price. The 5 largest manufacturers in 2009 represented 63% of global shipments, up from 57% in 2007. Smaller firms will be forced to compete on premium technology or

3. Asia – Shipping & Manufacturing:

Removing the tubes from televisions has boosted Asian exporters.

Flat-panel televisions are cheaper to ship than their tube predecessors. Asia has been able to triple down on its manufacturing prowess, its lower labor costs and now lower shipping costs. China shipped a whopping 90% of the world's televisions in 2009.

4. Multiple Sets In the Home - Driven By Profusion of Content

Televisions are increasingly connected to a wide variety of content from an array of sources in addition to traditional networks and cable. The average number of available channels in the U.S. has more than doubled since 2000. Additional content sources, sometimes called Over-The-Top (OTT) include gaming devices, the internet, video applications and audio streaming.

TV set ownership per connected household in the U.S. has grown from 2.00 sets in 1990 to 2.86 sets in 2009, representing about 325 million sets installed in the U.S., just over one per person.

WHAT'S NEXT FOR TV MANUFACTURERS AND ADJACENT INDUSTRIES?

- Cable CTV companies and broadband Telcos must begin to embrace web-enriched content, far beyond apps and widgets. While pay-TV cord-cutting is not a mainstream practice, consumer purchase rates for internet-capable television sets are on the rise. In the U.S. 27.5% of the televisions purchased last month were capable of being connected to the internet. The majority of these connections are through third party devices like gaming machines, digital video boxes (e.g. Roku) and other consumer electronics (e.g. Blu-ray players), with 41% connected directly from the television to the internet. The OTT experience still has hurdles – such as content availability and video quality – but as these experiences improve, a growing portion of pay-TV consumers are going to explore trading their video subscriptions for OTT alternatives.
- Mobile TV is beginning to show traction, as indicated by industry forecasts. Cisco's "Global Mobile Data Traffic Forecast" predicts that by 2014 66% of world mobile data traffic will be video-based. Coda Research Consultancy forecasts there will be 60 million US mobile video users by the same year. AT&T Wireless spent the second half of 2009 managing network fallout in the wake of high iPhone data consumption, which included video. Will these same data networks be able to support significant video consumption growth (from today's 4.65 terabytes per month to over 100 terabytes per month in 2014)? If mobile TV is the next big thing, it also raises the question, what type of TV will it be? Short films, film clips (YouTube style), sports, news or other?
- The battle for subscribers will move from price and more subscribers to content and experience differentiation. The overwhelming majority of US households have at least one television and a broadband connection. Consumers with these two services have similar content access, regardless of their service providers. Content providers must differentiate their service experience and deliver unique programming to subscribers in order to compete on value not just on price. The carriers that win this race for content differentiation will succeed in retaining and expanding viewership.



About Marconi Pacific, LLC

Marconi Pacific, LLC is a strategy and venture consulting firm providing business advisory services in the telecommunications, media, technology, internet, financial services & insurance, hospitality, retail, and real estate industries. We build value for our clients by providing strategic analysis and practical solutions to complex business issues. In addition, we pursue selected investments in emerging companies, and we identify and pursue our own new venture opportunities.

Strategy Consulting: Marconi Pacific provides strategic advisory services to senior management to help build long-term shareholder value. Our clients select us over other consulting firms for our incisive analysis, industry knowledge and creative, yet pragmatic, recommendations. We work with clients to define a differentiated value proposition that can they can offer their customers. We then work to refine the core operational elements of the business to deliver this value. This requires understanding the market in detail; segmenting the customer base; determining demand; making decisions on positioning, pricing and channels of distribution; and then defining the operational processes and structures needed to deliver the value. We take a pragmatic view of our advisory work, recognizing that creating value requires strategies and plans with a singular focus on financial results rather than elegant studies and academic observations.

Venturing: The very applied nature of our management consulting work makes us very much "in the market" in which our clients operate. As a result, Marconi Pacific, unlike many professional consulting firms, is very involved in creating new ventures, both with our own capital and in partnership with our clients. We also maintain relationships with venture capital firms, private equity firms and investment banks with which we can work to create value.

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