

Consumer Electronics market overview

2005 has been a year of change for the CE industry, with value growth lifted above that of its volume. In 2006, the market will be defined by technology developments, says Matt Gibbs, Senior Account Manger, GfK.

We started the year in a primarily volume-driven market, with 2004 having seen only a 1.9% increase in CE value sales yet volume growth of 9.9%. We end the year, however, focusing on the substantial increase in value sales that saw sales of audio and visual CE products top £5.1 billion for the calendar year 2005. Whilst this year-on-year growth of 9.6% is certainly impressive, dig beneath the surface and you encounter a decidedly mixed picture. Growth in two or three key big-ticket products has been substantial, but countering this growth is the vast majority of CE products, which in 2005 recorded a decline in value sales. With



Matt Gibbs

value growth currently outperforming volume, there is certainly a note of caution when looking at the current figures. What, for example happens if prices rapidly fall on the current 'hot products' that are driving the market. Value sales will undoubtedly suffer unless substantially more customers are enticed through the door to purchase and drive volumes forward. Willingness to purchase is therefore likely to be a defining factor in 2006 – we've had it good in the UK for a number of years now, but is the bubble about to burst? Indicators of 'willingness to spend' from the GfK-NOP Consumer Confidence index have been predicting a slowdown for some two years now, and with Barclaycard reporting a near 50% increase in bad-debt during 2005, the omens are not good.

The winners

The admittedly pessimistic view of future prospects above may seem to jar somewhat with the fact that Consumer Electronics was undoubtedly the best performing durables sector during 2005. Value growth of 9.6% was substantially above that reported in the white goods and IT sectors, as well as DIY, telecoms and office products. The CE market was greatly assisted though by the fact that two or three of the most desirable or 'must-have' products of 2005 came from the CE sector. The two markets with undoubtedly the biggest impact on CE sales during 2005 were MP3 players and flat-screen televisions. I noted last year in this column the impact MP3 players had in helping to lift overall value sales for 2004; for

// Willingness to purchase is likely to be a defining factor in 2006 //

2005 this impact was even greater. In December 2004, MP3 players accounted for 7.4% of CE turnover, by December 2005 this had more than doubled to 18.3%. MP3 players are very much an indicator of the purchasing power of the fully PC literate generation. The fashion-driven nature of this sector means repeat purchases are frequent, and can often

follow the latest high profile launch from leading manufacturers. The only uncertainty of this market is that essentially the MP3 player as we know it is simply a hardware packaging for compressed music. This technology can easily be encompassed in other products – and developments in the telecoms sector certainly point to the mobile phone developing more advanced MP3 playing features in the near future.

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...and the losers

As I mentioned in the introduction, the growth of one or two products has helped to offset the decline of many more. The MP3 player is the natural replacement for at least three products – namely portable CD, portable Minidisc, and the personal stereo. In addition, home or static audio sales are undoubtedly being impacted by the focus on portable audio, frequently coupled with docking stations or similar. On the positive side, the sales of MP3 players are easily the largest in the audio category, and, in fact, are greater than the sum of all other audio products combined. The flipside of this, however, is that retailers and manufacturers now have far fewer audio products from which to generate sales. If success cannot be achieved in the fiercely competitive MP3 sector, there are precious few areas where growth can be generated. The phrase ‘all your eggs in one basket’ certainly seems increasingly to apply here. Audio systems and audio separates continue to fall in volume and value sales each year, and the only other significant audio sectors to grow in value in 2005 were portable radios and headphones.

Portable radios continue to reap the benefits of the high-profile push towards DAB, and will undoubtedly receive a further boost during the World Cup in June and July this year. Headphones have very much ridden on the MP3 bandwagon and have pushed consumers into higher price-bands. Value growth of nearly 20% in 2005 confirms their success in doing this, and innovations, such as noise cancellation or isolation, are increasingly capturing the public’s interest.

Flat panel TV

The other key growth product for 2005 came from the vision sector – namely flat panel TV. Within this sector, both plasma and LCD models grew strongly in value sales, but LCD was the clear winner. LCD TV now accounts for one-quarter of all CE value sales, and plasma a further 10%. As a result, total display sales have risen by an

impressive 13% in value, mainly due to the rapid increase in the sales of larger screen LCD TVs. Total display volume sales, however, fell by nearly a fifth during the course of 2005 due to the rapidly falling popularity of CRT TV. Clearly there are fewer consumers in the market for a TV than before, but when they are purchasing they are spending more. The problem then arises that if prices fall rapidly and volume sales are not increased substantially, value may start to suffer. One area to watch in particular is the development of pricing at the key 28in and 32in sizes within LCD. One third of value sales within LCD occur at 32in, yet the ASP is still over £1,200. The speed with which prices fall in this sector will very much determine market value growth.

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Sales opportunities in 2006

One thing that is certain, however, is that technology developments and events in 2006 will help to boost sales of displays; firstly the FIFA World Cup in early summer, and secondly the increasing availability of High Definition television. The World Cup will, as always, bring with it a rash of advertising from both retailers and manufacturers to push the sales of larger screen TVs and TV packages. HDTV is now on the horizon with Sky planning to launch at least one channel during 2006, and the BBC is now looking actively at providing HD content. The forthcoming consumer models of Blu-ray DVD players and recorders will also help to bring high definition to a wider audience via pre-recorded content. The dual formats on offer, namely HD-DVD and Blu-ray have yet to lock horns, and although the 'new format war' is being talked up, it remains to be seen whether the consumer will see it that way. Clearly though HD content, and the continuing digital switch-over campaign offers retailers a number of routes to trade consumers up.

So, there are a number of positives to take forward into 2006, with assured growth potential from certain products within the audio and vision sectors. Clearly, many retailers followed market trends closely in 2005 and provided or promoted products that consumers genuinely wanted (portable satellite navigation at Christmas being a prime example of this). The challenge for 2006 is to sustain growth in these sectors, and ensure that reductions in average price are sustainable against increases in volume sell-out. ■

*All of the data used in the Business Book has been supplied by GfK.
The data covers two periods – Jan-Dec 2004 and Jan-Dec 2005 – to
provide a year-on-year comparison.*



Fast moving picture

The world of television is changing, as sales of widescreen, flat display, digital and high definition ready models continue to grow.

Sales of flat display display televisions have taken a giant leap forward over the past twelve months and while the CRT set is still king, its days are clearly numbered, especially in the large screen sector. For the 12 months ending December 2005, total TV sales (including TV recorders and rear projection TVs) reached 6.6 million units, a year-on-year rise of 2.3%. Of these, CRT sets accounted for 64% of sales in volume terms. It's an impressive figure, but in the year ending 2004, CRT sales represented 86% of sales by volume.

CRTs

The total CRT market for the year ending December 2005 was 4.24 million pieces, a fall of 18.3%. CRT sales fell in all screen size sectors – small sets were down 15.6%, large set sales fell by 23.7% and widescreen models fell by 21.7%. These figures were reflected in value, which dipped below the £1 billion mark to £842 million, a year-on-year fall of 35.5%. The collapse in value was

across all CRT screen sizes, with large screen

models (down 39.9% in value) and widescreen sets (down 38.7%) showing the biggest falls. CRT average price fell by 21.1% to £197.5.

It's now clear that flat display models have reached critical mass, especially in the large screen sector, but it will be a very long time before CRT disappears – if at all. The signs are that CRT will continue to dominate the small screen sector for



JVC

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Market trends

- ✓ CRT market is collapsing in both volume and value, however, it still represents 64% of the market by volume.
- ✓ Consumers are attracted to flat display sets by price, choice and design.
- ✓ Flat display sales are growing rapidly thanks to more choice and falling prices.
- ✓ Plasma is under pressure from cheaper rear projection sets and LCD screens getting larger – and more affordable.
- ✓ LCD looking set to dominate the television market as some manufacturers focus on this technology.
- ✓ Decision to switch over to digital from 2008 should help sales of IDTVs, although this product still only represents one in eight sets sold in volume terms.
- ✓ Many flat display sets are now HD-ready. HDTV services and HD formats like HD-DVD and Blu-ray Disc should help boost sales.



Humax



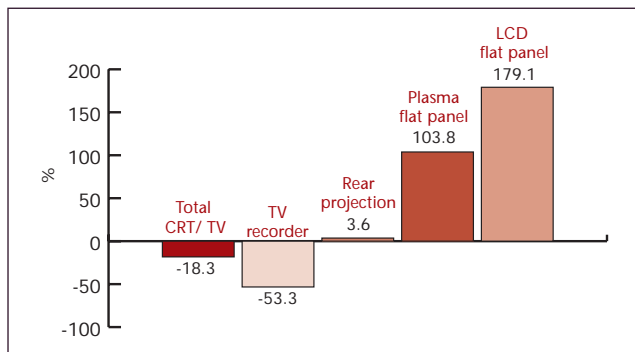
Loewe

some time, if only because of the price differential between CRT and LCD technologies. The average price of a small screen CRT is £86, compared with £190 for a 14in LCD – even though this represents a year-on-year fall of 30%. What is clear though is that CRT has reached the end of the line in terms of innovation. In 2004, a few manufacturers toyed with the idea of launching slim-neck CRT sets, which are more compact than traditional CRT models, but the speed at which the flat display market has accelerated has meant that there is little point in trying to market a premium CRT product these days.

Flat display TVs

The rise of the flat display market has been due to a number of factors including improved picture quality, falling prices, a wider choice of products, the increasing amount of floor display being given to these products, their lower energy consumption (consumers like ‘green’ products) and last, but not least, their slim profile and classy design. LCD sales reached 2.07 million pieces, a year-on-year rise of 179%. In 2004, roughly one in twelve sets sold were LCD; in 2005 the figure was almost one in three (31.4%). Value in this sector topped the one billion pound mark (£ 1.1bn), a year-on-year rise of 138.5%. The fact that LCD sets are more affordable is also reflected in a fall in the average price of almost 18% (17.9%) to £629. In the large screen LCD sectors (that is, 30 inches and above), the average prices took a hefty tumble – in the 30-32in sector it was down by around 43%, while the 33-

Growth/decline of display products, 2004/2005 (volume)



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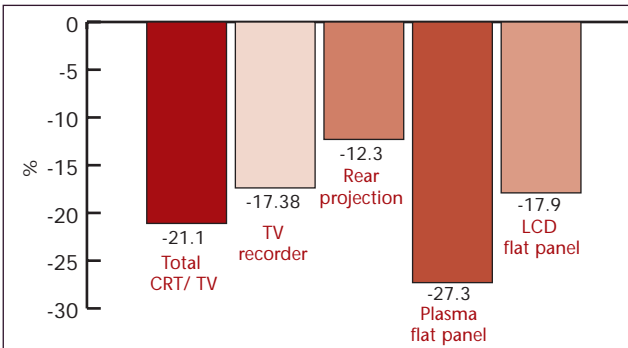
39in sector dropped by a whopping 52.5%. The fall was partly due to increased competition, improved production techniques, but there was also some degree of dumping, as retailers sold off sets that were not HD-ready (more on this below).

Plasma TV

Plasma sales were up by 103.8% to 295,000 pieces, with value up 48.0% to £533 million. Average price was down 27.3% to £1,812. Although plasma has become more affordable, its market share of the television market by volume is still relatively small – around 4.5% in 2005, although this is an improvement on the 2.4% share it had in 2004. There's no doubt that plasma has been squeezed both by rear projection sets and LCD TVs moving their tanks on to its lawns. Rear Projection sales grew by 3.6% to 85,000 pieces, although value dropped by 9.1% to £84.7 million. Average price was down 12.3% to £998.5, thus making the products more affordable. But the threat from rear projection is nothing compared with the fact that LCD screen sizes are now in the 60in plus sector. Even plasma's strongest advantage – price per inch – is under attack.

In fact, the average price of a plasma set in the 33-39in range is £1,750, while for LCD, it is £1,585. Little wonder then, that a number of manufacturers have either drastically pruned their plasma range or even pulled out of the market altogether. It can't be too long before LCD dominates the television market in almost every sector.

Changes in average price of display products, 2004/2005





Toshiba

IDTVs

Sales of IDTVs should be boosted by the Government's long-awaited decision to begin switching over to digital TV from 2008. But IDTV sales continue to be disappointing when compared with those for set-top boxes. Set-top sales reached 3.5 million units in 2005, a year-on-year rise of 21.3%, while IDTV sales were 844,000 pieces, a healthy rise of 119%, albeit from a relatively small base. It still means that only one in eight sets sold are IDTVs. Figures for both value and average price show why, from a retailer's point of view, IDTVs are by far a more profitable sale. IDTV value was £791 million, a 144% rise, while for set-top boxes, the figures were £177 million and – 5.2% respectively. The average price of an IDTV was £936, a rise of 11.5%, while set-top box average prices fell by almost 22% (21.8%) to £50.

HD-ready

The other big noise in the television market was the announcement of HDTV services in 2006, with BSkyB and the cable companies launching services, and the BBC testing HDTV on a variety of platforms. The HD-ready standard and logo did much to take the fear and the uncertainty out of the market and almost all manufacturers are making their larger flat display sets (that is, those 26in and above) HD-ready as a matter of course. The success or otherwise of HDTV will rest on three things: content, content and content. Certainly the 2006 World Cup should help and so will HD formats like HD-DVD and Blu-ray Disc. The triple combination of flat display, digital and HDTV should do much to bring some welcome added value to this sector over the next few years. ■

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Sony Bravia