Declining Consumer Interest in Optical: Hi Def Not Yet a Factor

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Next Generation DVD Remains a Difficult Sell to US Consumers

- Awareness is low
  - Only 20% of consumers are aware of HiDef

- Case is not clear
  - Consumers are very happy with upconvert DVD

- VG consoles aren’t the content Trojan Horse
  - Few consumers (6%) watch movies on their console

- Last generation drivers not available
  - PC market is mostly closed to next generation optical opportunity
  - Growth in capacity of NAND flash and HDDs has rendered much of the storage/backup benefit that optical offered consumers irrelevant
But Some Bright Spots of Opportunity Show Themselves

- HD owners want it…. And they are rapidly growing
  - 11% of consumers say they will buy a Next Gen player in the next 6 months

- TV pricing and margin compression means retailers and brands need to offer compelling reasons to upsell LCD, Plasma and Rear Projection TVs
  - HiDef provides a quantifiable reason for consumers to buy up (higher resolution) and buy big (larger screens)
  - 85% of non Hi Def buyers say they don’t own a HD TV
  - 53% of Next Gen DVD owners bought to optimize their movie experience
  - 23% bought it at the same time as their HD TV

- Format wars have been net positive driving player costs down faster and farther than typical at this stage
  - Customers expect to pay $358 for a Hi Def player
Key Next Gen Optical Sales Stats

- Burning is a non-starter….less $1m worth of blank discs sold this year so far
- Less than .5% of Notebooks and under .25% of desktops sold through channels in 2007 included a Next Gen optical drive
- NBs with Next Gen drives sell for $2113 vs $885 for standard NBs
- Total retail $ of standalone players are still less than $100m since launch
- VG platforms have sold 200k HD DVD drives and 1.8m PS3
Upconvert Players represent a growing % of a declining business

Source: The NPD Group / Retail Tracking Service
And consumers show little interest in DVD recording.

Unit Growth in DVD Recorders

Source: The NPD Group / Retail Tracking Service
DVD Camcorders Have had Just a Short Run as Top Dogs

Source: The NPD Group / Retail Tracking Service
PC DVD Burner Aftermarket is stagnant with falling prices

Source: The NPD Group / Retail Tracking Service
New technologies designed to inspire consumers have not

ASPs of Lightscribe Enabled Drives

Source: The NPD Group / Retail Tracking Service
Consumers can’t get enough Hard drive space

Source: The NPD Group / Retail Tracking Service
As blank DVD sales continue to slide

DVD Unit Sku and Disc Growth

Source: The NPD Group / Retail Tracking Service
Consumer adoption of Next Generation optical is dependent on the rapid uptake of HDTV… a process that is in place today

Case not yet made to majority of market as to why they want this product…but early adopters are interested

Consumer interest is limited to the home entertainment stack…

– The outlook for a secondary rapid growth phase around writing and rewriting is poor, unlike CD and DVD adoption

Last generation technologies around DVDs and CDs are losing the market’s interest before the next generation has fully built out its potential