Assessing Short-Term Demand for High-Definition TVs and DVD Players

Section 1

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Methodology Used

In November 2007, TDG queried more than 2,000 individuals from a pool of some three million panelists regarding ownership and usage of a variety of in-home media platforms. The study also tested emerging video consumption models such as satisfaction with current PayTV services and likely demand for over-the-top broadband video services. This Market dBrief™ represents but a small portion of the data produced in the larger project; data collected and published in TDG's *Broadband Video Platforms – A Primary Analysis*.

Survey respondents were screened to meet the following criteria:

(1) U.S. citizenship;

(2) At least 18 years of age;

(3) Not employed by a telecommunications, video, or technology company, nor for a professional market research firm; and

(4) Subscribe to a residential broadband Internet service.

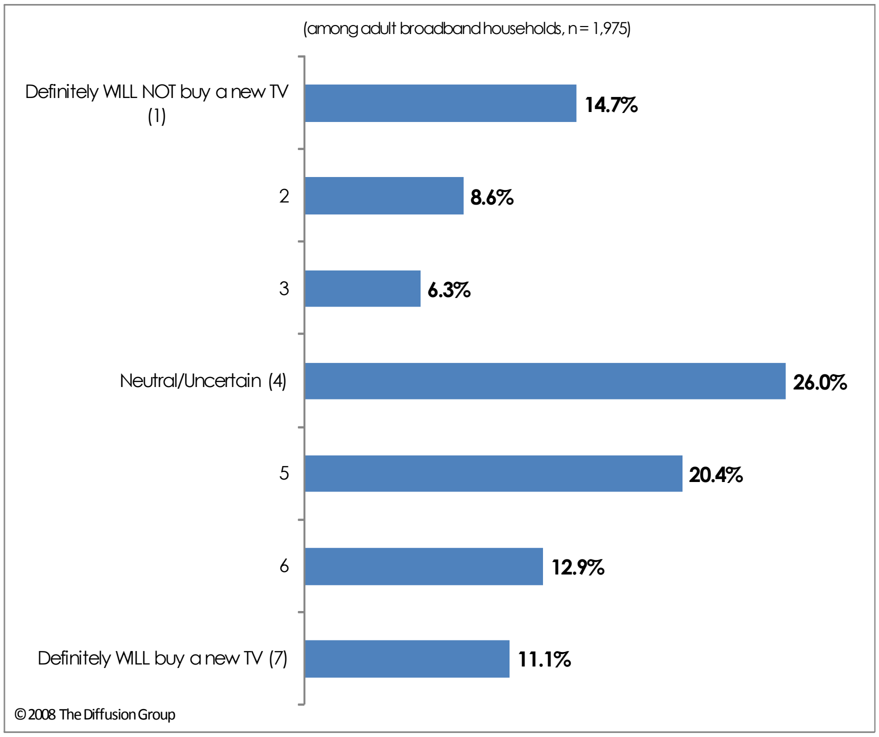
The survey was fielded in early November and the data file cleaned and weighted in mid-November. TDG used the Pew Internet Project's most recent survey data to weight this data file according to gender, income, and age of respondent. Specific weighting assignments are available by request.

Survey responses are statistically representative of adult broadband users in the United States.

Section 2

Likelihood of Purchasing a New TV in the Next Six Months

Consumers were asked to use a 7-point scale to rank the likelihood they would purchase a new TV in the next six months. No specific type of technology was specified in the question (e.g., analog, digital, or high-definition); it was intended to represent interest in purchasing any type of new TV during the next six months. The results are illustrated below.



Close to one-half of adult broadband users (44.4%) are to varying degrees likely to purchase a new TV in the next six months (answering "5" or higher), while 29.6% to varying degrees unlikely (answering "3" or less). More than one-fourth of adult broadband users (26%) are "Neutral/Uncertain," answering "4."

Figure 1

Proclivity to Purchase New TV in Next Six Months

The Diffusion Group frequently issues Market dBriefs™ (our version of white papers) on topics of relevance to our clients and others active in the consumer technology market space. This paper shares TDG's most recent primary research regarding consumer proclivity to purchase new DVD players and new TVs (both traditional and high-def). Should readers desire more detailed data regarding these subjects, please contact TDG for more information.

Section 3

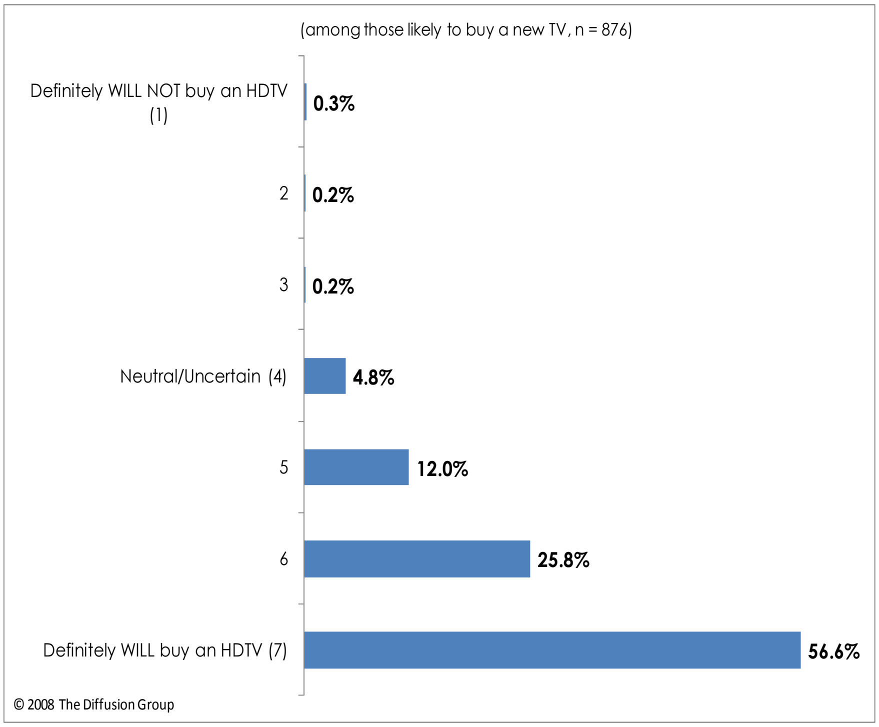
Likelihood of Purchasing an HDTV in Next Six Months

Those interested in purchasing a new TV (answering "5" or higher on the prior question) were next asked of the likelihood that this new TV purchase would be a high-definition TV (HDTV).

Among consumers likely to purchase a new TV in the next six months, 94% are leaning toward an HDTV with 57% stating they "definitely will buy an HDTV" on this next purchase. Analog TVs now occupy space on the workbench in the garage or the charitable donation bin. Given the rate at which HDTVs are diffusing, one has to wonder how much longer it will be before standard-definition digital TVs follow suit!

Figure 2

Proclivity to Purchase New HDTV in Next Six Months



Section 4

Understanding Demand for New DVD and High-Def DVD Players

Before diving directly into demand statistics, it's important to acknowledge the advanced diffusion stage enjoyed by stand-alone DVD players. At year-end 2007, more than 95% of broadband households owned at least one stand-alone (non-PC, non-portable) DVD player, with 57% having two or more DVD players. On average, broadband households own 1.83 stand-alone DVD players. In other words, this platform is truly ubiquitous among U.S. households.

Of equal interest is the fact that the vast majority of consumers are satisfied with today's DVD experience, a subject discussed in greater detail in the next few sections.

About the Author

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As President and Principal Analyst of TDG, Michael covers a variety of topics related to consumer technologies with a particular focus on broadband adoption, home networks, value-added fixed and mobile services, and the future of the "connected consumer."

He is the author of over 50 reports, including the study from which this Market dBrief™ originated: *Broadband Video Platforms – A Primary Analysis.*

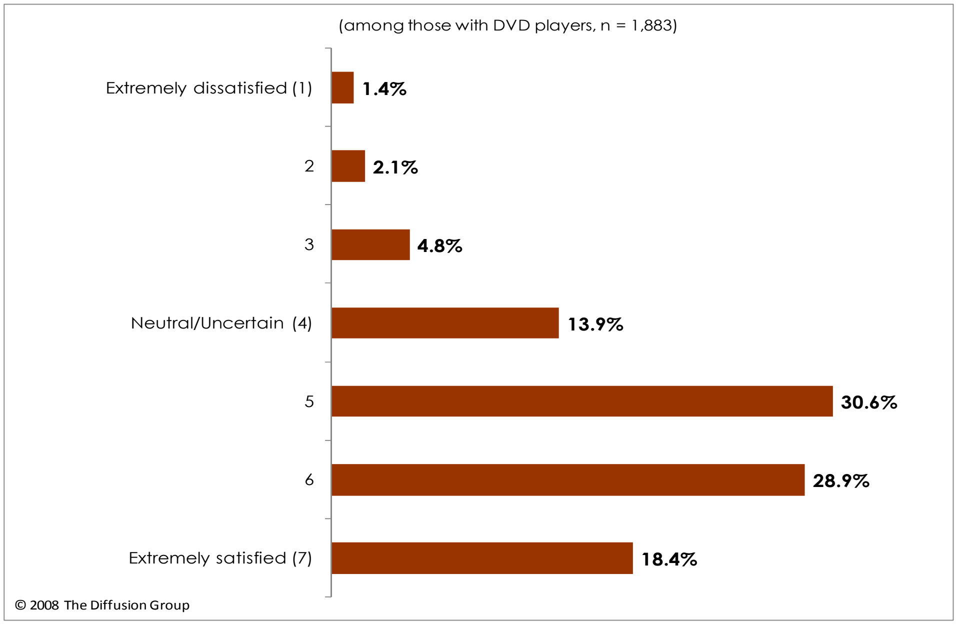


Figure 3

Satisfaction with Latest DVD Player Purchased

Section 5

Satisfaction with Newest DVD Player

As illustrated above, the vast majority of DVD owners are quite satisfied with their newest DVD player: 78% are to varying degrees satisfied while only 8.3% express any dissatisfaction. Such high levels of product satisfaction (combined with mass-market pricing at $100 or less) make it difficult for (higher-priced) next-generation DVD players to attract buyers at $399 or more. Put another way, the greatest short-term competitive threat facing high-def DVD players is not digital downloads but traditional DVD players! Longer term, digital downloads or video-on-demand will indeed chip away at physical DVDs (high-def or not), but at least for the next four or five years the real battle will be between traditional and high-def DVDs. Thus, there exists a window of opportunity for Blu-ray to reach a respectable level of penetration, but Blu-ray vendors must work quickly and aggressively. If not, this window of opportunity will be closed long before Blu-ray gets its first wind.

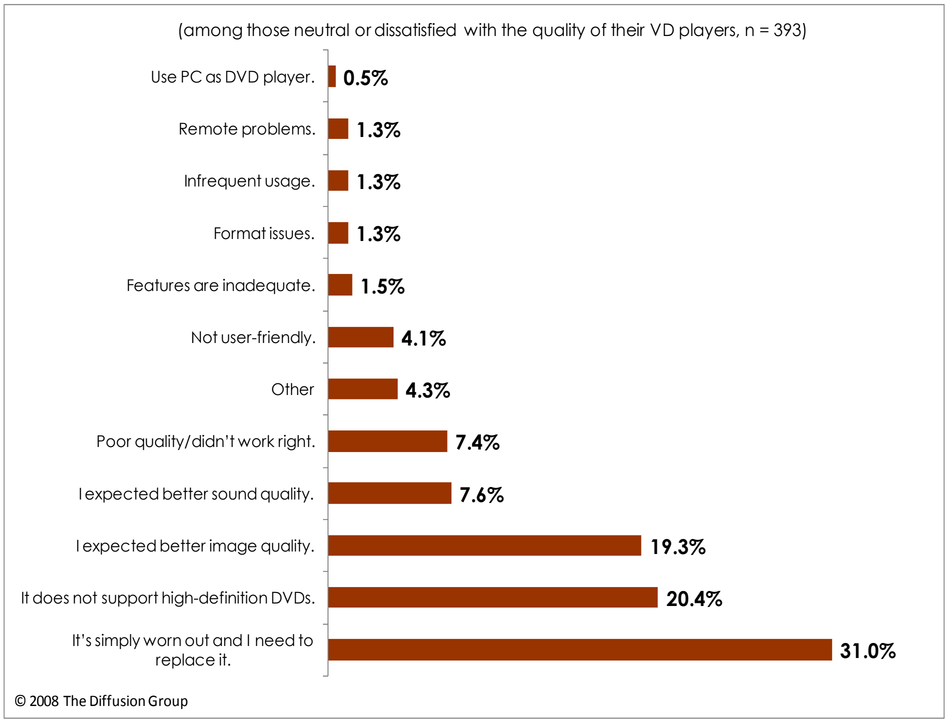
Section 6

Primary Reason for Dissatisfaction

Those answering negative or neutral regarding satisfaction with their DVD player were next asked why in particular they are not satisfied. A set of predetermined reasons was listed from which respondents could choose or they could write in their answer. Answers are summarized below.

Figure 4

Primary Reason for Dissatisfaction with Newest DVD Player



In terms of the primary reason for dissatisfaction, one-third stated it was "simply worn out and I need to replace it." One-fourth cited a lack of support for high-definition DVDs and another one-fourth answered poor image quality. All of these respondents are in theory positioned for a replacement purchase or upgrade, but only 31% stated specifically that "replacement" was their core motivation.

Likelihood of Purchasing New DVD Player

All respondents were asked of their likelihood to purchase a new DVD player in the next six months, independent of how many they may own or whether they were satisfied with the experience.

Approximately one-third of consumers are to varying degrees interested in buying a new DVD player sometime in the next six months, with 14% strongly inclined to do so (answering "6" or higher).

Close to 30% are uncertain or neutral regarding their intentions of buying a new DVD player in the next six months. The remaining 41% are not inclined to buy a new DVD player, with some 31% answering "2" or lower – in other words, these folks aren't buying!

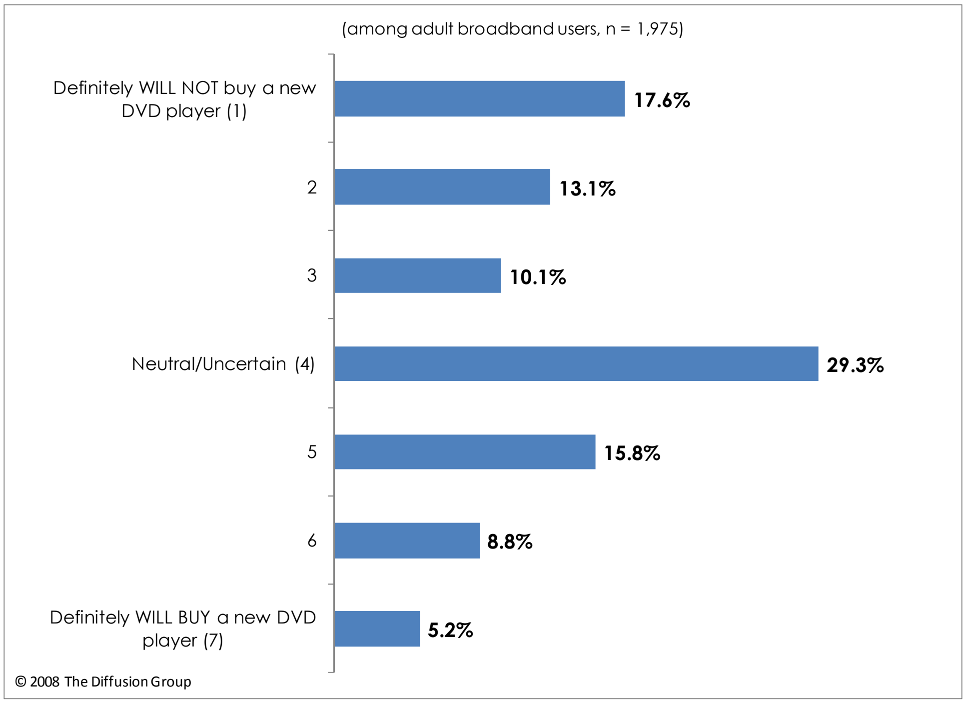


Figure 5

Proclivity to Purchase New DVD Player in Next Six Months

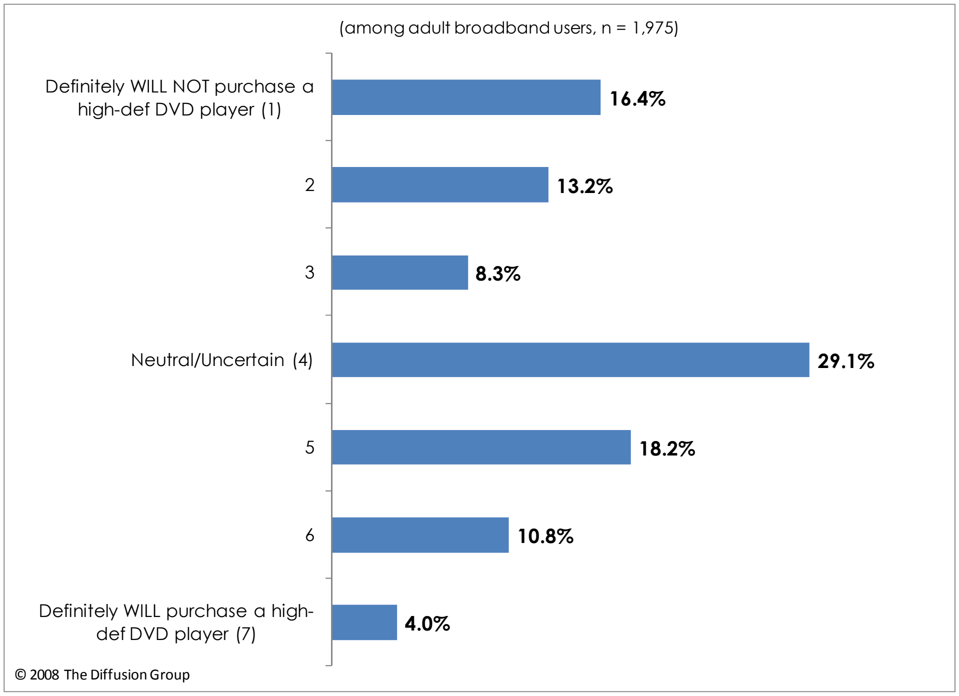
Section 8

Proclivity of Purchasing New High-Def DVD Player

After a set of detailed questions regarding familiarity with various high-definition DVD formats, respondents were asked of their proclivity to purchase a high-def DVD player in the next six months. No specific prices were mentioned, so the data below at best represents a general inclination to purchase as opposed to concrete purchasing intentions.

Figure 6

Proclivity to Purchase High-Def DVD Player in Next Six Months



As noted above, one-third of consumers are to varying degrees likely to purchase a high-def DVD player in the next six months, but only 4% answer "7" or "definitely will purchase" – a disappointing indicator of short-term demand.

The reason for this poor disposition cannot be determined because the survey did not address this subject. Many would argue that, given that the survey was administered in November 2007 and well before the "format war" had ended, this data points to the strong consumer tendency to "sit on the fence" until a single format was endorsed by all industry players. While that has been a popular objection, it seems to be reading far too much into the mind of the average consumer; and that the real reason for this lack of interest has more to do with the high levels of satisfaction with current DVD players and less do to with the "format war." Again, TDG believes that high-def DVD's most formidable short-term competitor is traditional DVD solutions – consumers are very satisfied with their current DVD experience and thus less likely to desire a next-generation high-def DVD player.

Please note that the previous question was asked without any reference to price, a factor that can radically alter the purchase disposition (as sub-$100 HD-DVD players have proven). However, price is usually a consideration only when a positive inclination toward a product/service already exists, meaning that the data listed above is a reliable guide for determination Total Addressable Market for the segment in question.

Section 9

Next Steps:Identifying Compelling Features for Next-Gen DVD Players

Designing a next-generation DVD platform that is sufficiently compelling to generate an upgrade will not be easy. Again, commodity pricing and mass-market diffusion rules the day for traditional DVD players, platforms with which consumers seem perfectly content. They are not complaining about the price or the quality of experience, so how do next-gen DVD vendors craft a compelling value proposition?

To help respond to these challenges, TDG included a set of survey questions in which respondents were asked to rate their level of interest in a series of unique features (many of which are today under consideration by DVD vendors), including the following:

1. Ability to see the movie's newest previews or trailers.
2. Ability to see updated interviews with key actors in the movie.
3. Ability to access online fan sites related to the movie.
4. Ability to share my favorite movie scenes with others on the Internet.
5. The ability to instant message or chat with other fans on the Internet who appreciate similar aspects of the movie.
6. Ability to download ringtones from the movie soundtrack to use on their mobile phone.
7. Ability to download movie photos to use as wallpaper on their PC or mobile phone.
8. Ability to buy specific products features in the movie.
9. Ability to download different language tracks (such as Spanish or French).

This Market dBrief does not include a discussion of how consumers ranked these various features, but for those interested please contact The Diffusion Group (www.thediffusiongroup.com) for more information.

Further Reading

For more information regarding the larger study that identifies new video platforms and services that offer promise, please contact TDG at 469-287-8050 or info@thediffusiongroup.com.

The data was compiled to better understand how Internet enabled media will evolve in the home. It identifies the types of Internet-enabled living room platforms, applications, and features that are most appealing to consumers; ascertains key price points and take-rates associated with these platforms and services; and explores how the delivery of Internet-enabled video to the living room TV is likely to impact existing media consumption habits, as well as to understand how these different consumption models may relate to one another.