

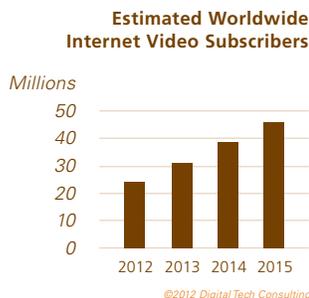


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## iTV to the Cord Cutter's Rescue?

For months now, the tech world has been working itself into a lather about a possible Apple TV (or more accurately an 'iTV' as Apple already markets an Apple TV set-top box (STB)). Why does an iTV provoke such excitement? Sure, there's a built-in fan base that swoons-on-command over any Apple rumor, but there's arguably something more profound at work with the iTV fervor - it holds out the promise of finally catalyzing the cord cutting revolution.



We've all heard of the "cord cutters" - consumers so fed up (or broke) that they dump their pay TV packages to rely instead on cheaper, Internet-delivered content. Yet despite the rise of Netflix and Hulu and a raft of Internet-connected media players like Boxee and Roku, the cord cutters haven't really materialized. Subscriptions to these over-the-top media services are indeed rising (DTC estimates Internet video subs will reach about 25 million this year and pass 50 million in 2016), but so are traditional pay TV subs (albeit not at the same pace). In fact, despite an economy still hobbled by weak job creation and sluggish income growth, pay TV services are still expected to add close to half a million new subscribers in the U.S. in 2012 after piling up roughly 300,000 in 2011.

This has confounded some observers who felt confident that the combination of a poor economy, low cost Internet video services and cheap STBs would finally pry consumers from the grip of their cable, satellite or telco subscriptions. Enter Apple's iTV. Here, at last, was a company with the proven track record of disrupting content industries with a huge pile of cash and the technological chops to pull off the long-awaited revolution in video delivery. What the iPod and iTunes did to music, an iTV would surely do for video.

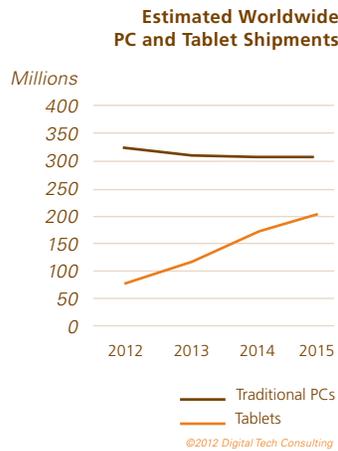
No one knows for sure, of course, just what the folks at Cupertino are cooking up. But numerous published reports have indicated that while Apple has indeed shopped around the idea of an iTV to content owners, the reception has been chilly. CBS President Leslie Moonves proudly relayed to an industry audience how he told the late Steve Jobs thanks but no thanks for a potential TV tie-up. The latest news, courtesy of Bloomberg, indicates that ESPN may make its content available to Apple but under an authentication model - where consumers first confirm they are subscribing to a pay TV service before accessing the content.

In other words, if an Apple iTV does materialize, it may revolutionize many aspects of our TV experience - the user interface, perhaps, or the industrial design - but it's not likely to fundamentally rupture the pay TV business model - at least in the U.S. Rather than turn Apple into a virtual MSO, content holders will likely insist on the authentication model for any "channels-as-apps" they host on an iTV platform.

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The irony, of course, is that while “cord cutting” in the sense used above is stumbling out of the gate, another cord cutting revolution is well underway. TV Everywhere services that let users access their pay TV channels, DVR content and other apps like the popular HBO Go on mobile devices in and out of the home are gaining speed. Unlike the first iteration of cord cutting, TV Everywhere promises to work within the prevailing business model that has proven so lucrative for so many stakeholders. By building out the mobile access consumers demand, the pay TV industry is letting their customers cut one type of cord without severing the subscription lifeline that underwrites everyone’s favorite programming.

## Tablet Impact Goes Beyond PCs



As expected, the prolific success in the tablet market is having a negative impact on the traditional PC market, i.e. desktops and laptops, but perhaps a little unexpected is the impact tablet success is having on shipments of PC peripherals and software.

Tablet popularity has meant drops in other PC related device markets like DVD and Blu-ray aftermarket kits, graphic cards, and even software. DTC expects the modest decline forecasted in all these categories over the next five years will be due, in part, to tablet’s inability to accommodate most peripheral items (They can be added but only with adapters, added cost and inconvenience). DTC expects some retail software sales to be negatively impacted as well. Some retail video software is used to consume and create video content on physical media and since tablets don’t use physical media DTC believes those software shipments will slow.

Do strong tablet sales portend a disaster for the traditional PC market? Although traditional PC makers will suffer through slight year-over-year declines over the next five years, shipments aren’t forecasted to fall off a cliff. Steady replacement sales and strong sales for ultrabooks will help to keep the PC market afloat. It can be argued that the popularity of tablets has sent traditional PC manufacturers back to the drawing board, looking to make a device similar in design to tablets but with the power and functionality of a traditional PC. By the end of 2012 DTC expects roughly 326 million PCs will ship, dropping slightly to 318 million shipped in 2013. Annual shipments are expected to remain above 300 million until 2017 when DTC estimates that 294 million PCs will ship.

On the other end of the growth spectrum lie tablets. While the triple digit year-over-year growth that tablets experienced between 2010 and 2011, almost single-handedly due to the the iPad, will slow over the next five years, DTC still expects the tablet market to log double digit annual growth through the next five years and likely beyond. With continued innovation from Apple, some market share gains for Android tablet suppliers, and Microsoft designing its new Windows 8 operating system to work with tablets, annual shipments could go over the 100 million mark as early as 2013.

Tablets won’t supplant traditional PCs but they are driving a sort of revolution in functionality. Their use is largely dependent on the internet; everything from video consumption to data storage is increasingly accomplished through web connectivity. This is impacting how traditional suppliers design their hardware and software, and how those in the PC peripheral products market see their futures.

## Next Generation TV: Getting to Worldwide Standards with Local Flair

In the high-wire act of commercializing new technology, a careful balance must be struck between innovation and standardization. The TV services business owes a debt of gratitude to the inventors of digital video compression, but success cannot live by innovation alone. The ubiquitous adoption of digital TV owes a great deal to the Herculean task of creating standards.

A current effort to develop a next-generation broadcast standard by the FoBTV (see article in March 2012 issue) will test the skill of the high-wire walkers. A worldwide standard can do many things: facilitate low-cost infrastructure; bring down receiver costs; and allow us and all our gadgets to move seamlessly across borders. Localization of video/TV content is one of the strengths of digital TV and flexibility within a standard is paramount to accommodate localization and imbedded infrastructures. Geography still dictates how we do that.

Today, there are still parts of the world looking for a harmonized approach to building digital terrestrial TV systems. At a recent Caribbean Telecommunications Union (CTU) meeting focused on spectrum management for the switch from analog to digital TV, it was clear that every land has its own DNA. The diversity among these small island nations is striking. The islands are a mix of sovereign states and dependent territories. Even those that are sovereign nations have deep ties to European and North American countries that have significant influence on the technology and policy decisions. In addition, there is a mishmash of analog and digital transmission technologies, the region is demographically and linguistically diverse, and demographic diversity contributes to varying rates of pay TV household penetration. In some cases pay TV penetration is nearly nonexistent and in others it is higher than 90%.

Building efficient and low-cost systems across the region calls for standards as well as the need to modify them. And the rest of the world isn't really so different from the Caribbean. Other countries may possess greater land masses and have common borders with other nations, but they all have unique cultures, and varying technical infrastructures and business models, and national resources. Those behind the ambitious effort to develop a universal standard for TV delivery will do well to remember that the ability to make content unique to a given place is a strength to be fostered not eschewed. A global broadcast TV standard (one that acknowledges the dramatically changing video-delivery landscape) can enable the next generation of broadcast technology and business models as long as it doesn't attempt to deliver a single solution for multiple problems.

“The TV services business owes a debt of gratitude to the inventors of digital video compression, but success cannot live by innovation alone.”

## DOMESTIC CHINESE LCD DTV QUARTERLY TRACKING SERVICE

Need help finding reliable information on the Chinese LCD DTV market? The Chinese digital TV market is one of the most important and fastest growing markets in the world. A roadmap for the domestic Chinese TV market and its primary players is an essential ingredient for participation in this dynamic market place. DTC, in a joint project with China-based RedTech Advisors, is now offering its 3rd year of LCD DTV quarterly tracking service that delivers difficult-to-obtain reliable data.

This tracking service includes current and cumulative quarterly shipment estimates for LCD DTVs shipped into the Chinese retail market and concise analysis on the market, top brand shipment estimates, chip suppliers, and trends for each quarter. For more information on this domestic Chinese LCD DTV quarterly tracking service, please visit:

[http://dtcreports.com/documents/china marketing 2011 rev.pdf](http://dtcreports.com/documents/china%20marketing%202011%20rev.pdf)

# The Video Optical Disc, Devices and Media: Worldwide Shipment Forecasts (2010-2016) | 6th Edition

December 2011 US | **\$1,750**

This data-intensive report provides detailed worldwide historical data and forecasts of Video Optical Disc devices and pre-recorded media. Both the high-definition (Blu-ray) and standard-definition formats for product categories including PC and peripherals, non-PC video optical disc devices, pre-recorded media, and video gaming systems are detailed in a comprehensive spreadsheet format.

- Shipment data from the years 2010-2016
- Regional and top-supplier market share estimates for 2012
- A section of charts and graphs for ease of interpretation and presentation
- An executive summary that gives a brief overview of this exciting market.

For more information, please visit  
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*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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