Sony and Samsung's Big HDTV Bet
By Cliff Edwards Silicon Valley bureau

The two electronics giants will join forces on a $2 billion factory for liquid-crystal display panels. It could up the ante on rivals.

With the recent spate of announcements from television makers that they will rapidly expand capacity, you'd think people were snapping up glitzy new flat-panel TVs in droves. The latest news came on Apr. 10, when Korea's Samsung Electronics and Japan's Sony (SNE) announced they will jointly finance a $2 billion megafactory for producing liquid-crystal display (LCD) TV panels. The plant will be able to manufacture the largest glass panels of any TV manufacturing facility in the world.

The Sony-Samsung news follows announcements in recent weeks that rivals Sharp, Hitachi (HIT), and LG Philips also aim to boost capacity in what the Consumer Electronics Assn. has confidently predicted will be the "year of HDTV."

No doubt, some will remember the same has been said for most of the past five years -- with flat-panel LCD and plasma technology deemed the biggest winners. To date, however, the industry trade group estimates only 20 million households actually have purchased high-definition sets in the U.S., the largest HDTV market.

ARMS RACE. So what's behind the billion-dollar arms race for these HDTV suppliers? The future looks too bright for TV makers to ignore. According to a recent study from Dallas-based research Parks Associates, HDTV sales will surpass $65 billion by 2009, when federal law requires broadcasters to end transmission of grainy analog programming. The transition, along with sales of high-definition disc players seen as the successor to DVDs, is expected to spur mainstream adoption of HD sets (see BW Online, 11/07/05, "I Want My HDTV -- But Which Flavor?").

That's both good news and bad news for set manufacturers. While demand is set to boom, margins are on the decline as millions more sets are churned out into the world market.

Trouble is, the next wave of buyers won't be like the last. Early adopters tend to do a lot of research before purchasing equipment. Once they find out which sets have the best quality, they're often willing to pay a premium for what they want. Mass-market consumers mainly go into a store, pick out a few sets with good quality, and then search for the best price. It's particularly true for many of the top brands, such as Sony, Samsung, Sharp, and Panasonic, who all enjoy a good reputation among consumers.

DIZZYING CHOICES. Those buyers will be choosing between the old-fashioned cathode ray "boob tube" and flat-panel sets. Even if they decide on flat panels, they'll have a dizzying number of choices, from LCD, plasma, and other competing technologies -- many from dozens of brands. For years, LCDs have been the dominant technology in sets below 37 inches, while plasma was favored for larger screens. One reason: the LCD
plants were originally designed to make PC screens, so they were built to make smaller screens. But now both camps are trying to encroach on the other, using new technologies and new plants (see BW Online, 09/12/05, "War of the Screens").

With the glass panel accounting for a large part of the cost of goods for a flat-panel TV, companies now are racing to build super fabs that can cut ever-bigger sheets of glass at costs lower than competitors' plants. The new Samsung-Sony venture, for instance, will be able to cut eight 46-inch panels from one sheet, or six 55-inch panels. That compares to Sharp's latest plant expansion, which will cut just six 46-inch panels.

Scale is important because it puts pressure on competitors to cut prices, even as the company applying pressure maintains rich profit margins. For instance, Sony introduced its new Bravia flat panel last fall at under $3,000 for a 40-inch set. Rivals, who were charging $3,500 for comparable sets, couldn't match the price for months without losing money.

CONSUMERS WIN. Sony quickly shot to No. 1 in the market, from No. 4. Samsung, which also ranks in the top-five most popular TV brands, and Sony are using less-common sizes to strain rivals' profits, too.

Analyst John Jacobs at market research firm DisplaySearch says the new Samsung-Sony plant will put more pressure on rivals. They'll either have to step up their own investments or get out of the market. "I wouldn't say it's the nail in the coffin, but it's going to present a tremendous challenge to their competitors who are struggling to maintain cost-effectiveness," Jacobs says.

For consumers, the jockeying will lead to sharply lower prices or better technology at similar prices by yearend, many analysts predict. Prices are expected to drop at least 10% by the holiday shopping period, on top of the 20% declines that occurred last year.

BREAK FOR LCD? At a recent display conference, set manufacturers predicted some 32-inch sets will retail for less than $1,000, while 42-inch HD sets are likely to fall below $2,000.

Sony and Samsung's big bet also may help change the television market. While plasma technology has dominated the larger set sizes, LCD technology is likely to gain some ground. With lower prices, LCD sets are likely to move into the market's sweet spot, now for sets between 42 inches and 60 inches. Analysts say LCD technology may grab the lion's share of that market in short order, pushing the makers of plasma sets into ever-larger displays for homes, outdoor advertising, and other locations.

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