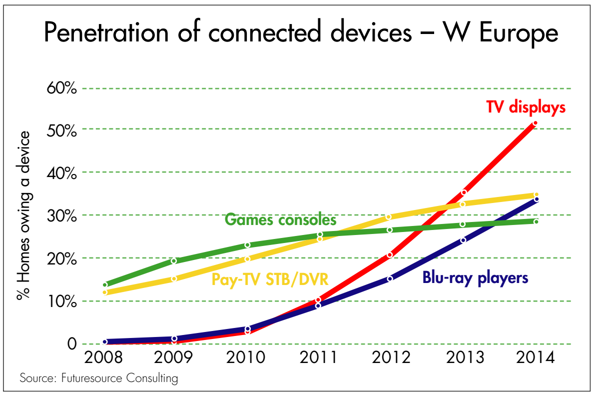
The changing role of TVs in a connected world

A 'TV' today is a multimedia device capable of accessing and displaying a wide range of content from a multiple of sources, and in different formats. It is only in the last three years or so that flat screens measuring 42+ inches have become affordable for the average household. JIM BOTTOMS, Director & Co-founder of Futuresource Consulting, assesses the implications.

The TV has come a long way in the last few years, transforming from a bulky cube that protrudes into the main living room space, to a slimline object of desire adorning the wall or coffee table. And although flat panels have been around for the best part of a decade, it is only in the last three years or so that screens measuring 42 inches and above have become affordable for the average household. Devoid of the unnecessary bulk of the cathode ray tube and obtainable at an attractive price-point, this segment has attracted a groundswell of consumer demand for larger sized panels, where a similar sized CRT would have been an unfeasible proposition for many European homes.



With the rise of the flat panel television, Futuresource research shows that product lifecycles have diminished, with households replacing their main flat panel TV every five years, compared with 12 years or more for CRT. In addition, the compact designs have encouraged consumers to integrate more televisions into their households, with bedrooms and kitchens amongst the rooms most likely to house second, third and even fourth sets.

Alongside the changes to its form factor, the television has evolved from a dumb box that receives a relatively limited number of channels, to a true multimedia device, capable of accessing and displaying a wide range of content from a multitude of input sources and external devices, which can be connected directly to the TV or accessed via a home network. In addition, the advent of digital satellite and cable services during the past decade has resulted in a phenomenal increase in the number of TV channels on offer.

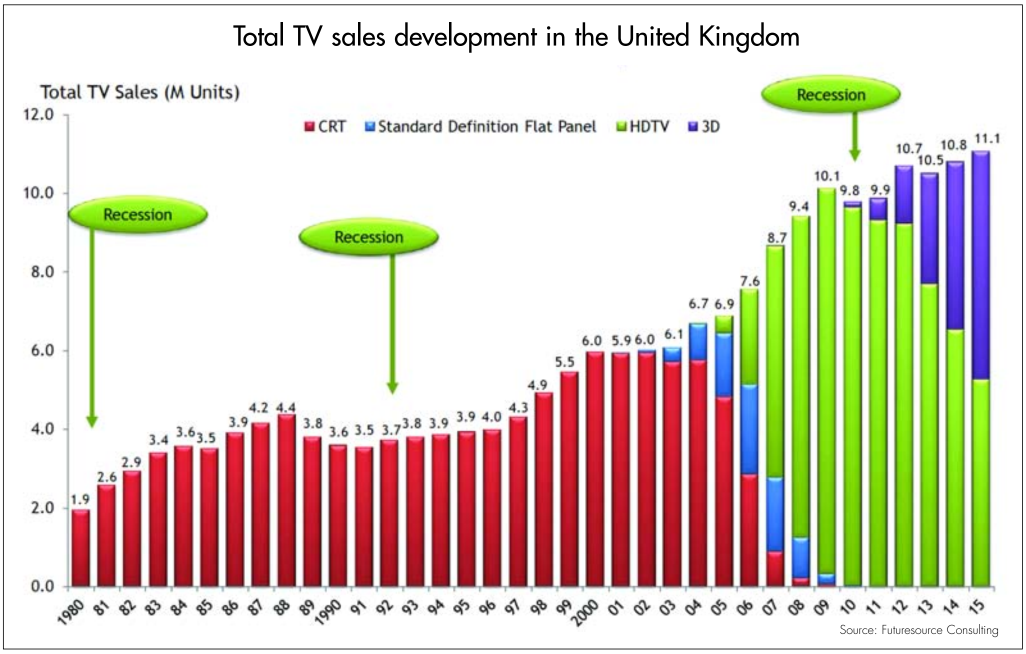
Methods of delivery have also changed, with most European countries now carrying digital over-the-air services and many in the process of switching off analogue broadcasts. HD services have also been appearing alongside their standard definition (SD) counterparts for some time and are starting to catch on beyond subscription services from the likes of Sky and Virgin Media. Over the past year alone, there has been a dramatic increase in the consumption of HD content, while 3D in the home is now starting to become a reality. The leading hardware brands have been carving out an early position in 3D, and set purchases are seeding the 3D market in much the same way as the HD market was primed five years ago.

If all that isn't enough, the advent of the Smart TV means that consumers can now take their viewing online and open up the entertainment choice further. A recent upsurge in the availability of connected devices is beginning to transform the way that people consume their entertainment in the living room, with manufacturers reinvigorating the TV remote and on-screen user interface to ensure a successful search and discovery experience. Smart TV not only means online content, but also promises a world of complementary services and personalisation, with the rise of the tablet adding an exciting new element to the equation.

However, the television market is now maturing across major European territories with most households in the region owning at least one flat panel TV and many owning two or more. Furthermore, digital switchover has been achieved or is nearing completion in many countries and demand for digital receivers has passed its peak. In a segment that was originally driven by the product's appearance, rather than its functionality, Futuresource research shows that 2011 will be the first year that flat panel sales will go into decline, with Western European shipments dropping by 3% to 49.5m.

Moving forward, the market will rally, with replacement demand an increasingly important factor as we pass through the first major wave of flat panel replacement, accounting for 90% of all TV sales by 2015.

Demand for larger screen sizes is expected to continue to grow, as prices for sets of 40 inch and above have now reached the level of mass market appeal. Early adopters of flat panel TVs will also be looking to replace their original set with a larger more feature rich model, opting for value-add features like ultra-thin bezels, connectivity, energy saving and 3D capability. These new



technologies will ensure that future replacement rates will stay similar to today's levels.

Looking to the Smart TV market, more than 30% of Western European TV shipments this year will be connectable, up from just 12% in 2010. The share will rise rapidly to reach 95% of all TV shipments by 2015. Allowing for multiple ownership of connected sets this equates to over 60% of Western European households owning a Smart TV by 2015.

Over recent months, connected TV has moved from a widget-driven approach with limited functionality, to next-generation Smart TV offering advanced web features including search and navigation, downloadable Apps stores, improved user interface and interoperability with other connected devices such as tablets and smartphones. Indeed, we are now seeing TVs on the market that allow content to be dragged from the TV onto a tablet device and vice versa, transforming television viewing into an immersive multi-screen event, tailored to each individual viewer's demands while still maintaining the shared group experience.

All major TV manufacturers are including some level of IP connectivity in 60%-80% of their product range for 2011, yet the true indicator of success in connected TV is whether consumers actually use the internet connected services available. In the early days of connected TV usage, levels were less than 20% as early models lacked any compelling content services, were poorly marketed and badly demonstrated in stores, and had to be hard wired. Usage levels are now on the rise and are currently around 30-35%, driven by availability of popular video services, improved interface and user experience, better in-store demonstration and growing broadband penetration. Embedded Wifi capability is also expected to be a key driver of usage as we move forward and many high-end connected TV models already incorporate this feature.

For CE hardware manufacturers, the rise of the Smart TV creates a sustainable value proposition in the highly commoditised flat panel market. Where traditional factors like screen size, thinness and image quality are running out of headroom, Smart TV and 3D capability are adding a new dimension to the offering and providing a new competitive element beyond the battle for price point.

BIOGRAPHY

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