Analysis: As technology shifts, Asian giants wrestle for TV control

Tim Kelly and Clare Jim, Reuters

(Reuters) - LG Electronics will steal a march on its rivals by bringing forward the launch of a 55-inch flat TV using next-generation technology, raising the stakes in a cut-throat battle for the living room between Asia's top tech powerhouses.

The South Korean firm will introduce its organic light emitting display (OLED) TV in several European countries in May, well ahead of an original plan to launch in the second half, a source familiar with the matter told Reuters.

That would edge out cross-town rival Samsung Electronics and cement, at least for now, South Korean dominance in the television market over long-time leaders Japan [1], but it also highlights the fierce competition reshaping Asia's flat panel industry.

"(In the past) if you wanted a top quality TV you had to buy a Sharp, Panasonic or Sony. Those days are gone," said Steve Durose, Senior Director and Head of Asia-Pacific at FitchRatings.

The Japanese, who ruled the global TV market in the 1980s and 1990s, have been battered by their aggressive South Korean rivals, weak demand for the TVs they make and a stronger yen that erodes the value of the their exports. Sony Corp, Panasonic Corp and Sharp Corp expect to have lost a combined $21 billion in the business year just ended.

Some 200 kms across the Korea Strait, LG Electronics is expected to report a quarterly profit of $267 million later on Wednesday, even after LG Display, a flat-screen maker in which it has a near-38 percent stake, posted a $156 million operating loss for January-March. On Friday, Samsung will announce a record profit of $5.2 billion for its latest quarter alone.

The red ink bleeding across Japan's tech industry comes at a time when the TV market is heading for a technology choice - between credit-card-thin OLEDs or ultra-high definition sets - that may consign today's LCDs to the bargain shelf. Whoever can mass produce affordable OLEDs will have a headstart.

Sony, for one, will recall with concern how it lost out in a similar consumer technology battle over home videotapes in the 1980s, while Toshiba's HD DVD format was later crushed by Blu-Ray.

IF THE PRICE IS RIGHT

Sony was first to market OLED TV technology in 2007, but halted production of the $2,000 home screens three years later amid a global downturn, and switched its focus to 3D. Sony limits sales of OLED screens costing as much as $26,000 to businesses that can afford the high price tag.

In January, Samsung and LG displayed prototype 55-inch OLED screens at the Consumer Electronics Show in Las Vegas. Samsung has already signaled its intent on OLEDs, saying in February it will spin off its LCD panel business.

For makers of OLED displays, which boast sharper images and do not need backlighting, the obstacle to consumer acceptance is price. You can buy 10 LCD TVs for the likely price of $10,000 for a big Samsung or LG model. That means LCD is likely to remain the dominant force in the global TV market for a while.

An executive at LG Display, a flat screen maker in which LG Electronics has a near 38 percent stake, said an internal study indicated consumers would start buying OLED TVs once the price falls to 1.3 to 1.4 times that of an LCD set.

Japan, meanwhile, has a potential rival offering - ultra high-definition sets, dubbed 4K, that boast pictures four times sharper than today's HDTV sets. Sony, Panasonic and Sharp all have this technology, but face a broadcasting infrastructure hurdle, as television stations would need to record in 4K for viewers to watch the new ultra high-definition standard.

"However, if the sets are used to view video downloaded from the Internet then higher definition could be viewed more easily," said Kazuhira Miura, an industry analyst at SMBC Nikko Securities in Tokyo, potentially giving Japan an edge in any trend for connected smart TVs.

Given that, it's too early to write off the Japanese, but they may need help to get their operations back on track.

GRAND ALLIANCE?

One option being explored is an alliance of Japan's major TV makers, brokered by the government, which would allow them to pool their R&D cash, engineering know-how and eliminate overlapping costs. Japan has already taken a step down this road, with Sony, Toshiba, and Hitachi Ltd combining their small LCD operations into Japan Display, a state-sponsored company two-thirds owned by the taxpayer.

But TVs may be a different matter.

"Creating a united maker is going to be hard," said Yoshiharu Izumi, analyst at JP Morgan in Tokyo, citing different corporate cultures and traditions and entrenched feelings of rivalry after decades of competition. "An alliance just to cut costs doesn't really make sense. Of course any tie up doesn't have to be between Japanese companies, it could be Taiwanese."

Indeed, there are signs that cooperation is picking up between Japan and contract manufacturers in its former colony of Taiwan to take on South Korea [2], another former colony. Taiwan's manufacturers have plants and know-how at low prices as well as a complete supply chain for LCD production.

"The Japanese need the capacity, while the Taiwanese need outlets. Japan has the technology, but may not necessarily be able to implement. So it's a match," said David Hsieh, Taipei-based Greater China [3] market vice president at specialist research firm DisplaySearch. "Because Japan's scale is smaller, that's why it has to work with Taiwan. The added scale in TV panels will match Korea."

MORE COLLABORATION

Recent media reports have linked Sony with AU Optronics in a tie-up to make TVs, while Taiwanese component maker Hon Hai Precision Industry, which belongs to the same Foxconn group as LCD panel maker Chimei Innolux, recently became the top shareholder in Sharp and invested in its Sakai plant, Japan's most advanced LCD facility.

Taiwan's LCD industry would benefit from tie-ups with Japan through increased cooperation and outsourcing. The industry lost $4.3 billion last year, and AU is expected on Thursday to report a first-quarter loss of some $430 million.

"Taiwan doesn't have the edge in many of the technologies," said H.P. Chang, head of research at Taiwan-based specialist LCD industry research company Witview. "Even if your company wants to consolidate, others may not want to. Samsung will not sit and wait for you to grow. Taiwanese and Japanese companies need to explore ways to collaborate."

While Taiwan's government has leaned on banks to help loss-making Chimei extend its loan repayments, it takes the view that any consolidation should be led by the industry itself, though it would look at how it could help.

"I don't think Taiwan's government really wants an industry consolidation because that will create many job losses," said Samson Hung, a Taipei-based analyst for UBS.

But, without consolidation, business will be tough for Taiwanese firms as they lack international branding and their investment costs are forever rising.

"They have to consider how to allocate resources, how to share intellectual property. They have argued for a long time," said Jamie Yeh, Taipei-based analyst at Barclays. "Not just country to country, but they also have to consider cultural and language factors."

CHINA CHASING?

Also in Taiwanese makers' rear-view mirror is China's fledgling panel industry - at a fair distance today, but one that could quickly catch up. Some rising players in China include TCL Corp, BOE Technology, Tianma Microelectronics and Infovision Optoelectronics.

"I think Chinese players will keep working on their own. They don't have financial concerns," said Witview's Chang. "They will keep growing and eventually become a threat to Taiwan's capacity."

Of course, Japan's tech manufacturers could bite the bullet and seek to tie-up with the South Koreans, tapping into their lead in OLED TVs. There is a precedent: Sony had an LCD joint venture with Samsung, though exited it last year.

"Japanese firms will probably be considering OLED tie-ups with not just Taiwanese but also Samsung and LG, as the technology is more likely to become the next display for TVs and they haven't invested heavily into this technology yet," said Ji Mok-hyun, an analyst at Meritz Securities in Seoul.

For now there is an air of confidence in South Korea, looking across at a struggling Japanese industry.

"We've been No.1 in the TV market for six years and I think Japanese firms are sticking to their massive, but unprofitable, TV business simply because it's their legacy business," said a senior executive at Samsung, who asked not to be identified as he was not authorized to speak to the media.

James Jeong, chief financial officer at LG Display, told Reuters: "We're talking to TV manufacturers, including Japanese, for cooperation (in OLED supplies). There'll be plenty of opportunities for cooperation and tie-ups in the display industry ... as long as it's not your sworn enemy."

A senior LG Electronics executive, who also didn't want to be named, noted problems in Japan in product innovation, supply chain management and slow management decision-making, as well as a focus on the domestic market over exports.

"It's like a swimming contest," the executive said. "Once there's a gap, it's really difficult for the follower to narrow the gap dramatically as the one ahead continues to move ahead."

($1 = 29.5060 Taiwan dollars) ($1 = 1139.4000 Korean won)

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