Analysis: E-readers grapple with a future on the shelf

Jeremy Wagstaff, Reuters

(Reuters) - Amidst our growing love affair with the tablet, spare a thought for its increasingly shelfbound sibling: the e-reader.

Take Taiwan's E Ink Holdings Inc, which makes most of the monochrome displays for devices such as Amazon.com Inc's Kindle and Barnes & Noble Inc's Nook. After five years of heady growth during which shipments rose 100-fold, it got a jolt at the end of 2011 when monthly revenues dropped 91 percent in two months.

"The bottom fell out of the market," says E Ink Chief Marketing [1] Officer Sriram Peruvemba.

E-readers initially benefited from their reflective displays, which can be read in sunlight and require very little power. But the success of Apple Inc's iPad [2], improved backlit displays, power-saving technologies and new smaller tablets all point to one thing: the e-reader has become a transitional technology.

Think the harpsichord, replaced by the piano. Or Apple's iPod music player, which helped popularize the MP3 player until the arrival of the iPhone, which could play music but also do a lot of other things.

Now electronic paper companies like E Ink are scrabbling for new ways to sell the technology or in some cases, are pulling the plug entirely.

A recent survey by the Pew Research Center found that of those Americans over 30 who read e-books, less than half do so on an e-reader. For those under 30, the number falls to less than a quarter.

Analysts have cut forecasts, sometimes dramatically. IHS iSuppli predicted last December there would be 43 million e-readers shipped in 2014. When it revised those numbers last month, the estimate was lowered by two thirds.

By contrast, Morgan Stanley in June doubled its estimates for 2013 tablet shipments, predicting 216 million compared with its February 2011 forecast of 102 million.

"Frustratingly for the E Ink guys, it's a transition device," says Robin Birtle, who runs an e-book publishing [3] company in Japan [4]. "Kids won't need this."

POLE POSITION

Companies giving up the ghost include Japanese tyre maker Bridgestone Corp which

ended e-paper production this year after six years in the business [5], blaming falling prices and the rising popularity of tablets with LCD displays. Its partner Delta Electronics [6] Inc also said it was pulling out.

Qualcomm Inc, which snapped up two startups and launched several devices including the Kyobo Reader in South Korea [7], told investors in July it would now focus on licensing its Mirasol display technology.

UK-based Plastic Logic said it had stopped making e-readers and was now looking to license its display technology for devices such as credit cards.

That leaves E Ink, which this year bought one of its few remaining competitors, SiPix Technology, in pole position.

Not all the news is bad. A new generation of e-readers with front lighting, which allows reading in the dark, is hitting the market. The Kindle Paperwhite sold out quickly and that device and the basic $69 Kindle e-reader are the No. 2 and No. 3 top selling products on Amazon, based on unit sales. Amazon also recently launched Kindles in two big new markets - India and Japan.

E Ink's revenues have picked up somewhat from late last year and Chief Executive Scott Liu is promising good numbers when the company announces quarterly results on Wednesday.

But E Ink is betting its future, not on consumers buying more e-readers, but elsewhere - including education, an area it sees as essential to growth.

It has started to focus on adding features for classrooms, such as a master device to control which pages students look at, preventing them from flipping ahead to, for example, an answers page. Amazon this month announced a push to get Kindles into U.S. schools, selling e-readers at bulk discount.

But it will be an uphill battle. For one thing, Apple has stolen a march in the United States, saying that 80 percent of the country's "core curricula" is available in its digital bookstore. And while educational institutions are investing in e-books, they're not necessarily investing in e-reading hardware.

In Singapore, for example, one university library has dedicated 95 percent of its budget to e-books. But the country remains one of the few where the Kindle is not available, suggesting that those e-books are not being read on dedicated devices.

E Ink also hopes to see its technology in more devices than e-readers. Over the years E Ink displays have appeared in watches, on a Samsung cellphone keypad and on USB drives. One e-ink sign in Japan survived the 2011 earthquake and tsunami and was able to display emergency contact and route information long after other powered-displays fell dark.

Peruvemba travels the world to trade shows peddling an impressive array of prototypes he hopes to tempt manufacturers with, from a music stand with a built-

in e-reader to a traffic light. Says CEO Liu: "I've told our people that in five years non e-reader applications will be as big as the e-reader applications."

This makes sense, analysts say. "We have dialed back our take on them," said Jonathan Melnick of Lux Research. "But we still think the technology is going to have a future. It's just not going to be in e-readers."

OUTFLANKED AND SLOW

But not all are so optimistic. Not only has E Ink been outflanked by the emergence of the tablet, it's also been slow to innovate.

Although the screens of the latest Kindles refresh faster than earlier models, critics say they still look a little old-fashioned alongside displays from Apple or Samsung Electronics [6] Co Ltd.

"I don't see any significant improvements in the technology in the past few years," says Calvin Shao of Fubon Securities.

E Ink's own history is not encouraging. It took a long time for e-ink to emerge: Xerox had dabbled in it since the 1970s but it was only in the late 1990s that physicist Joseph Jacobson thought of mixing a dark dye and particles of white titanium dioxide in microcapsules. Stimulated by an electrical charge- a process called electrophoresis - one or other would move to the top to form shapes.

Even then it took seven years and $150 million for the company he founded, E Ink, to create its first e-reader, and another two years to tease out production problems for its first customer Sony Corp.

And then it took Amazon's heft to persuade the public to adopt the e-reader by adding a compelling range of books, wireless connectivity and the promise of instant downloads.

E Ink says it is undeterred and intends to play a more central role in any new industry it finds a foothold in. "For our new products we will no longer be a component player," said CEO Liu.

Its chances of success are limited, says Alva Taylor, who uses E Ink as a case study for his classes at the Tuck School of Business at Dartmouth College. "The success rate for companies with a technology searching for a solution is pretty low."

(Additional reporting by Mayumi Negishi in Tokyo and Alistair Barr in San Francisco; Editing by Edwina Gibbs)

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