

Blu-ray on the brink of breakthrough

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Blu-ray on the brink of breakthrough

Six reasons why Blu-ray will soon be replacing DVD as standard

All the hype about Blu-ray has subsided now that the format dispute has ended. Even though it hasn't made a major breakthrough yet, Blu-ray is gaining ground. In the USA, over 24 million Blu-ray films were retailed in 2008. In the fourth quarter of 2008 alone, film sales increased from one million in October to three million in December. Over 1.6 million Blu-ray discs were sold in Germany in 2008 and the GfK reported 8.1 million Blu-ray sales in Europe – which corresponds to 304 percent year-on-year growth. Despite the economic recession, market researchers are predicting continued growth at more or less the same rate. For example, the German Association of Audio-Visual Media is expecting sales to double in 2009.

The range of Blu-ray movies available has also expanded considerably. US consumers can already choose from 1,100 Blu-ray movies, 75 of which are BD-Live movies which offer additional internet functions. Over 700 Blu-ray movies are already retailed in Germany and they are becoming more and more affordable because the wider the range of movies available, the lower the prices are. In the USA, many Blu-ray movies are on sale for between ten and twenty dollars. Most market forecasts predict that movie sales will double and triple in 2009. This shows that the Blu-ray disc now plays an important role in the film industry and movie rental business, and that it is on the way to becoming a mass medium.

Sharp increase in Blu-ray player sales

Player sales tripled in the USA in 2008. Since the Blu-ray player's market launch in June 2006, a total of 10.7 million have been sold, 7.51 million of which with PS3 consoles. By comparison, three years after the DVD's market launch, there were only 5.4 million players on the market. Sales of Blu-ray players in Germany are still relatively low, by comparison. In 2008, 110,000 players (without PS3) were retailed. However, it is necessary to bear in mind that the player was launched at a much later time in the German market. **There is continuous growth of sales in Germany and, in December, the 30,000 players per month threshold was**

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crossed for the first time. The EITO market research institute has forecast approximate Blu-ray player sales of 400,000 in 2009 in Germany, which is an almost three-fold increase. At the same time, DVD player sales have declined by around 18 percent according to EITO's estimate. There has also been a perceptible increase in Blu-ray drive sales. Although only around 680,000 Blu-ray drives were retailed in 2007, sales increased to over 1.7 million in the first two quarters of 2008 alone.

Prices of Blu-ray players and drives are also declining. Manufacturers have announced that numerous technically advanced players and drives will be available at reasonable prices in 2009. Basic players are now available in Germany at prices upwards of EUR 150. One year ago, they cost twice this amount. The average price for a Blu-ray burner has declined within the space of one year from EUR 399 to EUR 279.

That's why the majority of experts are expecting sales figures to rise considerably almost everywhere in Europe during 2009. For example, the Futureresource market research organisation is expecting Blu-ray hardware sales in Western Europe to more than triple in 2009. This means over 2.5 stand-alone players and over 10 million players (with Sony PS3) will be on the market by the end of the year.

HD displays conquer the living room

One important prerequisite for Blu-ray's success is the increasingly widespread use of large-format HD displays because the quality of Blu-ray discs only becomes fully evident when the movies are seen on high-resolution large-format displays or when they are used in conjunction with an HD computer projector. More and more consumers are opting for flat screens in their living rooms and approximately 100 million LCD TV panels were manufactured in 2008 alone. According to the GfK consumer research organisation, German retailers sold over eleven million HD-ready or full-HD displays in 2007 and 2008. According to a recent Bitkom survey, 18 percent of German consumers intend to purchase a flat screen next year, despite the credit crunch.

There is obviously vast market potential for Blu-ray. And Blu-ray is more successful than DVD was at the same phase of its launch. Blu-ray products are on the way to becoming mass market products. There is a high number of users, the number of movies available on Blu-ray disc is increasing and they are declining in price.

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Objections to Blu-ray

There are still some sceptics around. Blu-ray doesn't seem to be attractive enough for the majority of consumers yet. The critics argue that

- large flat screens and HD computer projectors are not used widely enough,
- content/movies are too expensive and HD TV is still a long way off,
- the players are too expensive,
- digital downloads render Blu-ray superfluous,
- future technologies such as holographic storage media will soon be market ready,
- there is no need for a new format because DVDs already offer adequate quality.

Although all these arguments have an element of truth to them, they are either irrelevant or will be rendered obsolete in a short time.

Why will Blu-ray catch on?

1. Prices of HD flat screens will continue to decline

The prices of large-format 46-inch screens and even larger screens continue to decline. According to GfK, the average prices of LCD flat screens declined by over one-eighth in 2008, and the price of plasma panels declined by over 20 percent. The more people there are who own an HD-ready large-format screen or computer projector (which are necessary to benefit from the advantages of Blu-ray), the more people will be interested in Blu-ray. Who doesn't want to maximise the performance of existing technology?

2. Prices of Blu-ray movies will continue to decline

Every time a new format is launched – be it VHS, DVD or Blu-ray – the choice of content is initially limited. As demand grows, the number of movies available automatically increases. There is already a much wider selection of Blu-ray movies than there were DVD movies at a comparable time (three years after its launch).

The price gap between DVD and Blu-ray movies is closing. In 2008, it cost around EUR 29 to buy a disc in Germany. By the end of 2009, the price will have fallen to an average of EUR 21 according to Bitkom's forecast. Some movies are already available on Blu-ray for the same price as their DVD counterpart. As soon as Blu-ray movies are produced in high enough numbers, it will be possible to realise profits at smaller mark-ups, and the price will

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decline. More and more video rental stores are buying Blu-ray movies, so an increasing number of them will be available at an acceptable price.

3. Prices of Blu-ray players and drives will continue to decline

The difference in price between DVD players and Blu-ray players, DVD drives and Blu-ray drives, is declining. In one or two years, the difference will probably be so negligible, that consumers will be willing to pay a little extra for Blu-ray since Blu-ray can play both formats.

4. Downloads and streaming will be replacing the disc in the near future

Poor quality as a result of the lack of an infrastructure/bandwidth

There is no cable or DSL infrastructure, and the quality leaves a lot to be desired if you have anything bigger than a 22-inch monitor. This particularly applies to large-format monitors upwards of 32 inches. It will take at least 3 to 5 years for IPTV to shake off its niche existence and probably a few years more until HD-quality downloads become available to a wider public. During this time, the prices of Blu-ray players will have fallen to the level of DVD players.

There is no standard for streams and downloads

At the present time, no standard format for video streams and downloads exists. This causes confusion among consumers and it is the reason why downloads won't catch on so quickly.

Movie choice and prices

The choice of movies available as video downloads is relatively limited, and the prices are still high. This will probably change in coming years when the number of people using video downloads increases. By then, however, the prices of Blu-ray players and movies will have declined to such an extent that a home player will continue to be an attractive option for some time to come.

Video-on-demand and Blu-ray complement each other

Blu-ray is an important step on the way to video-on-demand because content downloads are an essential aspect of the Blu-ray concept. Most Blu-ray players on the market now have the BD-Live function, which enables the user to download additional content such as previews, exclusive special features and games from the internet. This range of functions will be considerably extended over the next few years. Many consumers who have only used the

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internet for surfing or banking in the past will discover high-quality online movies with the help of their Blu-ray player. So video-on-demand and Blu-ray will definitely complement each other.

5. There won't be a format rivalling Blu-ray in the foreseeable future

New technologies with even greater storage capacity than Blu-ray, such as holographic storage media, won't have a chance in the market over the next few years, even if they are technically superior and market ready. That's because nobody has the time or money to establish a new format on the market right now.

In addition, Blu-ray adequately meets present requirements, particularly when you take into consideration that Blu-ray still offers considerable upgrade potential. It won't be long before 100 GB and even 200 GB media are available.

Consumers and manufacturers want planning security and they can't afford another format war. Blu-ray may be exposed to competition pressure from below (from the DVD), yet in the high-end of the market it needs fear no competition. Blu-ray will continue to be the only storage medium delivering maximum quality for many years to come.

6. Blu-ray is downward compatible and offers considerable added value compared with the DVD

Many criticisms which have been expressed about Blu-ray are exactly the same criticisms which were expressed a few years ago about the DVD. In addition to criticism of prices for media and players, the critics put forward the argument that there is no need for a new format. The criticisms against DVDs are still being put forward about Blu-ray: the difference in image quality is only negligible, consumers are not interested in additional features, recorders aren't an attractive option and the choice of Blu-ray movies is far too limited. Back then, these criticisms proved to be unsound, and they can also be easily disproved today.

The superior quality of a new technology only becomes evident over time

It's annoying but true that every time a new format is launched, problems continue until everyone has mastered the new technology. As a result, the quality differences are not initially fully evident. The same thing happened when the DVD was launched, and when Blu-ray movies were launched soon after the new format became available on the market. However, as soon as the production processes have become established, the quality of the new products continually increases until the benefits become fully evident. This development

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is currently being observed in connection with Blu-ray movies. The number of people who own full HD panels and HD computer projectors is continually increasing, and anyone who has seen the difference between a DVD and a Blu-ray disc on a large-format screen will not want to be without the Blu-ray disc.

Special features are an additional buying incentive

Put your hand on your heart: who buys a new player just to be able to use a few additional extras and online features? Special features alone are certainly not the reason why consumers switch over to a new format. On the other hand, they are definitely an additional buying incentive that consumers appreciate! Blu-ray special features are obviously a secondary sales argument compared with improved image and sound quality, however they are an attractive additional incentive – particularly since the consumer can continue to use his DVD collection on a Blu-ray player.

Blu-ray recorders and burners will drive up demand

The first Blu-ray recorders and burners are already in retail outlets. However, demand has been relatively moderate up to now. Does this mean that consumers have no requirements of recorders with greater storage capacity? Certainly not. Blu-ray recorders and burners will be the standard in a few years' time. The prices are still at a level that means they are not attractive enough for the majority of consumers. Also, many people still have problems operating the DVD recorders and burners that they only recently purchased. However, now that Blu-ray burners and discs are being produced in greater numbers and with every new hardware generation, the prices will fall. At the same time, the more widespread archiving of videos (from YouTube, through digital video recordings to personal TV and movie archives) will automatically drive up consumer demand for greater storage capacity. It's therefore only a question of time until every new PC and notebook comes with a built-in Blu-ray burner.

Blu-ray is fully **downward** compatible with DVD

People who buy a new Blu-ray player don't have to get rid of their carefully compiled DVD collection. That's why the only decisive buying criterion for consumers is the cost of a Blu-ray player compared with that of a high-quality DVD player or drive. As soon as this price difference becomes negligible, consumers won't shy away from the additional expenditure. They will be able to enjoy all the benefits of the new technology without wasting investments that they have already made in DVDs. Based on past experience with DVDs and CDs, consumers will also buy content that they already have on another medium if they gain obvious quality benefits as a result.

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Choice of content will extend in line with rising demand

Every time a new format is launched – be it VHS, DVD or Blu-ray – the choice of content is initially limited. As demand grows, the number of movies available automatically increases. There is already a much wider selection of Blu-ray movies than there were DVD movies at a comparable time (three years after its launch). And if a movie isn't available on Blu-ray disc, the user can always watch it on DVD – see above.