

CES Show To See New Wave Of Competition For Digital Home

By Mark Boslet, Dow Jones Newswires

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PALO ALTO, Calif. (Dow Jones) --Personal-computer and consumer-electronics companies jockeying to be at the center of a new generation of home-entertainment products will find fierce new competition from an unlikely source at this year's Consumer Electronics Show, beginning Thursday.

Telecommunications and cable companies will be trying for the first time to place themselves inside what the industry likes to call the digital livingroom.

"This is the first year we see the big telecom companies and cable companies putting their cards on the table," says Tim Bjarin, president of Creative Strategies, a market research firm. All four industries "are in an aggressive battle to control the digital home."

The prize is a more than \$108 billion U.S. consumer-electronics business undergoing rapid change as movies, television, music and photos increasingly become digital - or based on the "1s" and "0s" of computer language. The aggressive competition will draw about 120,000 vendors, buyers and press to Las Vegas from Jan. 6 to 9 for what has become the year's biggest stage for unveiling new consumer electronics.

And while attendance will be down slightly from 130,000 last year, the products on display are growing. As many as 2,400 companies will fill 1.5 million square feet of exhibit space, up from 1.2 million square feet last year. Some mind-numbing gear is expected: 80-inch flat-panel TVs; DVD players that wirelessly streaming high-definition movies to television sets; a wrist watch with the power of a Palm-like personal digital assistant; wearable camcorders; and wireless handheld devices playing video. Analysts expect to learn details about Sony Corp.'s (SNE) U.S. launch of its PlayStation Portable game console with video playing capability.

"Everything will be networked," often wireless, says Rob Enderle, principal analyst at the Enderle Group. And "you are going to see some amazing things with regard to high-definition video," with greater picture resolution.

Lower prices also should be evident. High-definition 42-inch flat panels will break the \$3,000 barrier and portable music player prices could fall by a third by next Christmas.

The rapidly changing market sparked an unanticipated wave of buying last year. According to the Consumer Electronics Association, 7 million portable music, or

MP3, players were probably sold in the U.S. in 2004, exceeding an August forecast. Shipments of digital cameras rose between 25% and 33% to about 17.6 million units and flat panel TVs using liquid crystal displays, or LCDs, should see shipments reach 2.1 million units, well above the 1.3 million expected.

Industry-wide, sales for the year had been anticipated to be \$108 billion, but may come in well above that mark, says CEA director of industry analysis Sean Wargo. The 7% increase projected for 2005 also may turn out to be low. Wargo said the association will release updated figures during the show.

But the central drama at this year's show will be the face off among computer, consumer-electronics and communications companies. This will be evident in the keynote addresses scheduled for the event. Microsoft Corp. (MSFT) Chairman Bill Gates and Intel Corp. (INTC) Chief Executive Craig Barrett will discuss their companies' strategies. But so will Ed Whitacre, chairman and chief executive of SBC Communications Inc. (SBC), and Judy McGrath, chairman and chief executive of Viacom Inc.'s (VIA) MTV Networks.

The telecommunications and cable companies are looking to offer everything from phone and television service to home networking, says Eric Lefebvre, an executive vice president at privately held Axentra Corp. "I see them as well positioned. This whole concept of the digital home is a massive market."

Axentra will introduce a home server at the show with the ability to send video to mobile devices, such as handheld computers.

CES also may finally show digital entertainment as a market finally coming of age. Michael Demeyer, U.S. vice president of sales and marketing for Cyberlink, says technologies for sharing content in the living room finally began coming to the market in the past year.

There should be a much broader range of products connecting the TV and personal computer this year, Demeyer says. Some will appear to be set-top boxes, but smart ones. Others will look like ordinary consumer electronics devices, such as DVD players, but have the ability to move music from the PC to a living-room stereo.

Cyberlink has run focus groups in the U.S. and Japan, and consumers appear ready to bite at the digital hook. "The desire to share content in the home is very high," Demeyer says. Music is first on people's lists. Photographs also rate high.

But Demeyer is hesitant to say a competitive war is breaking out in the marketplace. "I think it's too early to say it's a battle yet," he says. "I think everybody is trying to get the market started."

Cisco Systems Inc. (CSCO), which began selling its Linksys Extender at the end of October, also offers evidence of a growing market. The Extender hooks up a

PC running Microsoft's Media Center Edition 2005 video playing software to a TV.

Sales of the product are exceeding expectations, says Malachy Moynihan, vice president of engineering and product marketing at Linksys. "There really is a pent-up demand in the market."

Moynihan also says he expects digital-rights-management software that protects movies and broadcasting from copying to become foolproof enough in 2005 that major studios agree to let their content be moved among devices in the home. At present, Internet movie download sites, such as MovieLink LLC, limit their movies to only the PC that downloads them.

Along with livingroom servers that store and distribute video and music, handheld video players will be plentiful at CES. Yet there is little belief this market is ready to take off. The screen on the players - 4 inches in size - is too small to make them popular, many say.

However, Michael Maia, vice president of sales and marketing at PortalPlayer Inc. (PLAY) says portable MP3 players will get a wealth of new features in 2005 that could help adoption. In 2004, many of the first generation players were difficult to use and their screens were black and white. The new wave of products will have color screens and add-ons, like the ability to handle photographs.

Prices also should decline through the year. By next Christmas, models that sell for \$249 today will go for about \$199, Maia said.

At the show, Cisco will display a prototype of an Internet, or voice over IP, phone for the consumer market that it hopes to ship in 2005. The goal is to get the price to \$99 or below, a point at which consumers will replace their cordless phones. The company should be able to get within \$50 of that price, Moynihan says.

Many executives say the crowds make the show a must-attend event. "It's a great place to see a lot of customers all at one time," says Maia. "There is some deal making. (But) it's mostly the relationship stuff."