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The Rapid Demise of HD DVD and the Trail of Embarrassed Analysts Left Behind Michael Greeson, President and Principal Analyst

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Unless you've been hiding under a rock the past few days, you are aware that Toshiba will "no longer develop, manufacture, and market HD DVD players and recorders," a move which formally brings an end to the high-def DVD format war. The rationale? According to Toshiba President Atsutoshi Nishida, last month's decision by Warner Bros. to support Blu-ray exclusively made the move inevitable.

"That had tremendous impact. If we had continued, that would have created problems for consumers, and we simply had no chance to win."

Sound familiar? It should, for the very day Warner Bros. went Blu-ray ([January 4, 2008](#)), TDG publicly stated the following:

"Warner's decision to move exclusively to Blu-ray will rapidly bring an end to the format war that has led to tepid sales of high-def DVD players and discs....HD DVD's lifetime is now numbered in days, weeks at the most."

And just six weeks later, Toshiba pulled the plug. Not that its decision was surprising; to most it was inevitable. It's the timing of the decision that baffled most observers, many of which expected the format war to continue (if but winding down) through Q4 2008 or Q1 2009. TDG was one of the few firms that understood the impact of Warner Bros. decision and accurately predicted how quickly Toshiba would fold its hand.

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A Patient but Timely Appraisal

For those who keep up with TDG's Opinions, you are aware that the January 4th statement was the first time we predicted publicly who would win the format war. Though many analysts had cast their votes months (even years) ago, it was our opinion that there were too many unknowns, too many undecided variables, to offer a reasoned prediction in support of one camp or the other. Despite the rhetorical battle among industry pundits and impassioned bloggers (especially PS3 fanatics), TDG's primary consumer research continued to suggest that HD DVD had more than a fighting chance to win the format war, especially given its significant Q4 2007 price advantages. As well, TDG had knowledge regarding specific Blu-ray studios and retailers who were preparing to go neutral or jump ship to HD DVD during 2008 CES. The number of possibilities was mind-boggling and, should any of them have come to pass, would decidedly tip the scales in favor of one format over the other.

One such possibility was that Warner Bros. (the only major studio to remain format neutral) would declare a preference for one of the two formats, which it did on January 4th, the weekend before CES and just 48 hours before the HD DVD Promotional Group was to host its most important press event to date. When Warner dropped its "Blu-ray bomb," there was nothing HD DVD could do to salvage the format and it was clear to TDG that the war would be over "within days, weeks at the most."

The Smell of Inevitability

The HD DVD Promotional Group could only stand by as their "special announcements" for CES were abandoned, revoked, retracted. It's hard to conceive of a more difficult moment for any professional - center stage at CES, the rug has just been pulled from under you, and everyone is watching. What would you do?

As you now know, HD DVD cancelled the press event, promising to restage the event later that week (which never happened). Those representing HD DVD (in this case, Toshiba, Universal, and Microsoft) were fully aware of the inevitable impact of Warner's decision. The HD DVD Promotional Group (gladly) passed the microphone from Universal to Toshiba, which did its best to rally the few remaining troops and salvage enough public face to clear out its existing inventory before it pulled the plug. Good move for Toshiba but terrible for those consumers who threw down a couple hundred dollars on a next-gen DVD player that within months would become a historical artifact.

The Perils of Being an Analyst

The format war leaves behind a trail of wounded but well-intentioned souls, among them some of the industry's most prominent analysts. I know of one such creature who, in trying to do the right thing, changed his predictions numerous times to be in line with breaking news, only to discover that when all was said and done, he was on the wrong side. What makes him unique among the thousands who got it wrong is that he usually gets it right! That's how difficult it was for thoughtful analysts to see through the smoke screens and politics that defined the high-def format war.

Posterity will say that this particular format war was never about who had the best technology or who offered the best product at the best price (as if preceding/future format wars were/will be

any different). It was about which camp could "convince" the right studios to get behind it. When HD DVD was able to "persuade" Paramount and Dreamworks to join Universal, it seemed as if the content tide was turning in HD DVD's favor. But Warner Bros. was still in play, meaning that neither Blu-ray nor HD DVD could authoritatively claim victory. Should Warner Bros. go with HD DVD, the content advantage would have shifted in favor of HD DVD. Should Warner Bros. go with Blu-ray, however, Sony could claim the support of those Hollywood studios responsible for nearly 70% of DVD sales.

So who knew which way Warner Bros. was leaning? Plenty of bloggers and speculators thought they did (most of which got it wrong). Either way, there was no dearth of gossip, as rumors fed innuendo, and innuendo fed abject speculation. Some of the nation's best analysts were caught up in the PR frenzy and, despite their better judgment, fueled the rumors and speculation by invoking their own good name.

First to be Right Versus Being Correct

No doubt a number of analysts will claim they were "the first" to predict Blu-ray's victory and, to be honest, they probably were. There was no shortage of bloggers and industry insiders declaring Blu-ray's victory within weeks of its market introduction. But anyone can flip a coin, half of which will accurately predict the outcome. Does that make these folks lucky or insightful? The answer depends upon the assumptions underlying their predictions. If they accurately predict the unfolding of specific scenarios which inevitably lead to a conclusion, then they deserve accolades and remuneration. If their assumptions prove unsound yet the conclusion is realized, then they're better off being silent. The problem is that many analysts don't know the difference between the two and habitually invoke "guru" status even when the premises upon which they build their conclusions turn out to be false.

In the end, a professional analyst offers guidance as to how a market may evolve given certain assumptions, all the while cognizant that should these assumptions not hold, the predicted outcome may look very different. If the premises prove invalid or unsound yet the predicted outcome occurs, silence is the best approach, not self-congratulations.

About TDG:

TDG is an intelligence innovator focused on the digital video ecosystem, offering market planning and research services to keep our clients *In Front of the Curve*.™ Since 2004, TDG has helped more than 250 technology leaders, media companies, and service providers to master the quantum shifts impacting how consumers access, navigate, distribute, and consume broadband media - whenever and wherever they may be.

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