# Challenging climate for consumer electronics in Western Europe

NUREMBERG, GERMANY: The consumer electronics (CE) market has registered a significant deterioration in the first half of 2011. In the first six months of the year, sales in Western Europe declined by a total of 11.3% in comparison with the same period of the prior year.

This is attributable to a lack of stimulus from major sporting events, the shutdown of analog TV in some European countries pushing forward purchases, and the financial and economic crisis in the Eurozone. Nevertheless, innovative segments are growing within all product groups. These are GfK Retail and Technology findings prepared for IFA 2011, which is taking place in Berlin.

In comparison to last year, when events such as the Winter Olympic Games, the Football World Cup and the shutdown of analog TV signals, for example in France and Italy, provided major boosts to the CE market; similar stimuli are lacking in 2011. Added to this is the fact that the ongoing financial and economic crisis continues to unsettle European consumers. Consequently, in the first half of the year, both sales revenue and unit sales declined significantly in the CE segments in the six Western European countries of France, Germany, Italy, the Netherlands, Spain and the UK.

## Televisions: large screens popular

Western European countries show a sales decline of 14% for the TV market. In comparison with 2009, a year in which there were also no notable stimuli such as sporting events, a considerable increase of 28% has been recorded in television sales.

The sales share of TV sets within the CE sector is continuing to rise and currently stands at just over 73%. However, compared to the first half of 2010, sales units for Flat-TVs decreased by 8% and prices are still declining. Innovations, including HDTV, 3D and internet-capable devices, are currently not able to prevent this trend, although customers are prepared to dig a little deeper in their pockets for these products. LED televisions, which registered a sales share of 56% in the LCD TV segment in the first half of 2011, are particularly popular because of their sleek design and energy efficient technology. Internet-capable TVs generated a third of sales in the television market in the first six months of the year.

32-inch TVs remain the most popular category, although the sales share fell to 28% in the first half of 2011. The purchasing trend within the LCD market is for larger screens. Televisions with screens that are 40-inch or larger constitute a sales share of nearly 50%; a figure which is still growing.

The integrated digital tuner and full HD are already standard features. 3D-capable TVs now have a sales share of 16%. The average price of a TV set has nonetheless declined by 7% in comparison with the first half of 2010 and the price drop was even higher, at 39%, in both the LED and 3D segments. With an average price of €459 for an LCD TV and €748 for a plasma television (as in H1 2011), consumers are spending significantly less than they did one year ago, while the product features have become more advanced.

In Western Europe, unit sales of 39 million TV sets in total are forecast for 2011. The future is extremely promising for 3D-capable televisions, in particular, with GfK Retail and Technology predicting total unit sales of 6.4 million 3D-TVs in Western Europe.

## DVD/Blu-ray players and recorders: customers shift to High-Definition and 3D

The Western European market for DVD and Blu-ray players and recorders has remained in decline in the first half of 2011. Sales of DVD and Blu-ray players plummeted by more than 40% in some countries, e.g. Spain, however the drop in Germany has been comparatively moderate at 12%.

The main cause for the decline has been the heavy reduction in demand for traditional DVD players, with 29% fewer units sold in Western Europe. In contrast, the Blu-ray player market developed much more positively, with a 20% increase to around 1.5 million unit sales. However, because of the considerable reduction in average prices of Blu-ray players, sales revenue only increased by 5%. Blu-ray recorders continue to be a niche product. At around 34%, the share of 3D-capable Blu-ray players is considerably higher than the share for 3D televisions. This is partly attributable to the fact that former high-end features, such as 3D and network connections, can now also be found in mid-range Blu-ray players. In general, it transpires that 3D televisions are usually purchased together with a compatible 3D-capable Blu-ray player.

## Camcorders: multimedia cameras and HD technology in demand

In Western Europe, the camcorder market suffered a decline of 12% in H1 2011 in comparison with the same period last year and recorded overall unit sales of 1.7 million. Sales revenue fell by 21% to just under €400 million*. Only the camcorder market in the UK recorded an increase in unit sales (+8%), with multimedia cameras being the main driver. However, the lower average price means that here, as in all other countries, sales revenue dropped by 20%.

Although sales of multimedia cameras are virtually stable in Western Europe, unit sales of traditional camcorders decreased by 17%. Despite an ongoing trend towards HD camcorders, which now have a 57% share of sales and 72% of sales revenue, unit sales still fell by 10% overall.

## Hi-fi /home theatre systems: docking systems and internet radios popular

Customers in Western Europe are now paying just under 7% less on average for hi-fi products and home theatre systems than in the first half of 2010. In comparison with other Western European countries, Germany stands apart as it recorded a sales increase of 4.6%, while other markets largely reported negative performances.

In the home audio market, the growth segments continue to be fully equipped audio systems with integrated MP3 docking stations (generating 20% of sales), systems with internet radio (40% sales increase) and surround sound products. Devices with integrated Blu-ray players remain in high demand and recorded a sales increase of 46%. The volume sales share of home theatre systems increased to 37%. Despite virtually stable demand in terms of sales units, the loudspeaker segment suffered a decline of 8% in terms of sales value. "Sound bars" are currently extremely popular and, concurrently with rising sales of large-screen LED TVs, sales have increased by 25%.

## Portable audio devices: competing with smartphones

In the first half of the year, Western European consumers spent around 17% less on portable audio devices. This is primarily attributable to the fall in demand for MP3 and MP4 players, of which 19% fewer were sold. These audio specialists are facing increasing competition from smartphones and mobile phones, which, with few exceptions, have the ability to play music as well. In the extremely important UK market, the sales drop was exceptionally dramatic (-29%), while declines in Germany and Italy were much lower, at -13% and -12% respectively.

The situation is also difficult for traditional portable audio devices. However, development has been thoroughly positive in specific segments, including stand-alone internet radios, design-oriented tabletop radios and radio recorders to which portable media players can be connected. GfK does not yet foresee a trend reversal, as the digital radio market is still in its infancy in most European countries, with the exception of the UK and Switzerland.

## In-car electronics: media network in the car with sat navs

In the first six months of 2011, the in-car electronics segment experienced further sales deterioration of 14% in Western Europe. With declines of 9% and 12% respectively, France and Germany emerged as noticeably more robust than Spain (-17%), Italy (-23%), the Netherlands (-18%) and the UK (-15%). However, in general, the decrease is considerably less dramatic than in the previous year.

When it comes to portable navigation devices, both the average price and demand are falling. Consequently, sales have diminished by some 15%. However, the downward trend is significantly less steep than it was in the same period of 2010. Devices with 5-inch screens have made a positive contribution, as this segment has been able to evade the general market trend and achieve dynamic growth. The development of internet-capable devices has also been promising, as they provide an affordable method of establishing an in-car media network via portable navigation devices.

In the car radio segment, demand dropped 8% and sales fell 16% in a year-on-year comparison. The trend towards products that enable mobile phones, MP3 players and USB sticks to be easily connected has not been able to offset the price deterioration of 9% in the car radio market as a whole. Car radio reception is currently still available via traditional FM reception, but in the medium term it will be supplemented by digital (DAB+) and internet radio, and potentially replaced in the longer term. These technological advancements make it possible to receive more programs with better sound quality, and consequently consumer interest may well begin to rise again in future.

## Outlook: Considerable recovery in the second half of 2011

Even though the market environment is currently challenging, a number of innovative growth segments exist. These are, among others, HDTV, 3D and internet-capable TVs, Blu-ray players, HD camcorders, audio home systems with MP3 docking stations and portable navigation devices with 5 inch displays and internet access. Overall GfK Retail and Technology is expecting a perceptible recovery for the industry during the second half of the ongoing year.

## The method

Through its retail panel in more than 90 countries around the world, GfK Retail and Technology regularly collects data on TV and video devices, portable audio products, camcorders, hi-fi and home cinema systems, in-car electronics and storage media. Unless otherwise stated, this evaluation is based on information from six Western European countries: France, Germany, Italy, the Netherlands, Spain and the UK.

*Exchange rate at time of posting: €1=R10.16*