



New leader in DVD recorder chips

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Chip maker LSI Logic withdrew from the DVD-player chip market several years ago amid falling prices and brutal competition from the likes of ESS Technology, MediaTek and Zoran. But as demand shifts to next-generation DVD machines that record as well as play discs, LSI has gotten back into the game, establishing a leading position in one of the chip industry's fastest-growing markets (see chart "DVD Recorders Catching On," below).

LSI captured 40 percent of the worldwide market for DVD recorder controller chips in 2004 and expects to add to that lead this year, according to Adrienne Downey, senior analyst with Semico Research. "LSI's been really aggressive in going out there and getting design wins," she says. Customers using LSI's recorder chips include GoVideo, JVC, LG Electronics, Lite-On, Samsung, Toshiba and Zenith. Even Philips Electronics, whose chip division makes its own recorder chips, uses some LSI chips.

Semico estimates that LSI's nearest competitor, with 32 percent of the 2004 market, is Matsushita Electric, which supplies chips only to its own Panasonic and National brand products. The next-closest competitors, Cirrus Logic, Philips and Zoran, each had less than a 10 percent market share. And in June Cirrus sold its money-losing DVD-chip business to newly formed Magnum Semiconductor.

Market research firm iSuppli expects sales of DVD-recorder controller chips to rise from \$620 million this year to more than \$1.6 billion in 2009. Moreover, iSuppli forecasts that the total semiconductor content in DVD recorders—including memory, analog and other components—will nearly triple, from \$1.5 billion in 2005 to more than \$4 billion in 2009. During that same period, revenues from DVD player-only chips is forecast to decline 27 percent, from \$1.8 billion to \$1.3 billion.

Although DVD recorders were introduced several years ago, they caught on slowly, because early models cost more than \$500 and buyers were confused by an array of rival recording formats. But sales are picking up as name-brand prices fall below \$200 and discount brands creep below \$100. Semiconductor analyst Rick Faust, with investment bank C.E. Unterberg, Towbin, expects DVD-recorder sales to soar when prices of well-known brands reach \$99. When that happens, he says, "we're going to see DVD recorders basically cannibalize sales of the players."

Another potential sales stimulus is the introduction of machines that can use any of the various DVD recording formats—DVD+R, DVD+RW, DVD-R, DVD-RW, and DVD-RAM. Most current DVD recorders handle only one or two formats. But both Panasonic and LG have introduced multiformat recorders that work with all the standards, and Jim Fox, director of LSI's DVD product marketing, expects such systems to take over the market. "The trend for most major manufacturers is to work with all the formats and to remove this as an issue for the consumer," he says.

Fox says DVD-recorder chips are challenging to design, requiring mastery of multiple technologies and TV broadcast standards. Whereas players need just a read-only optical drive and an MPEG decoder chip to play back digital content, recorders also need MPEG encoding chips to record, several varieties of tuners to receive different worldwide TV signals, analog interfaces to import data from camcorders, and more-sophisticated controllers for optical drives that must both read and write DVD discs.

"Success in the player market by no means assures success in the recorder market," says Fox. Yet the opportunity also is greater, he notes, because the chips used in DVD recorders currently sell for four to five times as much as those in DVD players. "There's far more silicon content for a company to capture in a DVD recorder than in a DVD player," he says.

One potential damper for DVD-recorder sales is the expected introduction late this year of high-definition DVD players capable of storing six times as much data as conventional DVDs. "They'll be competing for share of mind and share of money," contends Ken Lowe, strategic marketing vice president for Sigma Designs, a maker of high-definition chips. Yet iSuppli analyst Chris Crotty cautions that initial high prices and the battle between Sony's Blu-ray and Toshiba's rival high-definition DVD formats will slow the early adoption of high-definition DVDs.

Sigma Designs, Zoran and others already have introduced chips for high-definition DVD systems, before either of the standards is complete, hoping to get a leg up in the next emerging market segment. Others, including Broadcom, are also expected to enter the market.

But LSI, having reestablished itself as a leader in DVD chips, plans to be there as well. Says LSI's Fox, "We'll try to be the company that's ready when the critical product cycle comes."

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