



MARKET WATCH

The Shape of Things to Come

by Stephen Brennan

The expected gloom of December pre-announcements from companies that are not meeting their forecasts is fast approaching. Meanwhile, cell phone sales growth is down; PC sales growth is not what it used to be, even with the new Microsoft XP operating system; and promises of "the next big thing" have been empty ones. Amid all the gloomy news for the semiconductor industry, some observers now question whether the industry's glory days are over. This may be the deepest downturn in industry history, but the long-term future for the semiconductor industry is bright. In fact, in a little-noticed October press release, which generated almost no media coverage, there were hints of what will be the next big demand driver for our industry – the three Cs of convergence, connectivity and consumerism.

Microsoft and Samsung recently announced an agreement to work together on products for the digital home. There were no real products associated with this announcement, there is not yet a huge market, and Samsung will likely continue to use competing operating systems like the Palm OS,

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so it's easy to see why this news received little coverage. What's more, the prophets of convergence and connectivity have become like the boy who cried wolf. Most folks no longer believe optimistic claims about this potential market. Mr. Gates is nothing, however, if not a smart businessman. He has recognized the missing ingredient necessary for convergence and connectivity to become the next big thing. This element is the effective consumerism of such products by consumer electronics giants like Samsung.

THE INDUSTRY'S FUTURE IS IN ITS PAST

Remember that PC demand only took off when two factors came together. Spreadsheets were the application that turned the PC from a techie's toy into a product with a useful function. IBM was the commercial giant that could produce, market and distribute the product in mass quantities. The semiconductor industry is, even today, still

largely dependent on a PC market that really began in a truly commercial sense with IBM. So far, most of the devices touting convergence or connectivity are like those early PCs for hobbyists. If you go outside major cities or mix with folks who aren't executives or engineers, you're not going to see too many Palm Pilots, RIM Blackberries or Handspring Visors. If you live in a major technology center, it's easy to forget that these devices are curiosities, just as the early PCs were.

DEVICES FOR THE MASSES

Earlier this year Samsung came out with a product that was more than a mere curiosity, the I300. As a cell phone with a Palm OS, it represents the convergence of two different devices – something that is especially noteworthy because the enormous cell phone market is not a niche as is the market for PDAs. With its web capability, the I300 also represents the move to connectivity. More importantly, Samsung has been able to get this device to market before pioneers like Handspring could even announce a similar product. The real future for production of these devices is exactly where Gates believes it will be – with consumer electronic giants.

It will be the manufacturing, marketing and distribution muscle of global names like

Samsung or Sony that bring convergence products, like Sony's DCR-TRV30 with its ability to both record video and take quality still pictures, to consumers. Samsung's I300 and Sony's DCR-TRV30 redefine existing large consumer markets, where demand for specific applications is already proven. The next challenge is to produce these goods at affordable prices for ordinary consumers. This is a challenge that leading consumer electronics companies have met before. Although this Christmas may see the semiconductor industry receive a lump of coal, the next holiday season is likely to see new demand drivers for an industry whose glory days are far from over. ■

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