

# Buying displays in the world of Alice in Wonderland

**There are many things in this industry that don't seem to be logical unless you understand how the industry works. Printer manufacturers almost give away their products in order to create a lucrative market for consumables and flat screen manufacturers arrive at a pricing structure which often has little to do with the cost of the raw materials. Stan Curtis lifts the veil slightly on just one of these mysteries.**

Let's take the case of LCD displays and televisions; a subject on which I have had a lot of first hand experience negotiating with factories in China and Malaysia. Most of the time the pricing follows the normal downward trend yet sometimes it is impossible to negotiate any price advantage or even get enough product to satisfy the client's needs. Indeed sometimes you can find really peculiar things happening such as 19 inch screens becoming cheaper than 17 inch units. Take the last quarter of 2005 as an example. Every buyer and indeed potential customer for LCD televisions in the 20 or 21 inch size confidently expected the price to fall yet surprisingly the price firmed up and such sets went onto allocation; there was a shortage of supply. How could this be? The reason was that the market for expensive 50 inch sets took off in the USA and so the glass manufacturers cut more of the lucrative 50 inch panels from the master sheets and cut just enough 20 inch panels to fulfil their contractual obligations plus whatever panels they could extract from the off-cuts of glass.

One popular misconception is that all the display manufacturers are engaged in mortal combat fighting to seize every last sale from their competitors. Whilst this may be true at a local level between different sales managers it certainly isn't true at a corporate level. The big names - Samsung, Sharp and the like - all manufacture the prime 'glass' from which the screen panels are cut and, as with any manufacturing process, there are yield limitations. In the case of LCD panels the biggest problem is dead pixels, particularly in the middle of the screen. Now truth be told, most consumers will never spot these dead spots - certainly I couldn't until I'd been trained to look for them after which I could see them every time and my viewing pleasure was seemingly ruined for life.

Naturally the premium brand manufacturers want to keep the 'perfect' panels for their own branded televisions but that leaves them with a small surplus of 'A grade' panels (say three or four dead pixels); a much larger surplus of 'B grade' panels (rather more defects) and a number of 'C grade' panels which officially don't exist and which more correctly need to

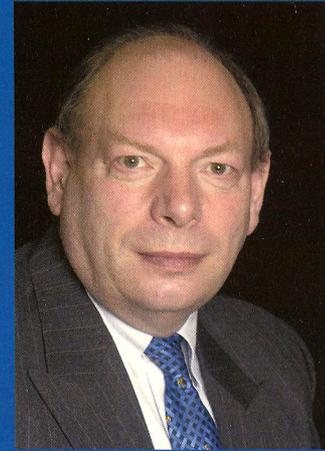
be graded as 'Z grade' panels. What is the manufacturer to do? Bin the lot in the nearest skip? In fact the whole lot are sold quite profitably to other television and display assemblers who manufacture for the 'League Division One' brands down to the 'Vauxhall League' brands. In this way a bit of healthy competition keeps the money rolling in. You may also care to muse on the fact that some of the suppliers who offer you a

good deal on some 'no brand' displays is knowingly selling you 100% reject screens; except of course neither you nor your customers will probably ever notice. But there is more. Some regulators are claiming that the major glass manufacturers have been colluding to keep the price of the panels as high as possible. Heaven forbid that this is true but Japan's Fair Trading Commission; Korea's Fair Trade Commission and the US Justice Department have been talking to a number of companies, including LG Philips; Samsung; Sharp; Sanyo; CMO and NEC, about allegations that they have held back supplies in order to stabilise prices. Be that as it may

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it is certainly the case that many OEM manufacturers are convinced that there is a series of phone calls made every morning after which the price of panels shows a remarkable degree of consistency.

All of which goes to illustrate that if you don't fully understand how a business works you are never going to understand what your supplier is thinking. And unless you know what he is thinking you won't be able to negotiate the best deal. Something to think about the next time your supplier doesn't give you the hard sell with his usual enthusiasm. It may just be that for other obscure reasons he doesn't want you to buy. ■



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