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The No-Name Brand Behind the Latest Flat-Panel Price War

By DAMON DARLIN FEB. 12, 2007

If his Olevia line of televisions was ever going to get any attention from consumers, Vincent F. Sollitto Jr. would have to do something big, splashy and, in economic terms, just plain crazy.

On the day after Thanksgiving, Mr. Sollitto, the chairman and chief executive of Syntax-Brillian, had 32-inch Olevia liquid-crystal display TV sets selling at Circuit City for $475, almost half its regular price.

Syntax almost certainly lost money on the TVs. The flat screen that makes up about half the cost of an L.C.D. TV is about $350 on its own. But Mr. Sollitto could not have been more pleased. The Olevias outsold Sony and other brands while they lasted. That forced the premium brands to lower prices throughout the holiday season and take notice of the upstart from Tempe, Ariz.

“I think we are being annoying to those guys at the moment,” he said. “We are going to be on that radar screen soon if we aren’t there already.”

In the battle for market share in big-screen TVs, there is a lot of pain to go around as prices drop sharply. Circuit City, for instance, lured a lot of customers into its stores with the promotion. But last Thursday it said it would have to close about

70 stores because of slim profit margins on televisions and other products. Profits at almost all of the major TV makers are down.

The only ones not getting hurt are consumers, who enjoyed sliding prices on HDTVs in 2006. They are likely to see a rerun of the same action in 2007 as prices are expected to fall further by 40 percent or more. For that they can thank the low-price brands like Syntax's Olevia.

"It does impact the business," said Bruce Tripido, senior director of marketing for Sharp's entertainment products. "They've accelerated the price compression and the reduction in profitability for everyone across the board."

Of course, Olevia does not have the luxury of the name recognition enjoyed by Sharp and others. "A year ago we were nobody," Mr. Sollitto said. "We were just trying to get people to hear our story."

That is starting to change. Viewers of ESPN's high-definition cable channels and its other media outlets are more familiar with the brand after a spate of advertising. Consumer Reports magazine recently rated an Olevia a best buy, along with a Sony.

Mr. Sollitto, a 21-year veteran of I.B.M. who later worked at a succession of other high-tech companies, predicted that Olevia would become a top-tier brand.

Jonathan Dorsheimer, vice president of equity research at Canaccord Adams, said this was "an achievable goal" for the company. He said Syntax had already garnered about 4 percent of the United States market, even though until late last year its sales were confined to regional electronics stores and online vendors, which make up only about 40 percent of the total market.

The company could increase its share to 7.5 percent of the United States market as it moves into the big stores, said John Vinh, a senior research analyst at C. E. Unterberg Towbin.

This year, Olevia TVs are in Circuit City, Office Depot and Kmart stores and will soon be in Target's revamped electronics departments. Best Buy is experimenting with selling the brand online. The company expects to sell slightly more than a million TVs in the fiscal year.

There are about 80 brands in the crowded American market for L.C.D. televisions, most of them value-priced. Olevia's competitors include Vizio, which has had success selling through Wal-Mart and Costco, and a number of brands recycled from yesteryear, when the United States still made televisions: Zenith, Emerson, Sylvania, Westinghouse and Magnavox

With the exception of Zenith, which has become the value brand of the Korean company LG, these brands are used by "virtual companies" that, like Syntax, contract with assemblers to build the TVs.

Syntax, though, has attracted the interest of investors because it is the only publicly traded TV-focused company in the United States. Its shares shot up from $2.02 in May to a 52-week-high of $11.70 in early January.

It has fallen since then and dropped 15 percent on Thursday after Mr. Sollitto issued a more conservative forecast for revenue growth — a tripling of revenue in its 2007 fiscal year ending June 30.

Mr. Vinh said investors' expectations had run ahead of reality, and he brushed off the drop in price. He is forecasting that the shares, which closed at $8.11 on Friday, will go to $14 a share, and the handful of other analysts following the company remain optimistic. "The company is in hypergrowth mode," Mr. Vinh said. "That's a good problem to have."

Mr. Sollitto is essentially taking a ride on the falling prices of flat panels, the main component in the TVs, and the drop has steepened because of a glut. It owns no factories, but buys the panels and has contracts with four manufacturers to assemble the televisions. This keeps costs down but is risky because the company does not control the supply of parts.

Right now that does not matter so much. While there is high demand for L.C.D. TVs and only eight suppliers of the flat panels that are the main component of L.C.D.'s, many of the independent factories in Taiwan are not running at full capacity. To reach greater efficiency and better economies of scale, they offer a lower price to anyone who commits to buying a lot of panels.

For example, the price of a 37-inch panel has fallen to $476, from $690 a year ago. Sweta Dash, an analyst who tracks panel prices for the market information company iSuppli, expects them to drop to $375 by June, presaging even bigger discounting at the retail level for those TVs in the next few months.

The three biggest names in the business, Sony, Sharp and Samsung, which hold about a third of the market, declined to comment on Olevia. Jonas Tanenbaum, Samsung's vice president of visual display marketing, noted that "there has always been a disruptive force in the market." Indeed, 15 years ago Samsung was the scrappy company building credibility.

"The off-brands are residing in a price band where we are simply not going to reside," said Mr. Tripido of Sharp. His company has considered selling a value-priced TV, which would not carry the Sharp name.

Instead, Sharp's strategy is to produce panels in its advanced plants in larger sizes, like 46, 52 and 65 inches, where the value brands cannot compete. (It also has a 108-inch TV coming.) Then it prices aggressively.

"The pricing was incredible right out of the chute" with the new sets, said Eric Haruki, an analyst with IDC, a market research company. "The big guys made pricing moves on their own."

The result is a smaller price gap between the premium names and the value brands, creating a future risk for Syntax. Right now the average price of a 32-inch L.C.D. TV from a lesser-known brand like Olevia is $834, while a premium brand like Sharp sells for $1,217. Riddhi Patel, an analyst at iSuppli who tracks the overall market, predicts that by Christmas the prices will be more like $600 versus $850.

When the margin is only $150 to $200, Ms. Patel said, a shopper is more apt to shrug off the difference and choose the recognized brand name.

"We will be prepared for what's coming, and that's a very aggressive price reduction throughout the year," Mr. Sollitto said.

As consumers develop a sweet spot for even bigger TVs, Olevia is pushing to sell 42-, 47- and 52-inch sets, some of them in the higher-resolution 1080p standard.

Mr. Sollitto said brand recognition becomes more important as the price difference between a top brand and his brand narrows. “The advertising makes a difference,” Mr. Sollitto said. “People are looking for a brand.” That explains why Olevia spent $2.4 million on advertising in the last three months, a tenfold increase in its ad budget.

Syntax has lined up three factories in China and Taiwan to assemble 1.3 million TVs in 2007. It also has a contract factory in Ontario, Calif., operated by Solar Link Technologies of Taiwan, to more quickly deliver to retailers in the United States. It is now seeking the capacity to produce 1.2 million more TVs. Mr. Sollitto has been racing to arrange financing for all this growth.

“Our biggest concern right now is, let’s not bite off more than we can chew,” he said.

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