U.S. Upstart Takes On TV Giants in Price War

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Static in the global TV-set business is forcing some big players to re-tune their game.

On Monday, Philips Electronics NV blamed a profit dip on its floundering TV operations -- just days after saying it would restructure its North American television business. Earlier this month, [Sony](http://quotes.wsj.com/SNE) Corp. [sne +0.12%](http://quotes.wsj.com/SNE) [**sne**](http://quotes.wsj.com/SNE) **in** Your Value Your Change Short position replaced its top TV executive following failed efforts to turn around its unprofitable television unit. [Matsushita Electric Industrial](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=mc) Co. , the maker of Panasonic products, recently reorganized a part of its U.S. business to better respond to intensifying price competition.

But one upstart, Irvine, Calif.-based Vizio Inc., has largely surfed past the industry's woes. Its single focus: churning out low-priced flat-panel TVs.

Vizio is a fraction the size of Sony and Samsung Electronics Co., both leading brands in the U.S. flat-panel market. Yet Vizio shipped 12.4% of North America's liquid-crystal display, or LCD, TVs in the last quarter of 2007. That's just behind Sony's 12.5% share and Samsung's 14.2%, according to research firm iSuppli Corp. Overall, Vizio's sales have multiplied to just under $2 billion last year, up from $700 million in 2006 and $142 million in 2005, according to the closely held company.

The California company's success illustrates the rise of a new business model in the fast-changing TV industry. Big Korean and Japanese consumer-electronics makers spent huge sums developing and marketing their own technology, creating a high barrier to entry for newcomers. They also built many key components in-house, including the all-important LCD and plasma display panels.

But panel technology is becoming ever more commoditized, meaning big brands aren't the only ones controlling the field. The shift has allowed nimble players like Vizio, which handles the design and marketing, to hook up with contract manufacturers and produce their own cheap TVs. At the same time, discount retailers such as [Wal-Mart Stores](http://quotes.wsj.com/WMT) Inc. [WMT -0.33%](http://quotes.wsj.com/WMT) [**WMT**](http://quotes.wsj.com/WMT) **in** Your Value Your Change Short position are increasing their sales in the electronics category, slashing prices in the process.

By late last year -- after a spate of holiday promotions -- the average flat-panel TV cost just $920, down 24% from 2006, according to DisplaySearch.

Vizio chief executive William Wang was prescient. A native of Taiwan and a former marketer of computer monitors, he was struck by a 2002 ad for a $10,000 Philips flat-panel TV. He sensed an opportunity. Rather than sell the sleek sets as luxury items, he figured he could make flat-panel TVs that were affordable to average consumers.

Back then, the computer-monitor business had largely transitioned from clunky cathode-ray tubes to flat panels. Mr. Wang knew many of the parts in flat computer screens were used in flat-panel TVs. Tapping his computer contacts in Taiwan, he calculated he could get enough parts to qualify for a bulk discount and use them to make inexpensive TVs.

To fund the effort, Mr. Wang borrowed money from friends and family. He also mortgaged his home in Newport Beach, Calif., eventually raising $600,000. While he wanted to name the new company "W" after himself, he settled for "V" after learning that a hotel chain had claimed the letter. V launched in October of 2002.

Impressed With V

In January 2003, Mr. Wang met with executives at [Costco Wholesale](http://quotes.wsj.com/COST) Corp. [cost -0.44%](http://quotes.wsj.com/COST) [**cost**](http://quotes.wsj.com/COST) **in** Your Value Your Change Short position in Issaquah, Wash. He pitched them on a 46-inch plasma flat-panel TV for $3,800 -- half the price of competitors' sets. During the meeting, Mr. Wang said he wanted to become the next Sony in five years, says Tim Farmer, Costco's vice president of merchandising for consumer electronics. The Costco executives laughed, Mr. Farmer recalls.

Nonetheless, the Costco team was impressed enough with V that they decided to give Mr. Wang a chance, says Mr. Farmer. By February 2003, Costco was stocking V's TVs in 10 of its warehouses. A month later, it expanded the line to all 320 of its U.S. warehouses. That store count has since grown to 385. Today, Costco says Vizio is one of its largest TV suppliers.

"Vizio has always supplied my projections, and I've never been shorted product," says Mr. Farmer.

For Gabe Billings, a 33-year-old stay-at-home dad, price was the main concern when he purchased a 37-inch Vizio from Costco this month. Mr. Billings, of Eugene, Ore., says he isn't so brand conscious when it comes to TVs. "I didn't see any point in spending hundreds of dollars more for something I won't be able to tell the difference, once I get home," says Mr. Billings. He says he spent $749 for the Vizio, versus the roughly $1,100 charged for bigger-name models.

Much of Vizio's success stems from the cozy relationship that Mr. Wang has forged with Taipei-based AmTran Technology Co. AmTran is a contract manufacturer that for years built computer monitors and TVs for companies like Sharp Corp. and Sony. Unlike with those customers, however, AmTran owns a 23% stake in Vizio.

The arrangement gets Vizio preferential treatment. AmTran sometimes swallows shipping costs and pushes component suppliers to ensure Vizio's products are high quality and on time. AmTran now gets about 80% of its revenue from Vizio. In turn, Vizio sources as many as 85% of its TVs from AmTran, according to research firm DisplaySearch.

"Unlike many PC companies who try to make their money by trying to squeezing the vendor, we try to work with our vendor," says Mr. Wang, 44 years old. Scottie Chiu, AmTran's chief financial officer, doesn't dispute that his company gives Vizio preferential treatment.

Other TV upstarts are pursuing similar strategies. Syntax-Brillian Corp., the Tempe, Ariz., seller of the low-cost Olevia brand of TVs, works with electronics manufacturer Taiwan Kolin Co., which bought a 12.5% stake in the TV maker in 2006. Flat-panel TV maker Westinghouse Digital Electronics LLC of Santa Fe Springs, Calif., says it works closely with Chi Mei Optoelectronics Corp., Taiwan's second-largest maker of LCD panels.

Sony and others, such as Matsushita, say they aren't fazed by their much smaller rivals. Stan Glasgow, president and chief operating officer for Sony Electronics, says Vizio's lack of in-house manufacturing and development resources will hold the company back. "Vizio doesn't have the kind of resources and money to lock up [flat panel] supply," he says. "I think they're in trouble."

Mr. Wang sees no disadvantage to not owning factories. So far, Vizio has largely made products based on existing technology, although the CEO does have ambitions to dream up new products. "R&D is the key for innovation, not manufacturing," he says.

A Profitable Friendship

Born in Taiwan in 1963 and raised in Hawaii, Mr. Wang studied electrical engineering at the University of Southern California. He returned to Taiwan in the 1980s to work for Tatung Co., which made computer monitors for International Business Machines Corp. While at Tatung, Mr. Wang met and befriended Alpha Wu, the future founder of AmTran, who was then a founding executive at a Taiwanese monitor maker.

By 2004, Mr. Wang had changed his six-person company's name to Vizio. He also decided he needed another round of funding, of about $2 million. He targeted manufacturing partners since he wanted to tie suppliers to the success of the brand.

AmTran, the 3,000-employee manufacturer that his friend Mr. Wu founded in 1994, was a natural choice. But AmTran was hurting. The company reported 2004 earnings of $4.1 million on revenue of $428 million and a profit margin of just 0.9%. In 2005, it had a loss.

Mr. Wang suggested to Mr. Wu that AmTran invest in Vizio because its TVs were gaining traction in U.S. retail stores. By then, Vizio was producing $18 million a year in revenue and was profitable, he says. In April 2004, AmTran bought an 8% stake in Vizio for about $1 million, say the companies. (AmTran declined to make Mr. Wu available for comment.) That same month, Mr. Wang sold an additional 8% of Vizio to an affiliate of Hon Hai Precision Industry Co., the world's biggest contract manufacturer of electronics.

Bold and Unique Move

Vizio's move was both bold and unique, because the company wasn't just outsourcing its manufacturing as many companies do, but it was also creating an equity partnership with a major supplier. AmTran CFO Mr. Chiu says the company hoped the Vizio relationship would blossom into a strategic partnership, but "nobody knew" whether such close cooperation with a customer would work. Suppliers are typically reluctant to do too much business with a single customer, because it risks disaster if the relationship fails.

Vizio soon leveraged its new manufacturing clout to increase its number of television models to five from two. It also broadened its distribution into retailers such as Wal-Mart's Sam's Club division and BJ's Wholesale Club Inc.

In 2006, Vizio says sales of its TVs jumped fivefold, to 700,000 sets from a year earlier. That June, AmTran bought an additional 15% of Vizio's shares from the company's departing CFO, who was moving back to Taiwan, both companies say. They declined to reveal how much the additional stake cost.

The alliance helped AmTran turn a corner. According to the company, revenues last year rose to $2.1 billion, up more than double from $959 million in 2006 and nearly five times its 2005 revenue. Earnings were $31.5 million in 2006, compared with a net loss in 2005. Mr. Chiu, the AmTran CFO, says business is hard to predict this year, given the shaky U.S. economy, but he expects revenue to grow by at least 30%.

The synergies continue to benefit both companies. In a brand-boosting coup, Vizio last July snared National Football League star LaDainian Tomlinson as a pitchman. The San Diego Chargers running back has endorsed Vizio's sets through television ads and appearances on shows such as Dr. Phil.

Last October, a Vizio official showed Seong Ohm, senior vice president of merchandising technology for Sam's Club, some new products. Ms. Ohm says she wanted a TV that female customers could relate to, especially something that could blend into a kitchen scheme. She got a peek at a prototype of a white, 20-inch flat-panel TV. Ms. Ohm liked the design so much, she says she asked Vizio to get 20,000 of the TVs to Sam's Club by early March. The sets have since arrived in the U.S. and are featured in Sam's Club's Spring catalog for $348.78 apiece.

Plans to Diversify

Still, some hurdles loom. Vizio may face a shortage of LCD panels. Neither Vizio nor AmTran produce the flat panels themselves, and the companies that make them may hoard them to sell under their own brands. AmTran's Mr. Chiu says the supply of LCD panels in the midsize range -- 32 inches -- could become "tight" in the second half of 2008 if U.S. demand holds up. But he says AmTran hopes to secure enough supply by leveraging its sizable purchases of large-size panels.

Mr. Wang says Vizio plans to further diversify its product portfolio into TVs made from plasma panels and may also expand into Blu-ray DVD players. But he has tempered his earlier ambitions about quickly becoming the new Sony.

"We still have a long way to go," he says. "Our goal is to be the next Sony in 20 or 30 years."

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