

DIGITAL DCC COMPACT CASSETTE

ARTIST & RECORD INDUSTRY UPDATE

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In response to many requests from artists, record label executives and dealers, I would like to give you an update on the Digital Compact Cassette today and the immediate future outlook.

As Commercial Director at PolyGram in charge of DCC development worldwide our mandate is to introduce DCC as the new portable sound carrier as early as possible and to safeguard the future well-being of artists, writers, composers and, not least of all, the record industry by ensuring this new tape carrier is established alongside compact disc as the natural replacement for the traditional analogue music cassette.

DCC RECAP

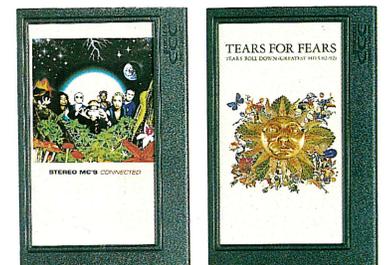
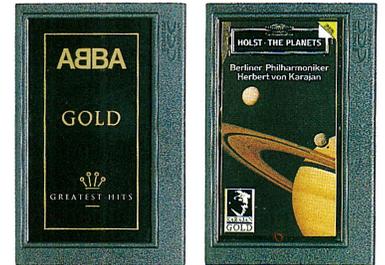
- ▶ The Digital Compact Cassette has now been launched in 27 countries on four continents.
- ▶ 18 countries have active DCC industry committees whose task it is to guide its smooth introduction in their territories.
- ▶ Five of the six major record companies are backing DCC, and three of them exclusively.
- ▶ There are seven operational DCC plants on three continents, five of which are owned, or are connected to, the majors, BMG, EMI, MCA, PolyGram and Warner. The combined production capacity is over 10 million units.
- ▶ These plants together have already produced 2.5 million DCCs on over 100 different labels.
- ▶ Together the industry has created 631 national and international releases and 353 Japanese titles for a total catalogue of 984 titles (June '93).
- ▶ We have set up over 3000 dealers and key new releases are issued monthly.
- ▶ Dozens of point of purchase advertising items have been created by regional DCC groups, DCC co-ordination, Philips, Matsushita and national industry sales organisations.
- ▶ We have demonstrated DCC at the CES at MIDEM, NARM, IFA in Berlin, the Tokyo Audio Fair and literally hundreds of other venues.
- ▶ There are 24 hardware companies which have either launched DCC, have shown DCC models or have participated in audio fairs for DCC.
- ▶ Car manufacturers have been keen to embrace DCC equipment because DCC also plays existing cassettes, overcoming the problem that normally all new player developments have to wait six to seven years before enough software exists for car manufacturers to build them in as standard equipment.
- ▶ There is a great belief that DCC's superb digital sound quality for portable and car markets can for the first time be fully developed for the hi-fi expert on the move.

DCC SALES DEVELOPMENT

Our quick action, hit, oriented industry has lately become impatient with the seemingly slow development of DCC sales even though in all our presentations we have warned that the introduction of a new sound carrier will take at least three years or more before real sales develop (CD was exactly the same).

The late arrival of DCC portables in September 1993, and the confusion in all quarters caused by the introduction of two competing new audio systems at the same time has influenced the introduction speed as well.

Patience, tenacity and belief are pre-requisites from all of us if we want to safeguard a pros-

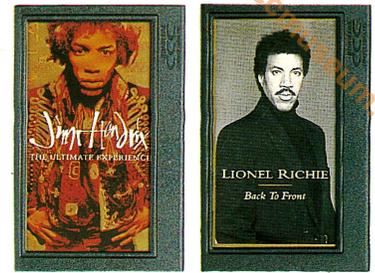


LET ME EXPLAIN FURTHER

Cassette player sales for 1991 were an enormous 213 million units worldwide. The vast majority of these sales were replacement sales for customers who were upgrading or replacing an old or broken cassette player. Approximately 80% of these sales were for the portable market, comprising inexpensive and robust personal stereos, in-car players, boomboxes or ghetto blasters. For the same year, CD player sales totalled only about a quarter of this volume at 45 million units.

The first DCC players made available have been non-portable hi-fi decks for the home retailing at over \$600. This compares favourably with the first CD player prices introduced ten years ago.

However, home Hi-Fi units priced over \$500 are the smallest segment of the current analogue cassette market claiming a mere 450,000 of those 213 million sales. On a like for like replacement of DCC players over analogue cassette players, we are doing very well but it only reflects a tiny percentage of the overall potential of DCC. The market will rapidly increase once the portable and car players are released.



NOW LET'S LOOK INTO THE FUTURE

In September we will see headphone stereo and car players introduced and at the end of the year, boom boxes. Of course these will also be relatively expensive at launch.

According to DCC player pricing, we will appeal to approximately 10% of the 213 million cassette replacement market by the end of this year (high-end buyers only). Our market potential will then have increased from the 450,000 today to over 20 million by December '93.

In 1994 new less expensive DCC models will be introduced which will appeal to an even larger section of the analogue cassette market. Pricing at this stage should make DCC a favourable option for 20% of the total analogue cassette market or 40 million consumers. At this point we should see DCC really start to take off.

BUT WHAT ABOUT MINI DISC OR EVEN DAT?

We believe that it is unlikely that these alternative systems will take away a share of the 60 million sales potential in the next 18 months.

The cassette (portable) and CD (home) markets are fundamentally different. For instance, the purchase of one CD player puts the concert hall into your home but with the cassette you need a *portable*, a *car unit*, a *boombox*, a *home unit* etc, in fact the average cassette player population per household is almost three players for the developed world. In comparison, for the CD the average is only three-quarters of a player per household after ten years.

Because you can use your old cassettes on the new DCC player (backward-compatibility), you can trade up slowly for a premium when you want to buy a new cassette player anyway.

With Mini Disc or DAT, it requires a drastic decision to change your entire sound system and music collection - a rather overwhelming and expensive decision which the mass market can hardly be expected to make in times of recession in many countries.

DCC system buyers can switch slowly as they trade in their old players and do not have to make the drastic decision to make their old MCs obsolete by switching to a new totally revolutionary system.

If you believe like us that DCC ensures a strong future for the record industry, we should like to hear from you. Your support and backing can make a difference! We look forward to receiving your comments and proposals. Your public support in the form of a testimonial could be invaluable!

Yours sincerely,

DIETER RADECKI
Commercial Director DCC

