

## **Toshiba Concedes Defeat in the DVD Battle**

*Martin Fackler*

The biggest consumer electronic format war in a generation is officially over.

Toshiba, the Japanese electronics giant, threw in the towel on its HD DVD technology Tuesday, announcing that it would no longer develop, produce or market disc players for the format. In doing so, it ceded victory to Sony's competing Blu-ray format, which now looks set to become the global standard for high-definition DVDs.

In a pitched two-year battle, Sony and Toshiba tried to woo Hollywood studios to release movies in their formats and to persuade computer and game console makers to use their disc drives. The struggle was reminiscent of the 1980s battle between the VHS format of Matsushita and Betamax from Sony to become the standard for videotape.

Toshiba's chief executive, Atsutoshi Nishida, said the death blow for HD DVD came last month, when the movie studio Warner Brothers, a unit of Time Warner, decided to drop the format in favor of Blu-ray. He also cited a decision last week by Wal-Mart Stores not to stock discs and players using the Toshiba format.

"The sudden change by Warner Brothers was like a bolt from the blue," Mr. Nishida said at a news conference at Toshiba's headquarters in Tokyo. "We had no more prospect of winning this competition."

He said Toshiba had already informed two of its biggest HD DVD partners, the studios Universal and Paramount, of its decision. Other partners included Intel and Microsoft, which sold HD DVD drives for its Xbox 360 game consoles.

Mr. Nishida said Toshiba would halt all production by the end of March, though it would continue offering customer support for several more years. He also said Toshiba had no plans to begin producing Blu-ray players.

He refused to say how much money Toshiba stood to lose from dropping HD DVD, though analysts had said the cost could be in the hundreds of millions of dollars. That would be far from a fatal blow for Toshiba, which had \$60.3 billion in sales last year.

In fact, Toshiba's share price jumped 5.7 percent Monday after the Wal-Mart decision fed speculation that the company would drop out of the costly format war. Toshiba's announcement Tuesday came after Tokyo markets closed.

Toshiba said it had sold about one million HD DVD players, about 600,000 of those in the United States. Analysts have said Sony and its partners, including Samsung and Panasonic, have sold an equal or slightly smaller number of Blu-ray players, and an additional three million Blu-ray drives as part of Sony's PlayStation 3 game console.

Those sales are tiny compared with the 100 million video players sold globally last year that used the current DVD format. The companies have been betting that sales of the next generation of DVD players will rise with the popularity of high-definition televisions, whose sharper images require the greater storage capacity of the new discs.

The format battle often drew yawns from analysts and consumers, however. Many believe that the new disc format will be leap-frogged quickly by Internet-based movie downloads, just as music discs have been increasingly replaced by digital files.

Some executives and analysts in the electronics industry worried that the DVD war was hurting the industry by making consumers reluctant to buy either format. On Tuesday, Mr. Nishida said he hoped Toshiba's decision would help the high-definition DVD market develop.

During the news conference, Mr. Nishida showed flashes of anger at Warner Brothers, a rare display of emotion for one of Japan's usually reserved corporate chiefs. He said the two formats were about even in sales until Warner Brothers decided in early January to join the Blu-ray camp, which also includes Walt Disney and 20th Century Fox studios.

Mr. Nishida said the company was going to refocus its resources on more profitable products, like laptops and flash memory computer chips.

On Tuesday, he announced that Toshiba and an American partner, SanDisk, would spend at least \$16 billion to build two flash memory plants in Japan.

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