



### Obsolescence do you have a strategy? Part 3

“*The only constant is change*”. This article will look at how changes to consumer electronics and computer system are affecting the identification of Like Kind and Quality (LKQ) replacements. In a 2006 article I authored on this subject I wrote “Obsolescence has always been a component of the electronic industry but never before have so many products been close to or at the end of their lifecycle, at one time”. When this was written we were at the dawn of the digital age and being forced to rethink what would constitute a true LKQ replacement for many consumer electronics. This article will look at a how current changes in design and technology are creating a completely new group of products to challenge our perceptions of LKQ replacements while also re-examining a couple of categories preciously from the previous article.

Less than a decade ago the majority of consumer electronics and computers systems had clear successors. LKQ replacements were available offering similar technologies at comparable price points. This is no longer the case for a number of current technologies. Today, when identifying a current replacement you may find that the obvious route is so fundamentally different or constitutes such a significant change or upgrade to no longer be considered equivalent. In these cases does an Actual Cash Value settlement based on the last selling price represent the fairest option or does a model which is a significant upgrade in value and technology represent the best/fairest option? You may find the answer needs to be determined by the individual circumstances or you may choose to adopt a more constant policy; but the best way to make an assessment is to understand what differentiates the current product from the original. Here are some of examples that will require your attention now, or in the very near future.

**TV's:** The last time I examined TV's we were comparing picture tube and rear projection televisions to the emerging technologies of LCD and Plasma. Today the changes to the technology are no longer a factor. It's the screens size and specific brands that are creating today's challenges. Not long ago a 42" Plasma TV was considered a large TV and name brand 15" through 26" LCD TV's were common place. Currently, other than a few entry-level 42" Plasma TV's there is not much selection available in this category. So the question becomes how do you determine a replacement for an older higher quality 42" Plasma TV? Do you replace with a comparable size LCD/LED TV even though it is a different technology or do you upgrade to a comparable 50" Plasma? What about the smaller LCD TV's? Presently very few name brand manufactures are making any TV's smaller than 32". So how do you determine an equivalent? Would you use a non-name brand replacement in order to match the size or would you upgrade the original 15" and 19" TV to a 32" too maintain the brand?

Brands can be equally as challenging. A few prominent manufactures are either no longer in the business or are no longer making a specific technology. Pioneer (Elite) once considered to make the best TV available are no longer in the TV business. Replacing a Pioneer model can create a difficult challenge as many consumers who owned one of their televisions don't consider any current models to be equivalent. How would you address this? Another example would be Toshiba, who once made both Plasma and LCD TV's but today only make LCD/LED TV's. Would the brand be the major consideration in identifying a replacement or would it be the technology? These are just a few examples of the challenges you may face in what many is typically perceived to be a straightforward category by many.

**Computers** – In past articles we've never examined LKQ replacements for computer systems since the changes to this category were performance advances and not about technology changes. This is no longer the case; in the course of the last few years we've seen a number of product categories and manufactures come and go.

**Netbooks:** Not long ago that this category of was considered the future of portable computing with almost every manufacture offering multiple models. Today all but a few manufactures have abandoned this category and those that remain will surely exit shortly leaving no direct or similar replacement available for these inexpensive computers. How will you determine a replacement? Will you use a larger laptop computer, an Ultrabook or a cash settlement?



**Tablet or Convertible Tablet Computers:** Originally Tablets were designed as a business computer with early touch screen functionality. The category broadened to include consumer models but after a short period of time consumer tablets computers were discontinued and the definition of Tablet no longer means the same thing to the typical consumer. Today when we think of a Tablet we think of the iPad or any number of similar products from other manufactures. The problem is a current tablet bares no similarity to the original tablet computer either in form or function. So how do you replace an original tablet computer? Do you upgrade to a business series model which will typically be a significant upgrade in value, quality and performance or do you replace it with a current consumer laptop computer which will most likely upgrade performance but lose the limited touch screen functionality?



**Screen Size** is also quickly becoming an concern. Large screen models are quickly disappearing as portability becomes a key selling feature. Apple has stopped making their 17" laptop computers leaving no direct replacement for these models. 18.4" Laptops which were available from a number of PC manufactures a few years ago are now almost nonexistent. At the smaller screen sizes manufactures continue to the switch models from the laptop to the Ultrabook category leaving out CD/DVD drives in most of their 13", 14" and even some 15" computers. How will you address the larger screen models? Will you choose to add an external optical drive to an Ultrabook computer for the smaller screen sizes?

**Game systems** – This is a category where the prices and technologies are changing rapidly. Game systems have bucked the trend of most consumer electronics and the prices of new models have risen dramatically and not declined as they do with most consumer electronics. The most recent example of this would be the Wii game system. With its current product line Nintendo has no direct lkq replacement available for the original Wii system due to changes in design and technology. The Wii Mini would typically be considered the closest current replacement for the original model but it does lose some features from the original model (internet capability, SD memory card slot and backwards compatibility for GameCube games). The Wii U which is the successor to the Wii will be an upgrade in technology and a much different controller then the original model. The last selling price for the Wii was \$ 149.99. The price for the basic Wii U is \$ 299.99 while the Wii Mini sells for \$ 99.99



Another example of this can be found in the Sony Handheld game system. The previous generation was the PlayStation Portable (PSP) which has now been replaced with the Sony Vita. The new system offers a radically changed platform and the price reflects this. Where the last selling price for the PSP was \$ 129.00 the Vita sells for \$ 249.00.

Also, both Sony and Microsoft will be introducing new home gaming systems in the near future to replace the Xbox 360 and the PlayStation 3. It will be interesting to see if the introduction of these new systems further muddies the water as it is quite possible that neither system will be backwards compatible or able to play used games.

New digital technologies will continue to change the landscape of consumer electronics and computer systems in dramatic ways. Technological advancements which use to be measured in decades, then in years, are now measured in months. By identifying and preparing for these changes insurance companies and their adjusters can be better prepared to provide answers to insured's questions about how a replacement equivalency was determined for their original products. A replacement specialist in these technologies can help in developing a comprehensive, well thought out strategy for addressing obsolescence which will not only lead to more consistent decisions but happier insured's.

Watch for a future article addressing obsolescence and cameras (35mm, digital and video), Free to Air Satellite Receivers, DVD and Hard Drive Recorders, Home Speakers and more

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685 Bank Street, Ottawa, Ontario K1S 3T8  
Tel: 613.233.1508 Fax: 613.233.1508

Email: [info@claimcontrol.ca](mailto:info@claimcontrol.ca)  
Web Site: [www.claimcontrol.ca](http://www.claimcontrol.ca)

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