Demand and Price Evolution Forecasting as Tools for Facilitating the RoadMapping Process of the Photonic Component Industry

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Abstract—The photonic component industry is a highly innovative industry with a large value chain. In order to ensure the growth of the industry much effort must be devoted to road mapping activities. In such activities demand and price evolution forecasting tools can prove quite useful in order to help in the roadmap refinement and update process. This paper attempts to provide useful guidelines in roadmapping of optical components and considers two models based on diffusion theory and the extended learning curve for demand and price evolution forecasting.

Keywords—Roadmapping, Photonic Components, Forecasting, Diffusion Theory.

I. INTRODUCTION

THE optical fiber is a truly remarkable medium: It possesses unique properties in terms of power absorption and provides large, THz-bandwidths unlike any other telecommunication channel [1]. However, the requirement of efficient utilization of this large bandwidth created the need for ultra-fast reliable photonic components (such as sources, detectors, amplifiers, filters). In its early days, the photonic component industry was primarily fueled by the need of higher bit rates in order to upgrade the long haul connections in the backbone network. Wavelength Division Multiplexing (WDM) [2] has proved especially useful in increasing transmission capacities. Nowdays other applications besides the traditional telecom and optical storage ones [3], are being considered and the photonic component industry is primarily focused on three other areas: Sensor, biophotonic and lighting/display applications.

Applications for *optical sensors* [4] range from car industry, surveillance and security to gas detection for environmental purposes. Furthermore sensor networks are of increasing importance. The rise of interest in the environment, for example, leads to many new sensor network applications, e.g. networks of sensors on the seabed or monitoring volcanoes. *Biophotonics* [5] is developing applications along three different paths: imaging, sensing and photodynamic therapy. *Lighting and display* [6] is another emerging industrial sector, related to photonic components. Lighting is achieved through organic and inorganic light emitting diodes (LED) providing high conversion efficiencies and tunability

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of brightness and colour.

As any disruptive technology [7], photonic components have much different attributes than sustaining technologies that may not have been valued by existing customers. While promising considerable business opportunities, the photonic component industry may involve high risk of failure which in many cases can be due to customer resistance. The analysis and business modeling of the photonic component industry is therefore an important step towards the understanding of whether a given product will survive in the market. In this paper we analyze the main attributes of the photonic component industry, discuss techniques for roadmapping of a photonic component and present a methodology for demand forecasting based on two different technology diffusion models: Gompertz and logistic. Price evolution forecasting is also considered. Much of this work was undertaken in the framework of the Waferbonding and Active Passive Integration Technology and Implementation (WAPITI) FP6-2003-IST-004073 project.

The rest of the paper is organized as follows: In section II we present some characteristics of the photonic component industry relevant to the roadmapping process. In section III we discuss a general roadmapping methodology and exemplify it for optical ring resonators. In section IV, a diffusion model for forecasting the demand of photonic components in given based on the logistic model and the Gompetz model. In section V, a model for estimating the price evolution is given based on the extended learning curve. Some concluding remarks are given in section VI.

II. CHARACTERISTICS OF THE PHOTONIC COMPONENT INDUSTRY

As a consequence of its short history and highly innovative character the photonic component industry faces many challenges in order to increase its growth rate [8].

A. Lack of a Dominant Platform

Although the photonic component industry is rather focused on *III-V materials*, and especially InP, there are still other competing platforms. III-V materials can generate light efficiently as well as provide a wide range of other important functionalities. InP has a high refractive index (~3.3), which allows smaller device sizes compared to Si and high index contrast waveguides for efficient light manipulation. The III-V fabrication infrastructure is quite expensive and there is a
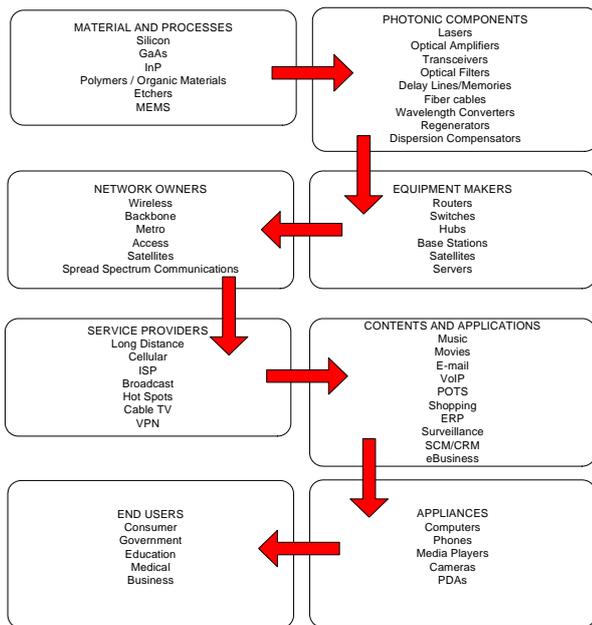
Fig. 1 Industrial Sectors using and generating technology in photonic components

limited number of laboratories that can currently produce large scale optoelectronic chips. On the other hand, *silicon* materials are also attracting attention for integrated photonic components. The supporters in that idea explore the possibility of replacing expensive high performance photonic component elements with their silicon counterparts. This prospect will allow the extension of the massive, low-cost, mature electronic manufacturing platform into the photonic component domain. Such an extension will drive the transition from electronic to photonic interconnects but only if high, electronic-like yields are maintained. Silicon based photonics could provide a solution for exceeding the bandwidth limits of very short range electronic based transmission of data. *Organic materials* also constitute a useful direction for photonic integrated devices. These polymeric materials are ideal for planar processing due to the relative simplicity of fabrication.

B. Limited Component Functionality and Different Requirements

For even the simplest telecom applications, photonic components require sophisticated hybrid integration of many different materials and functionalities. Even a small 32x32 integrated add/drop multiplexer based on Arrayed Waveguide Grating (AWG) technology requires the integration of two AWGs with 32 Semiconductor Optical Amplifier (SOA) gates which poses many fabrication challenges. Photonics has not yet found its "transistor": Unlike the electronics industry where transistors constitute the fundamental cell of electronics circuits, there is still no basic building block for photonics. Although some nanophotonic technologies may open a path towards such a goal, there is still a need for much research and development before such technologies reach the market.

Depending on the application domain, the performance requirements can be quite different and prevent the leverage of a component from one application domain to the other. For example the requirements for narrow spectral line width and wavelength stability of a telecom diode LASER are not shared in other applications.

C. Large Number of Competitors

There are currently, a large number of competing companies throughout the globe. Although the addressable market has been reduced by a factor of 5 from the year 2000, the number of competitors has not been reduced by the same amount. This can be seen from the number of exhibitors in the Optical Fiber Conference (OFC). In 2001, about 1000 companies were exhibiting photonic products, while this number is down to about 600 in 2005 [8]. It is therefore remarkable that there are still so many companies competing over a much smaller market. The fixed costs associated with the support of an internal manufacturing infrastructure for optical components can be quite high and the large segmentation of the market prevents economy of scale.

III. BUSINESS MODELLING AND THE NEED FOR ROADMAPPING

The development of the photonic components industry is surely to affect the development of many industrial sectors creating and using this technology. These sectors are depicted in Figure 1, which describes the "*photonic component value-chain*" [8] and range from material processes right up to the end-users. It is therefore imperative to ensure the smooth development of the industry and attempt to protect it from shrinking. The photonic component industry is a highly innovative industry whose addressable market has reached approximately 2B $ in 2003 and 2.5B $ in 2004. Although these figures look spectacular they are much less than the addressable market size of 10B $ before the dotcom bubble in the year 2000 and are comparable to the market sizes of the late 90s.

To avoid such downturns, specific roadmapping processes are needed aiming to support its commercialization activities. By definition, technology roadmapping is "*a need-driven technology planning process to help identify, select and develop technology alternatives to satisfy a set of product needs. It brings together a team of experts to develop a framework for organizing and presenting the critical technology-planning information to make the appropriate technology investment decisions and to leverage those investments*" [9]. The challenge to the roadmapping process today lies in the ability of academics and professionals to take advantage of a strategic process that has proved so successful when addressing sustaining technologies by adapting the process to the needs of a disruptive technology stream. Techniques that are used by roadmapping professionals that show promise to roadmapping disruptive technology include complexity theory and the Delphi method [10][11]. The utility of the roadmapping process via an industrial case study and a model based on an international effort aimed at providing a practical approach for an international industry-
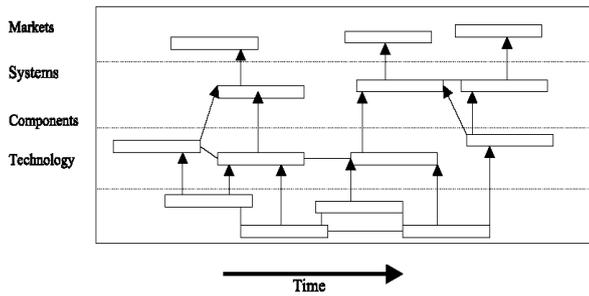
Fig. 2 A multitiered visual output of a technology roadmap [10]

TABLE I
THE THREE PHASES IN THE TECHNOLOGY ROADMAPPING PROCESS [10]

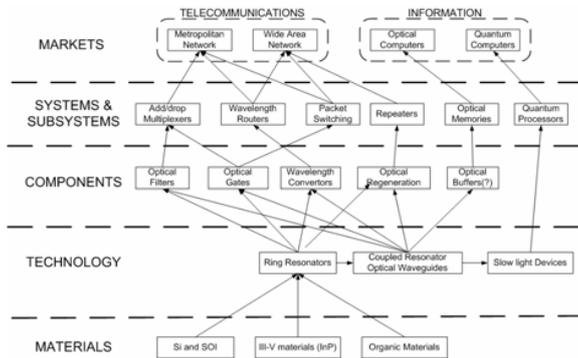| Phase	Phase description	Tasks
1	Preliminary Activity	Satisfy essential conditions
		Provide leadership/sponsorship
		Define the scope and the boundaries
2	Development of the technology roadmap	Identify the "product" which is the focus of the roadmap
		Identify critical system requirements and targets
		Specify main technology areas
		Specify technology drivers and their targets
		Identify technology alternatives and time lines
		Study technology alternatives
		Create technology roadmap report
3	Follow up activity	Critique and validate the technology roadmap
		Develop an implementation plan
		Review and update

Fig. 3 A preliminary version of the output of a technology roadmap for ring resonators

wide effort to roadmap a disruptive technology is presented in Fig. 2 [10].

Fig. 3 exemplifies a preliminary visual output of the technology roadmap for ring resonators [12] designed for telecom and information applications. These devices can perform many optical functionalities including optical filtering, optical gating, wavelength conversion and signal processing and may therefore constitute a basic building block in future integrated optical components. In an attempt to demonstrate the possible time evolution of these components, the functionalities are depicted from right to left sorted according to their complexity. For example, Coupled Resonator Optical Waveguides (CROWs) [13] which are

arrays of coupled ring resonators are seen to evolve from the simpler, ring resonator technology. Such diagrams present an initial phase of the roadmap, as the opinions of many experts, from a variety of disciplines must be gathered in order to refocus and refine the roadmapping effort.

Given the uncertainties involved in roadmapping a disruptive technology and in an attempt to quantify the business aspects of various technology alternatives, the roadmap can benefit from forecasting tools. Based on historical data, one may apply diffusion models in order to perform long term forecasting of various economic aspects of the photonic components industry such as the demand and the price evolution discussed in the next sections.

IV. DEMAND FORECASTING

Diffusion models are mathematical functions of time, used to estimate the parameters of the diffusion process of a product's life cycle at an aggregate level, without taking in consideration the underlying specific parameters that drive the process. Such models are particularly useful if not much information is known because the component is new or not even introduced in the market. The obtained curves have the needed generality form most type of processes.

The two formulations of the Gompertz model been met in literature (for simplicity reason we call them Gompertz model I and Gompertz model II, respectively)[14] are used in this testing. The corresponding formulations are given below.
The first model is described by the following equation:

$$Y(t) = Se^{-a-bt} \qquad (1)$$

where $Y=Y(t)$ is the is the estimated diffusion level at time t, $b>0$ and the parameter S is referred to as the saturation level. The three parameters that determine the model are S, a, b. The following function describes the second instance of the Gompertz model:

$$Y(t) = S\exp(-a\exp(-bt)) \qquad (2)$$

The parameters of the model are similar to the ones of the first variation. In both formulations, parameter a is related to the year that diffusion reaches 37% of its upper level, and parameter b measures the diffusion speed, or how fast the adoption progresses.

As far as the logistic models are concerned [14] their general form is given by:

$$Y(t) = \frac{S}{1+e^{f(t)}} \qquad (3)$$

where $Y(t)$ is again the estimated diffusion level and S the saturation level. The function $f(t)$ is given by the following formula:

$$f(t) = -a - bT(t) \qquad (4)$$

where $T(t)$ is a linear or non-linear function of time and is determined by the model's construction. The linear instance of the model is given by:

$$T(t) = t \qquad (5)$$

The linear logistic model is also known as Fisher - Pry model. The linear logistic model, as well as the Gompertz is described by functions that are monotonically increasing between bounds of zero and S. The linear logistic model is graphically depicted by a symmetric S-curve and has an inflection point that occurs when $Y(t)=S/2$. This means that the maximum growth rate is met when Y reaches half of its saturation level. On the other hand, the Gompertz model is asymmetric, with a point of inflection occurring at $Y(t)=S/e$ which means that it is achieved when y reaches 37% of its upper bound.

Because of the fact that the point of inflection is predetermined, either in a symmetric (Linear logistic), or asymmetric (Gompertz) diffusion model there is a strong need to use both models in order to ensure the accuracy of the predictions given the fact that the data-determined point of inflection and the degree of symmetry for optoelectronics diffusion are not known. Using the above described models, an estimation of potential market for optoelectronics and subsequently for photonic component products has been performed and presented in figures 4,5,6. The estimated market in 2010 varies between 30-35 MUnits for telecom optoelectronics, 5000-6500 MUnits for optical storage optoelectronics while the potential market for medical optoelectronics is 8-10 MUnits.

While the increase in the demand for optical storage photonic components is rather expected, the increase in demand for telecom and medical applications should be justified. The increase in demand for telecom photonic components is consistent with current market trends [8]. The expansion of *telecommunication networks* in the near and longer terms is still important, as traffic continues to grow at 100% per annum. Additionally, the ever increasing importance of secure data storage (2 Exabytes of new data are created every year) leads to the expanding application area of storage area networks (SANs), which require the ability to move huge data files over a regional area to storage farms. Data networking [3] is also expanding and application networks overlaying regional and backbone networks are being considered. Grid networks are currently a major area of expansion. Computing Grids, for example, require networks which will support very high capacity demands on a short time scale. Grid infrastructures place stringent demands on the underlying technology. This continuous increase in the need for transmission bandwidth, at a competitive price, is one of the drivers for the research and development in optical telecommunication networks, systems and components. On the components side the rapid development has led to a huge number of new devices, technologies and materials and the scope is far too wide to be covered here. In line with this many results originally obtained in the telecommunication field can be transferred to other related areas like biophotonics or sensing technologies. Examples include quantum cascade

lasers that can be used to reach new frequencies suited for free-space communication as well as for imaging and diagnostics in medicine. Another example is fibre technology where micro structuring of fibres, both so-called holey or crystal fibres and fibre Bragg gratings, find use both in communication and sensor applications.
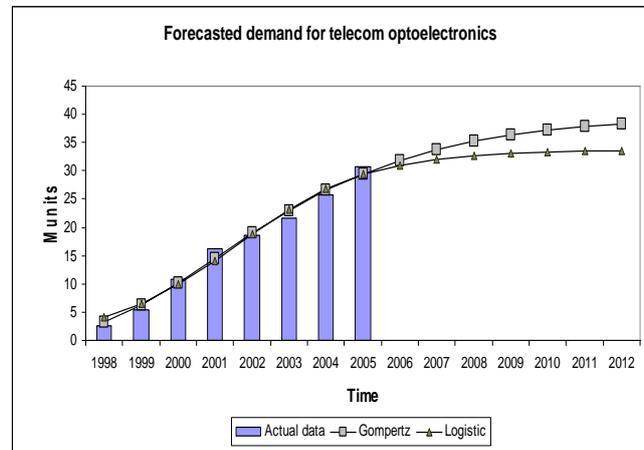

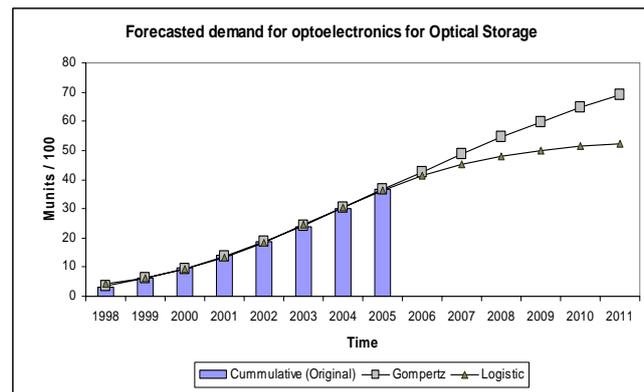Fig. 4 Long term demand forecasts for telecommunication optoelectronics

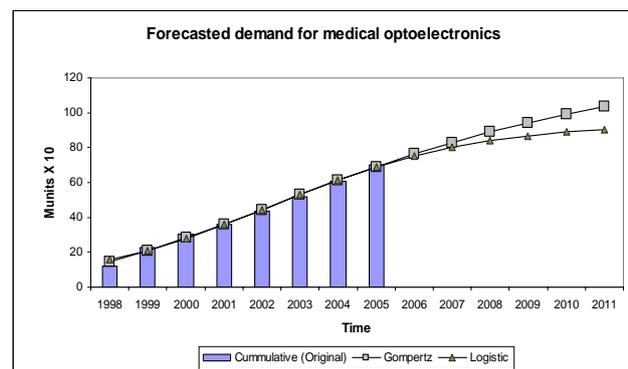Fig. 5 Long term demand forecasts for optical storage optoelectronics

Fig. 6 Long term demand forecasts for medical optoelectronics

As far as medical applications are concerned the increase in demand should be attributed to the increase development in the area of *Biophotonics* [5] which is developing applications along three different paths: imaging, sensing and photodynamic therapy. In the area of imaging the field of biophotonics seeks to improve the effectiveness of medical diagnosis and treatment using optical technologies to process the information content in a video image, or to create more information content in an image through addition of spectral signatures. There is special emphasis on being able to "see into" the body, thus providing an optical replacement for X-ray exposures or expensive CAT imaging scanners. In sensing applications, the major objective is to create a micro analysis laboratory that can perform real-time chemical analysis on picolitres of body fluids. Due to the large field of potential applications an all-embracing view on photonic technologies and applications is missing so far. For a further boost of the photonic technologies it is necessary to bundle the driving forces. This has to include users as well as developers.

V. PRICE EVOLUTION

The analysis of price evolution especially for the network components is of paramount importance for the telecom operators. In the past, a prediction of cost trends could be based on information and statistical data referring to previous years. Today, rapid technical innovation, and consequent insufficient historical data, makes predictions extremely difficult.

The RACE-TITAN project, the predecessor of TONIC project [16], proposed a prediction model for price evolution based on Wright's empiric law: *"Each time the cumulated units production doubles, the unit cost decreases by a constant percentage"*. The advantage of the model is that it can be used even when limited data are available and even if past cost data are partially or totally absent, like in the case of photonic devices. An extended form of the learning curve is described by the following formula:

$$P(t) = P(0)\left[n_r(0)^{-1}\left\{ 1 + e^{\ln\left[n_r(0)^{-1}-1\right] - \frac{2\ln 9}{\Delta T}t} \right\}^{-1} \right]^{\log_2 K} \quad (6)$$

The value of $n_r(0)$ reflects the relative accumulative production volume and is equal to 0.5, for components that exist in the market and their price is expected to be further reduced due to aging rather than due to an increase in production volume (i.e. very old products that are many years in the market). From estimations on industrial telecommunication network components, $n_r(0)$ could be 0.1 for mature products and 0.01 for new components in the market. $P(0)$ is the price in the reference year 0, ΔT is the time required for the accumulated production volume to grow from 10 % to 90 %, and K is the learning curve coefficient. The coefficient K reflects the reduction in price when the production volume is doubled and can be obtained from data provided by the production industry, mainly the suppliers. For a component (with constant $n_r(0)=0.1$) for which ΔT is equal
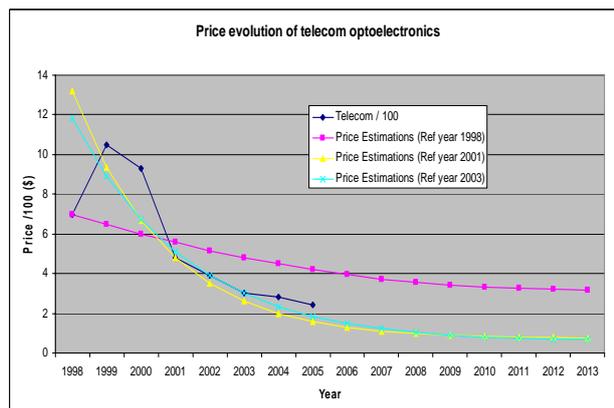

Fig. 7 Price evolution estimations for telecom optoelectronics, using reference value from different years

to 10 years and K is equal to 0.98, Eq. (1) gives about 2% of reduction in the component price per year for the first 10 years. If ΔT is 5 years, this reduction is almost 4% per year for the first 5 years. All the above-described values have been extensively used for the evaluation of telecommunications investment projects [17],[18],[19],[20]. The above described methodology was employed in order to estimate the price evolution of optoelectronics taking into account the price trends of emerging/new technologies (such as optoelectronics) as well as experiences from other more mature components. Further, civil works such as fiber pulling, digging and laying tubes may be very costly, but these costs are well known to planners beforehand and therefore have little or no uncertainty. In order to model the effects of optical component technology, ΔT have been chosen as an uncertainty variable. The expected value for ΔT (used in the database) is 10 years. With 90% probability, the reduction in equipment price in 2010 will be between 55.5% and 77% of the price in 2001.

Fig. 7 depicts the price evolution of the average telecom photonic components as a function of time. Note that care must be exercised in defining the reference year. Given the values obtained in figures 4 and 7 one may predict a demand of 30-35Munits by 2010 and a price of 100$ to 300$ corresponding to a market size of at least 3B $.

VI. CONCLUSION

The photonic component industry is a rapidly developing sector where innovation can play an important role. As in any disruptive technology, much effort must be devoted to ensure smooth industry growth through careful roadmapping. The roadmapping process can benefit from various forecasting models for either the demand or the price evolution. This paper presented two such forecasting tools based on diffusion theory and the extended learning curve in order to calculate the future demand and the price evolution for photonic components.

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