



## **PROGRESS TOWARDS DIGITAL SWITCHOVER**

Response by the Digital TV Group

### **SUMMARY**

The DTG is founded upon principles of open standards, collaboration and industry consensus. It is an organisation that firmly believes that the dramatic growth in digital TV take-up in the UK is, in part, a function of the industry's ability to work in this spirit of mutual collective benefit.

This consultation document from the ITC highlights once again the diverse set of variables that influence the continued take-up of digital TV services. In most cases these variables directly influence the commercial models for many organisations. There will be considerable resistance if these models are not able to function adequately.

The DTG believes that this valuable collaborative environment must be preserved throughout the difficult decisions that lie ahead if analogue switch-over is to be realised. The ITC and UK government have an important role to fulfill in engaging with industry for the mutual benefit of the nation.

### **ABOUT THE DIGITAL TV GROUP**

Established in 1996, the DTG is an Industry association whose members co-ordinated the UK launch of digital terrestrial television. Its membership has grown to more than 100 organisations representing all sections of the digital television industry including broadcasters, network operators, consumer electronics manufacturers and retailers, and consumer groups.

Given the wide collective industry knowledge and experience of its members, the DTG is ideally placed to comment on progress towards digital switchover. Members of the DTG have played and are playing an important role in current cross-industry and government initiatives to drive towards switchover. Much of the work currently underway beneath the Digital Television Action Plan banner is designed to remove the barriers to switchover first collated in the DTG's advisory paper entitled, 'Technical Impediments to Analogue Switchover' commissioned by the DTI in 2000.

This response has been drawn up in consultation with its members and represents a consensus of the views expressed. Individual members may, of course, have particular objectives and may submit their own responses to this consultation, which may differ in detail to this collective response.

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## RESPONSE TO THE QUESTIONS

### ***Q 1. The ITC would welcome respondents' views on the digital satellite coverage analysis and on possible means of improving access.***

The DTG holds the view that the current restrictive rules on the installation of satellite dishes, in particular multiple installations on any dwelling seem to be unreasonable. A mini-dish can, in some cases, be much less unsightly than a multi element Yagi antenna for used to receive terrestrial services. However, better installation guidelines for both should be considered.

### ***Q 2. The ITC would welcome respondents' views on the actual level of digital cable and DSL coverage and whether this is expected to increase over the next five to ten years.***

In the current economic climate it is thought unlikely that further investment would be made in any significant expansion of the cable network. Cable operators are expected to consolidate on investments to date, and increase the connected / passed ratio. Although the offer of VOD services through ADSL appears attractive to consumers, there is still no viable business model to sustain these for AV services alone. The cable operator organisations (that are members of the DTG) would be better placed to provide their individual perspectives on this question.

### ***Q 3. The ITC would welcome comments from respondents on whether digital satellite could provide a more cost effective means of delivering digital television to the last few percentage of analogue homes than extending DTT to match that of analogue terrestrial.***

KEY ISSUE – The key issue in this debate is not so much which option is more or less cost effective and more a question of who it is cost effective for. A solution that is cost effective for the 'nation' may not be cost effective for the terrestrial broadcasters if they are expected to carry the brunt of the investment needed. Alternatively, if it can be proved that significant revenues are likely to be generated through the early sale of released spectrum this may prove sufficiently attractive for the government to intervene in some way. Underpinning this matter is the fact that the 'last few analogue homes' will not be converted at all unless sound economic arguments can be reconciled with all parties.

The DTG note that this issue is being evaluated as part of the Cost Benefit Analysis within the Digital Television Action Plan. Data presented by parties within the Action Plan suggest that the roll-out of DTT transmitters beyond around 120 would become cost ineffective.

### ***Q 4. Do respondents believe there are public policy benefits in allowing as many viewers as possible a choice of delivery platform for digital television?***

There are advantages and disadvantages of each delivery platform with different households finding unique value in each one. There would surely be

policy benefits in providing a choice of platform to as much of the population as possible, especially as the cost of ownership is likely to be different for each and the disenfranchised are likely to be vocal in their dissatisfaction!

***Q 5. Do respondents believe that the 'must carry/must offer' provisions should be applied now – to provide certainty for viewers – or only as a safety net at switchover?***

The Must Carry / Must Offer clauses are an essential element to guarantee availability of the current PSB services. They must be considered as critical to reach switchover, and should be invoked as soon as possible. The DTG notes that the Must Carry / Must Offer issue is just one of the many important matters included within the draft Communications Bill that may affect the availability of digital television. For example, the payments which public service broadcasters will have to make in the future for spectrum could affect their willingness to invest in the roll-out of an expanding DTT network.

***Q 6. Do respondents see merit in including free-to-view set top boxes as a specific category in the TV Dealer Notification Scheme? Can respondents identify any other means of accurately monitoring digital take-up?***

As the government needs accurate data to monitor progress towards switchover, there is an obvious need for such a data collation exercise. As the licence notification scheme is in place it would appear sensible to re-use the existing method. However, DTG members are aware that the scheme is costly for retailers and has a number of limitations. Other, more effective monitoring tools could be applied such as the data collated and published by organizations such as GFK.

***Q 7. The ITC invites respondents to express their own views on the current state of the digital TV market and whether they believe that it will resume its previous levels of growth following the projected re-launch of DTT later this year.***

KEY ISSUE - The early rapid growth of the digital market must be considered against the base that set top boxes were given away free of charge, firstly to convert the existing 3M+ analogue Sky subscribers to digital, and then to capture a further 3M+. The 1.2M ONDigital boxes were also heavily subsidised to gain penetration. None of the other consumer equipment used for comparison in the chart on page 12 were subsidised at all.

With the launch of the FreeView services on DTT, many DTG members expect the market for both IDTV and adaptor boxes to grow rapidly, and as the premium of digital TV above analogue TV falls over coming years we would expect that by 2006, all large size widescreen sets would have digital reception capability as we would expect consumer demand would dictate the need.

There are numerous surveys showing a saturation of pay TV at between 45 ~ 60% of the market, so it is thought unlikely that significant rapid growth will occur in this area. On the other hand there are >2.5M annual sales of large size TV sets, and provided the value of the extra digital content to the end user justifies the small additional cost above an analogue only set, then both IDTV and Analogue TV + Adaptor Box sales should increase to at least this level.

***Q 8. Do respondents believe that Pay TV operators' focus on higher ARPU is likely significantly to alter the growth path from what has been seen in recent years?***

Pay TV operators' efforts to increase the revenue per subscriber are targeted at existing digital subscribers by actively providing a wider range of services. There is no evidence suggest, therefore, that penetration rates of pay TV platforms may change. On the one hand a greater array of services available may prove more attractive to potential consumers increasing growth in subscriber numbers. Alternatively, a focus on marketing additional services to existing customers may detract from the attraction of new subscribers. The Cable or Satellite operators would be best placed to advise of their future marketing strategies.

***Q 9. If there were further consolidation among platform operators, what impact do respondents think it would have on the take-up?***

Almost negligible.

***Q 10. The ITC invites comments from respondents on the issues raised by the consumer research and the extent to which they have a significant bearing on the outlook for future take up.***

KEY ISSUE - The most obvious point of the consumer research is that it repeatedly talks about "switching" customers to digital, and of "early adopters". All of the research tends to ask potential viewers about when they are likely to "switch". Naturally consumers are conservative and this kind of questioning is sure to cause concern and unnecessary worry. Although there is some new technology involved in the digital signal decoding, there was nothing like the fuss involved with the introduction of teletext or Nicam sound which were both new broadcast technologies.

Many analysts simply miss the point that as far as the end user is concerned this is nothing new, it is just TV. The equipment is still that familiar box that sits in the corner of the living room, and although the potential for interactivity is enhanced with digital, most consumers are well aware of the analogue interactive service – teletext! Because of this earlier technology, most consumers are already familiar with the concept of navigating around menus and using colour keys for quick selection.

It is suggested that a simple, back to basics approach would reap huge benefits at least for the “digital nevers” who would surely become “digital probables”, if they were asked if they plan to buy a new TV in the next 10 years, instead of “are you likely to switch to digital”. Further detailed consultation would be welcome on this topic.

**Q 11. Do respondents agree that there is likely to be a natural plateau of demand for Pay television services and that it is likely to fall within the range of 50-75 per cent of households?**

It is suggested that this is not an unreasonable assumption but one that is a little difficult to state with confidence as a new free-to-view offering is launched in the UK. Clearly the degree of success of the new ‘free’ services will have an impact on the adoption of pay services even though these offerings claim to target different market segments.

**Q 12. The ITC would welcome comments on the likely development of the markets for both set top boxes and IDTV sets, including views on how rapidly retail prices might be expected to fall, and the speed at which take up of these devices – both for primary TV sets and secondary analogue devices – might grow.**

KEY ISSUE – The price point of £100 for adaptors and £150 premium for IDTV is suitable for the current mid to high end products as it compares favorably to other TV features such as Dolby sound, 100Hz and the offer of multiple channels is easier to demonstrate in store than the existing features on analogue sets. Therefore it is considered that the prospects for this market are exceedingly good. However, there is still a major issue in that coverage of signal, and poor aerial installation quality prevents confident retailer sales that will naturally inhibit rapid growth of this market.

The DTG observes that there is also an inequality between IDTV and STB in that IDTV has a regulation which forces the fitment of a PCMCIA common interface connector, and a required modem connector. This will keep the add-on costs of IDTV’s above the cost of adaptor boxes in the mid term. Lowest threshold BOM costs in the next 5 years are likely to be in the range €25 - €30, with a residual essential royalty payment in the range of €3.5 - €4. This is likely to result in a consumer price in the range of €75 - €100.

**Q 13. The ITC invites respondents to express their views on the likely speed of conversion of second and third sets, and take up of the new personal video recorders. Comments are also invited as to whether the complete conversion of all television sets should form part of the accessibility target.**

KEY ISSUE - Although the basic value of the proposed free to view DTT services appear attractive enough to drive primary set conversion, it is felt to be unlikely that a significant part of the population will invest in adaptors for second and third sets, especially as there are significant numbers of these receivers that rely upon set top aerials, which are not suitable for the

reception of the DTT signals. Until the UK DTT signal is robust enough for indoor set top reception, or even portable outdoor reception, it is unlikely that manufacturers will provide small size, portable DTT receivers. This will also limit the take up of 2nd/3rd sets. PVR's are likely to drive the change to digital reception of domestic recording, but an encouragement of IDTV/STB with built in VCR control such as SmartLink / AVLink, etc would achieve partial results in this area. With regards the measurement criteria of complete conversion, this must be considered as an absolutely essential criteria. It would appear to be political suicide for any government to consider removing the TV signal from much of its population without at least close (95%?) to complete conversion.

***Q 14. The ITC invites views on whether it is reasonable to assume, for projection purposes, that the range of churned Sky Digital homes who continue to use their set top box for free-to-air services, will fall between 25 per cent and 50 per cent.***

It may be a reasonable assumption. BSkyB would be best placed to respond to this question.

***Paragraph 104 – Special IDTV Consultation – KEY ISSUE***

If it is believed that IDTV sales are critical to drive digital switchover, then specific actions are needed. As stated above, there are already disincentives compared to STB's with the CI requirement, which needs some equalisation.

It must not be forgotten that there are >5M TV sales annually and if this could all be converted to digital then switchover could be made much more rapidly. The premium of digital over analogue is currently in the range 10-15% for large size widescreen sets. There is some discussion about the mandating of digital tuners in such sets, following the US model, but it is thought unlikely that the European Parliament could accept such restrictive regulations. On the other hand, something along the lines of a more attractive VAT rate on digitally equipped products would probably be more palatable to Brussels and greatly reduce the digital premium to the end user. Further detailed consultation would be welcomed on this issue.