

Progress towards achieving digital switchover a BBC report to the Government

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Executive summary

- In Autumn 2003, a little over five years from launch, UK digital TV penetration passed the psychologically important milestone of 50 per cent of households. With only a minority of households (about 46 per cent) still having only analogue reception, and with the prospect of combined sales of digital boxes to get Freeview and idTVs exceeding those of analogue TV sets for the first time in 2004, this success puts the UK in an enviable position and permits planning for switchover to proceed in earnest. This is, quite simply, astonishing.
- The BBC's investment in its digital channels and promotions for them has already played a strong rôle in exciting consumer interest in digital, tackling consumer confusion and assuaging fears. Research confirms that this is driving digital take-up.
- The continuing consumer enthusiasm for digital TV during 2003 makes achieving UK-wide digital switchover within the Government's timetable an achievable objective. But this objective will still be challenging and 2004 will be a year of transition.
- Left entirely to the market, the BBC is forecasting that digital penetration will not reach 95 per cent of households (primary TV set only) until 2013. If it wishes to improve the chances of UK-wide switchover within the desired timetable there needs to be **continuing Government commitment** to switchover (including financial investment in the process).
- There are also several challenges and policy dilemmas for the Government which, if addressed early enough, would help to make achievement of the Government's objectives more likely:
 - There remain many millions of consumers who see no reason to adopt digital TV – and that's just for the first TV set. There are also many consumers for whom digital TV is too confusing or just too difficult to use. Converting whole households, even those which already have converted their primary TV set, will be **a huge marketing and communications task**;
 - **Most secondary TV sets have not been converted.** Many of these use set top aerials where it will be challenging to ensure reception. This needs to be tackled;
 - Many viewers who have already adopted digital for their primary TV sets do not equate this with **consent for losing the analogue services** from their secondary sets – and their VCRs;
 - Viewers must have **an easy method of recording** from digital channels which permit them to watch one digital channel while recording another. It should not be assumed that Personal Video Recorders will provide the recording solution for all households in time for switchover;

- Switchover will be a rolling, region-by-region process. Although agreement of the regional switchover order is not a short term necessity, the longer in which this is left undecided, the greater the opportunity for uncertainty about the wider switchover process. Industry, the Government and political and consumer representatives need to engage in early dialogue to establish the appropriate balance between technical, marketing and viewer interests in developing **an appropriate regional switchover sequence**;
 - The likelihood of switchover being achieved within the desired timetable would be greatly increased if there was **a clear commitment** from the public service broadcasters **to substantially replicate analogue coverage with DTT coverage**. This would require a sizeable investment by those broadcasters, and would carry a considerable degree of risk relating to Government decisions, principally on potential Government delays to any agreed switchover timetable, spectrum pricing, licence payments, relevant aspects of BBC Charter review, and the form of any switchover implementation plan. The Government could greatly increase the likelihood of receiving the necessary commitments from broadcasters if the Government minimised these risks; and
 - Digital satellite, with its UK-wide coverage, must play a full rôle in achieving switchover, but there needs to be a viewer-friendly solution which **guarantees that satellite viewers could receive the public service channels without paying monthly subscriptions**. The BBC aims to support this development. The Government will need to work with BSkyB, and those public service broadcasters which are still encrypted as the switchover process starts, to find a solution to this problem.
- Switchover planning would benefit from the establishment of a **large-scale switchover pilot**, to convert one UK region digital as soon as possible.
 - Regardless of the form and timing decided upon for the switchover process, it will be essential that a **properly staffed organisation** be established, **with a significant marketing budget**, to manage the switchover programme, including the communications strategy (for consumers, consumer electronics manufacturers and retailers). This would need to be in place well before the start of the switchover process and would have two, consecutive objectives:
 - driving digital take-up for primary sets
 - driving conversion of secondary sets and preparing viewers for switchover.

These objectives will require a fundamentally different approach and criteria will need to be established to pinpoint when the marketing message will need to switch between the two.

Introduction

1. Digital television offers not simply more traditionally scheduled “linear” television channels, but also the capacity for data transmission and interactivity bringing, potentially, the benefits of e-commerce services as well as Government services delivered via electronic means. Digital television also enables the BBC to offer licence payers it’s full suite of services (TV channels, digital radio and interactivity).
2. The digital television receiver is likely to become the most widespread means for consumers to access entertainment, education, news and e-commerce services as well as digital TV programmes and channels. Many households will probably never acquire a PC, but digital TV offers a potentially ubiquitous, easy route to e-society services. This could benefit every UK citizen, potentially offering them opportunities to be involved with, and informed about, society at all levels from local to EU. By increasingly enhancing linear television, broadcasters have already helped to create a widespread consumer familiarity with interactive TV which e-government services should be able to build upon.
3. Although there are currently no plans to switch off analogue radio, digital TV has had an unexpected and highly positive effect on the consumption of digital radio services, which have acted as a taster for Digital Audio Broadcasting (DAB) digital radio. Audience research shows that 9 million adult digital viewers listen to radio via their DTV platform (43 per cent of anyone receiving digital television); over 60 per cent of these listen on a weekly basis. There are around 1.7 million adults who claim to have Freeview who are listening to the radio via their TV, with nearly 70 per cent doing so weekly. These figures have taken many people in the industry by surprise. The BBC has benefited, as have new commercial radio stations such as *Kerrang!* and *Smash Hits* which are enjoying far larger audiences than were originally envisaged for them as digital radio has caught the imagination of digital TV adopters. This, and the BBC promotions for our digital radio services, have helped to drive take-up of DAB sets, positioning the UK as the World leader in adoption of digital radio as well.
4. Although we are some way off from realising the full benefits of digital, the UK is already a world leader in developing, providing *and using* interactive digital TV services. UK citizens and businesses are gaining familiarity with interactive electronic services which most other governments aspire to.
5. Digital TV also has potential to offer disadvantaged viewers greatly improved access services (subtitling, audio description, signing), benefiting millions of consumers for whom the enjoyment of television, in analogue, is impaired. An obvious example of this is the success, and very positive feedback, enjoyed by Netgem when the software in their iPlayer DTT receiver was upgraded to provide audio description. In addition, because that receiver’s internet access allows for new

services to be delivered at little cost, the RNIB have created an audio channel of their own which contains information and an audio TV guide. Innovative advances such as these will help persuade analogue viewers to upgrade.

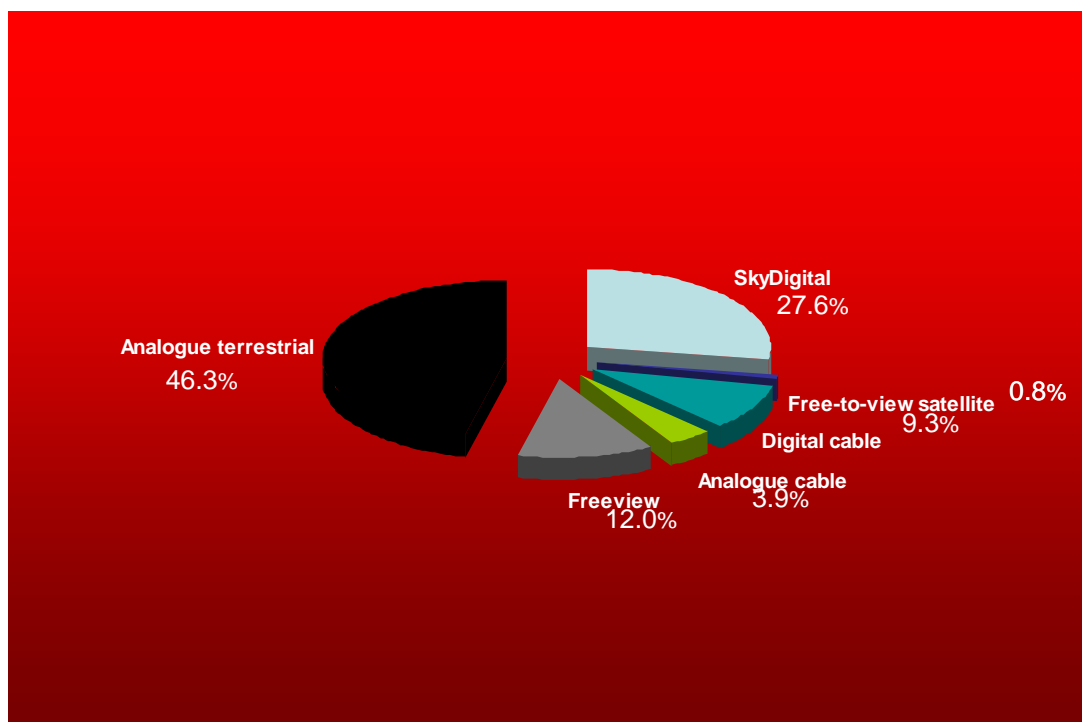
6. Once the UK has switched over to digital, spectrum currently used for analogue television could be freed up providing an opportunity for new, innovative multimedia services. This represents another area where the UK could potentially take the lead. But although most UK households have already upgraded to digital it is unclear how quickly, if left entirely to the market, the UK would enjoy the benefits of migrating to an all-digital society. The size of the task in achieving switchover should not be underestimated.
7. Key elements include:
 - a) persuading reluctant analogue viewers to upgrade;
 - b) persuading all viewers to convert secondary TV sets; and
 - c) preparing viewers for switchover.
8. Consumer interest in digital is principally a desire to have access to some additional channels. Investment by broadcasters in their digital channels, and continuing cross-promotion of those channels from analogue, will persuade many analogue viewers to convert their primary TV set. The BBC's digital services, in particular, have played a crucial rôle in the take-up of free-to-air digital TV, which has largely been additional to the take-up of pay-TV rather than being a substitute.
9. But this alone will probably not be enough. There will also be a need for a communications strategy with a significant marketing budget in place well before the start of switchover and continuing for the entire length of the switchover process. Achieving switchover will need very different marketing messages from driving digital take-up. There remain millions of viewers who are confused by what digital TV might offer them, and how they might get it. There are also millions of viewers who are satisfied with the programming available on the analogue channels – these will be harder to convert and, as switchover planning proceeds and becomes progressively more public, they may resent the impending withdrawal of analogue transmissions.
10. The objectives and criteria for the switchover communications strategy will need to be established to pinpoint when the marketing message will need to switch between driving digital take-up and achieving switchover. The appetite of analogue viewers during 2004 for upgrading to digital will help to determine how and when these issues will need to be addressed.

2004 - the year of transition

11. Stephen Carter, Chief Executive of OFCOM, recently said that “2004 will be a year of transition, during which the key [switchover] strategic decisions need to be taken; so that we can move beyond not just whether, but when”. Despite the early enthusiasm shown by UK consumers for digital TV (in Autumn 2003, UK digital TV penetration passed the psychologically important milestone of 50 per cent of households), the BBC agrees that 2004 will be a crucial year for developing concrete, industry-wide plans to achieve digital switchover.
12. The essential elements of the switchover plan will need to have been agreed between the Government and broadcasters, and having taken full account of consumer representatives’ input, by the end of 2004, to ensure that the first region can begin the switchover process in 2007 as planned.
13. Going forward, the Government needs to be clearer about its intentions for managing the switchover process and how it will work together with all relevant stakeholders. So far the development of switchover policy has been conducted under the auspices of the Digital Action Plan. This plan has played a constructive role in helping the Government develop its switchover objectives and a strategy for achieving them. Going forward an approach which more closely integrates Government, industry and consumers’ objectives, and allocates funding responsibilities to achieve them, will be needed to improve the chances of meeting the Government’s challenging timetable.
14. The idea of an properly staffed organisation (currently dubbed “SwitchCo”) with a significant marketing budget, to manage this considerable task has been suggested by some in the industry. The BBC believes that this will be an essential ingredient for a successful switchover (see paragraph 141). This must be in place long before the switchover process starts.
15. Digital communications campaigns from the various industry players have so far been encouragingly successful in driving digital take-up – principally of households’ primary TV sets. However these campaigns have focussed only on driving take-up, not on achieving switchover. Many viewers do not yet link the success of the former with the inevitability of the latter. The marketing communications strategy for switchover will need to be quite different, targeting the whole population in affected areas i.e. both those who already have digital on some TV sets – but who need information on how to convert their whole household – as well as those who still only have analogue. This will need a significant, properly funded marketing communication campaign, using above- and below-the-line media and involving a fully-resourced consumer helpline and website.

16. The extent to which the early momentum of digital take-up will be maintained during 2004 will provide an indication of how large a task lies ahead in persuading reluctant viewers to adopt digital once they recognise that the regional switchover process is imminent. It is already clear that despite fairly high profile digital marketing to date, principally from BSkyB and the BBC's digital campaigns, many viewers remain confused about digital and unwilling or unable to migrate to digital TV. It is a mark of the considerable efforts made to attract analogue viewers to upgrade that only about 46 per cent of households still had analogue only at the end of 2003 (see fig. 1 below) – although almost all digital households will still make frequent use of their analogue reception.

Fig. 1 : UK viewers by television distribution platform (primary TV set) at end 2003



Sources: OFCOM, BBC estimates of Freeview take-up (primary TV set only) and free-to-view satellite.

Does not separately show the very small numbers of subscribers who receive linear digital TV channels via an xDSL service.

17. But many of these analogue-only viewers are still confused about digital. That can, and needs to, be tackled. Recent research has confirmed that there remains a sizeable minority of viewers, about 6 million, who are resistant to digital TV and see no reason to invest in it. For many of them, the five analogue channels provide a wide enough range of quality programming and, despite the considerable marketing

of digital channels over the last five years, they do not find the attractions of digital (as far as they understand them) sufficiently compelling.

18. The Government has repeatedly emphasised that in planning for switchover the interests of consumers must be taken into account. In particular, digital TV must be accessible and affordable to the vast majority. Yet, digital TV can, arguably, already be perceived as meeting these criteria.

Accessibility

19. With some exceptions, principally blocks of flats and homes with planning constraints, virtually every household in the UK could receive digital satellite. This has been the case since its launch over five years ago. Although millions of viewers still cannot receive the full Freeview service, investment by the broadcasters has increased the proportion of UK households which could reliably receive the full service from 56 per cent at launch in 1998 to 73 per cent now; 79 per cent of households can receive the three public service multiplexes; and about 83 per cent of households can receive the two BBC multiplexes. Although cable is unlikely to have the financial health in the short-medium term to extend its coverage, it provides useful urban “fill in”, particularly for blocks of flats where receiving satellite or Freeview may be problematic.
20. Therefore, although there are still some viewers who have difficulty receiving digital TV by any means, and there are viewers with special needs who feel that manufacturers and platform operators do not yet cater for them, for the vast majority digital TV is accessible by one means or another. However there are many consumers who currently expect digital TV to be accessible by them via a distribution platform of their choice – principally Freeview – and may intend to wait until that option is available to them. As Freeview’s coverage cannot be increased much beyond its current level until either analogue TV is switched off or there is an acceptance of increased interference to analogue reception as DTT power is increased considerably, the Government may have to re-assess its definition of accessibility.
21. Achieving universal digital coverage by switchover is a crucial precondition for the withdrawal of analogue services. Yet because this cannot be achieved by DTT alone until analogue TV has been withdrawn, it will be essential that satellite also play its part. This will require that an attractive, viewer-friendly free-to-view satellite option be available to ensure that every home could receive the digital public service channels without having to pay a subscription.

Affordability

22. In September 1999 Chris Smith, the then Secretary of State for Culture, Media and Sport, established 95 per cent digital penetration as an indicator of affordability. At that point in time there were no Digital Terrestrial Television (DTT) set top boxes available for purchase, the few integrated digital televisions (idTVs) available were too expensive for many and Sky digiboxes cost £199. Since then, the range of digital receivers available, and their functionality, has increased enormously while the retail prices have fallen.
23. During 2003 digital TV became considerably more affordable as competition between the increasing number of manufacturers and retailers of Freeview receivers led to significant price reductions. By Christmas 2003, some retailers were selling basic adapters for about £40. Of greater importance than ad hoc, and possibly loss-leading, promotions has been the sustained trend of falling prices, which has seen Christmas 2002's entry point of about £100 fall to about £80. The price premium of idTVs over equivalent analogue TV sets has also declined, although there continue to be no small screen idTVs.
24. For satellite, currently the choice of most digital households, BSkyB continues to subsidise digiboxes, offering them for free to new subscribers and, under a regulatory obligation, for free¹ to non-subscribers as well. However, the withdrawal of the 'solus card' service from 31 January 2004 makes digital satellite far less attractive to those households which do not wish to pay monthly subscriptions as ITV1, Channel 4 and Five are encrypted on satellite. Given the importance of satellite reaching viewers outside pre-switchover Freeview coverage, the Government may wish to try to broker a new agreement with those broadcasters and BSkyB to guarantee subscription-free satellite reception of the public service channels.
25. As a closed platform, there is no subscription-free option for cable. However, competition between the cable companies and BSkyB for the provision of digital TV, and between the cable companies and BT for the provision of fixed telephony and broadband, has led to affordable connection prices for new subscribers.
26. Arguably the fact that the entry price for digital TV has fallen considerably since 1999 is a better indicator of affordability than a measurement of digital take-up. However, many households' assessments of the affordability of switchover is likely to encompass the conversion of more than just one TV set.

¹ The cost of installation may be higher for non-subscribers.

Progress towards digital switchover

27. In April 2003, when the BBC and the ITC submitted the previous report on progress towards digital switchover, we stated that:

“It is unlikely that the Government’s current criteria will be met to enable a nationwide switchover in the early part of the 2006-2010 ‘target window’. However, continued progress according to the upper case scenario within the take-up range suggests that 95 per cent take-up might be approached around the end of the target window. The achievement by the market, unaided, of this upper case scenario depends upon a combination of a number of favourable developments, including:

- (i) Continuing successful take-up of Freeview
- (ii) A recapitalised, dynamic cable sector which both builds out networks and achieves a higher conversion rate of homes passed
- (iii) Ongoing net subscriber acquisition (i.e. where new subscribers continue to outnumber “churners”) by BSkyB
- (iv) Digital Subscriber Line (DSL) technology taking off as a platform for digital TV distribution.”

28. During 2003 the first of these developments was easily achieved, and it is the single most important criterion for achieving switchover. By the time that ITV Digital collapsed in Spring 2002, research had identified many millions of consumers who were receptive to what digital TV offered, but resistant to *how* it was offered: the need to sign a contract, monthly subscriptions, bundling of channels and a perceived pressure to upgrade to more expensive packages all contributed to this resistance. Freeview, launched by the BBC, Crown Castle and BSkyB in October 2002, was specifically designed to appeal to these viewers. It has succeeded far beyond expectations.

29. Over the last year the popularity of Freeview has increased as consumer knowledge about Freeview increased considerably; the BBC and ITV stepped up cross promotions from their analogue channels to digital sister channels; and the retail price of DTT receivers fell to the point where they became impulse buys for many. Freeview is now in 3.4 million households, half a million receivers were sold in December 2003 alone, and sales of idTVs doubled during 2003 – and this less than 18 months after launch and despite the fact that the full Freeview service is currently available to only 73 per cent of households.

30. This success has not only protected broadcasters’ investments in their DTT networks, and consumers’ investments in their receivers, but has ensured that achieving digital switchover within the Government’s

timetable remains a possibility. This is because an essential precondition for the Government withdrawing analogue services is that every viewer who has satisfactory, reliable reception of the analogue channels should be able to watch their digital equivalents by one means or another. Although satellite broadcasts theoretically cover the entire UK, for topographical, planning and other reasons, about half a million households cannot easily receive it. Freeview will be essential in reaching such viewers. That Freeview specifically appeals to millions of viewers who reject satellite, cable or pay-TV in general is a welcome bonus.

31. The third of the developments identified by the BBC and the ITC was also easily achieved. The number of new SkyDigital subscribers continued to comfortably exceed those churning from the service, although this was partially offset by BSkyB switching off support for free-to-view satellite viewers who did not take up the offer of a new viewing card from the short-lived replacement of the BBC's solus card service offered by ITV, Channel 4 and Five.
32. Unfortunately, the cable sector is probably nowhere near re-starting its major build programme, and DSL has yet to establish itself as a platform for digital TV distribution, although 2004 should see the commercial launch of DSL services which will include the re-transmission of linear digital TV services (there are now more than 3 million broadband subscribers and several broadband operators are currently negotiating with the BBC and other broadcasters to offer subscribers linear TV). The BBC intends to work with partners to make broadband more attractive and accessible.
33. By the Autumn of 2003 about 51 per cent of UK households had acquired at least one digital receiver. The BBC's two high-profile digital campaigns strongly contributed to this success. But following the switching off of superseded "P1" viewing cards² by BSkyB at the end of 2003, digital take-up fell back slightly (see fig. 2 below).

² Pay-TV operators routinely "swop out" viewing cards to minimise piracy. This was the first such event by SkyDigital.