Response

Review of BBC's Digital Television Services

Prepared by -

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Background

In September 2001 the Secretary of State for Culture, Media and Sport gave conditional approval to the BBC's proposals for new digital services, and in particular, conditional approval for the replacement of the daytime services on *Knowledge* and *Choice* by a service for children under 6 (to be known as *Cbeebies*) and another service for children aged 6-13 (to be known as *CBBC*), and for the replacement of the evening service by *BBC 4*, aiming at 'anyone interested in culture, arts and ideas'. Conditional approval was also given for five proposed new radio services, while in September 2002 approval was given to a further proposed new digital television service for young adults, to be known as *BBC 3*.

In approving these services the Secretary of State considered whether each new service is compatible with the BBC's primary public service role and whether the new services will further the public purposes for the Home Services set out in the Charter and Agreement. It was concluded that each approved service will enhance the BBC's achievement of its undertakings in programme content and standards in the Agreement. The value to the public of each new service was assessed and was considered to be proportionate to the likely impact on the market.

An additional issue taken into account in approving the services was the BBC's role in promoting digital take-up leading to switchover. The Secretary of State considered that the contribution that the new digital services can make to this wider policy adds to their public value, but the contribution of any individual television service to digital take-up is likely to be limited and is a secondary consideration in the granting of approval. However, it was considered that the new services will provide additional choice and that they will contribute to the general promotion of digital broadcasting.

The purpose of this submission is neither to consider the performance of the new BBC services, nor to assess the level of distinctiveness of these services in the multi-media channel market. Rather, this paper aims to assess the role the BBC services have played in driving overall digital take-up and therefore bringing forward the likely date of analogue switch-off. The first part examines the advantages and drawbacks of digital switchover, and identifies a number of challenges and policy dilemmas of making switchover an achievable objective. Part two looks at the process of switchover in different European countries, and describes current developments of digital television penetration in the UK. The third and final part deals with the contribution of the new BBC services to digital take-up, and considers *Freeview's* likely effect on commercial rivals.

The Switchover Process

Following the introduction of digital broadcasting, 'switchover' is defined as the progressive migration of households, from analogue-only reception to digital reception. 'Analogue turn-off' or 'switch-off' refers to the termination of analogue broadcasting, which is considered to be possible when most households are equipped to receive digital signals (BIPE, 2002, p.2). Switchover is largely seen as an inevitable result of technological progress and it is an unpopular policy that people see as coercive. This is partly because the national governments' rationale and motives for switchover are not entirely understood and trusted, and partly because people think analogue television will be ‘taken away’ and therefore they will have to incur costs to be able to continue to watch television (Klein, Karger and Sinclair, 2004, pp. 8, 14).

In fact, large parts of the population see little or no reason to adopt digital television (DTV). For some DTV is too confusing or just too difficult to use. For others, converting their TV sets seems to incur a significant financial investment which they are not prepared to take. There are also millions of viewers who are simply satisfied with the programming available on the analogue channels and who do not see the merits of the multi-channel era. Converting these households will be a huge marketing and communications task. Such a task would involve raising customer awareness and knowledge about DTV. As a BBC report admits, despite a relatively 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 DTV (BBC, 2004, p.6).

However, completing the switch to digital will bring significant benefits both to consumers and broadcasters. National economies as a whole are also expected to benefit. More specifically digital broadcasting brings (Jowell, 19 May 2004; BIPE, 2002):

- Increased choice and quality for viewers (as there will be more channels and the opportunity to provide a better image, including wide-screen aspect ratio, high definition and sound quality);
- Lower transaction costs or the ability to transmit more channels or services for the same cost. Broadcasters will no longer have to incur the costs of transmitting signals in both formats, releasing sources for investment in programming and other services for consumers;
- Better efficiency in spectrum use (as more data can be transmitted within the same bandwidth). Spectrum will be released to allow the development of more television and other services for consumers. Digital terrestrial television signals are also expected to reach the population who live in areas that cannot currently receive them because of spectrum limitations; and
- The ability to transmit associated data allowing for enhanced television or fully interactive applications when associated with a return-path facility.

Alongside these tremendous economic and social benefits, the analogue switch-off entails drawbacks, notably it may result in social exclusion in so far as DTV is unavailable to some parts of the population. The British government’s objective, first announced in September 1999, is to achieve full switchover from analogue to digital only when the following tests are satisfied:

- To ensure that everyone who can currently get the main public service broadcasting channels can receive them on digital systems;
- To ensure that switching over is affordable for the vast majority; and
- To ensure that 95 per cent of consumers have access to digital equipment.

The satisfaction of the above main criteria of availability, affordability and accessibility were until recently considered unrealistic. The digital switchover policy was conceived at the end of the 1990s, in the middle of the dotcom euphoria. The take-up of DTV services was then relatively high, but following the collapse of digital terrestrial pay-TV platform *ITV Digital* in April 2002, the initial high rate was not maintained as digital television failed to meet some customers' expectations. While pay television has driven the initial uptake of DTV in Europe, saturation of the pay television market in terms of penetration may be occurring. Those prepared to sign-up to digital pay television services (most likely, football fans) have already done so. Evidence of this is that in the first quarter of 2004 BSkyB's subscribers increased by only 66,000 whereas *Freeview* added 544,000 over the same period (for more details see below).

The popularity of the BBC-led free-to-air digital service *Freeview* has contributed in DTV take-up from previously sceptical groups (affluent, older customers) and helped in rebuilding public confidence in DTV. As it is a free-to-view platform, it helped to combat the common misconception that DTV is pay-TV. Since the launch of *Freeview*, DTV has become considerably more affordable as competition between manufacturers and retailers of *Freeview* receivers resulted in significant price reductions (digital adapters are now sold for less than £80). BSkyB has also played a significant role in making DTV more affordable as it continues to subsidise digital set-top boxes, offering them for free to new subscribers.

In addition to the direct, spontaneous actions from market players, a number of other options and measures have been put forward to make DTV more affordable. A BIPE study for the European Commission recommended the setting up of a so-called 'Switchover Fund', which would consolidate the macro-economic transfers (BIPE, 2002, p.11). The funds raised from some of the players that will ultimately benefit from the analogue turn-off (terrestrial broadcasting players, other spectrum users, Governments themselves) would be used to finance some of the measures that will help accelerate the process and thus achieve the benefits from it. Compared with financial transfers through the general public budget, a dedicated Fund would provide some specific advantages: higher guarantees of transparency, platform neutrality and proportionality, consensual private/public decision-making (ibid).

James Purnell (2001, p.3), the Prime Minister's policy adviser on Culture, Media Sport and the Knowledge Economy from 1997 to 2000, argued that some radical measures are needed in order to achieve the goal of switchover. One option would be to require all new televisions to be able to receive both analogue and digital signals. Another measure would be for the government to help subsidise the cost of set-top boxes. However, as digital conversion is occuring on a voluntary basis, any government plans to subsidise digital take-up might cannibalise the market momentum for voluntary purchase of DTV. But the government (and the broadcasting industry) will probably have to pay to convert the households which are stubbornly refusing to buy any DTV services. As Wells (2003) argued, nobody knows how much this will cost, and policy makers dare not voice the issue publicly for fear of dissuading people from paying even Freeview's relatively moderate switchover costs.

The BBC stresses that both the government and industry must work together if switchover is to be achieved with the set timeframe (up to 2010). If left entirely to the market, the BBC predicts that it will take until 2013 for 95 per cent of households to have DTV (BBC, 2004, p.1). Market players are aware of the benefits associated with analogue turn-off for as spectrum users, television broadcasters would be interested in using released spectrum to support services and programmes. However, if left to the market the switch to digital is likely to happen at a moderate speed, which will be determined by transmission and switching costs (like the upgrade of networks to support digital broadcasting; the equipment of every household with digital-compliant receivers) (BIPE, 2002, p.6).

The British Broadcasting Corporation identifies several challenges and policy dilemmas which, if addressed early enough, would help to make achievement of the government's objectives more likely. Among them are the following (BBC, 2004, pp.2-3):

- There remain millions of consumers who see no reason to adopt DTV. There are also consumers for whom DTV is too confusing or just too difficult to use;
- Most secondary TV sets have not been converted;
- 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
- Digital satellite, with its UK-wide coverage, must play a full role in achieving switchover, but there needs to be a viewer-friendly solution which guarantees that satellite viewers could receive the public channels unencrypted.

Fixing a date for the Switchover?

As mentioned elsewhere, current conversion to digital broadcasting is occurring on a voluntary basis and is being driven by the perceived benefits of digitisation. Households' plans for converting their televisions are voluntary because they do not take a definite switchover timetable into account. A few EU countries have committed to a fixed date for switchover (see below), and in the UK the government has given a vague timetable of 2006-2010. However, research shows that the announcement of a switchover timetable will trigger many people who would otherwise not have converted any televisions before 2010 to make a plan (Klein, Karger and Sinclair, 2004, p.3). Without a timetable for switchover, uptake is likely to plateau at between 70 and 80 percent of households (ibid, p.11). If switchover is announced, then the vast majority of households will convert at least one television by the date of switchover. Those people who would only convert 'if pushed' to do so by the impending switch-off of analogue television will tend to leave conversion until the last possible year. However, the research concludes that about 5 per cent are unlikely to convert because of the costs and complexity of DTV (ibid, p.14).

A report from the new UK regulator Ofcom makes it clear that digital switchover is achievable provided that there is a greater certainty over the timing of switchover. An announcement of a timetable would significantly extend digital penetration in the UK and would help allow digital switchover to be achieved between 2007 and the end of 2010 (Ofcom, 2004a). According to Ofcom, active management is required to complete switchover effectively. For this purpose the regulator encourages the setting up of a body, termed 'SwitchCo', that would be responsible for ensuring switchover by a specified date (ibid). This idea of a properly staffed body with a significant marketing budget, to manage the considerable task of switchover has also been supported by the BBC. The corporation believes that this body must be in place before the switchover process starts (BBC, 2004, p.5).

The European Experience

The digital switchover plans might primarily be the responsibility of national policymakers, but there is also a European dimension that requires intervention of European public authorities. The need for European action in this field derives from (RIPE, 2002, p.12):

- The transnational nature of spectrum management;
- The free circulation of goods and services in the single European market; and
- The promotion of global European competitiveness in all the industries involved (television services, consumer electronics, advanced television technologies), which requires co-ordination and synchronisation of developments.

On 22 September 2003 the European Commission published a Communication aimed at assisting Member States in making the transition from analogue to digital broadcasting. The Communication on Digital Switchover ('transition from analogue to digital broadcasting, from digital switchover to analogue switch-off') sets out a guide on how best to migrate from analogue to digital radio and television broadcasting in a consumer-friendly fashion. It also launches a policy debate on how to make best use of the radio spectrum made available after analogue broadcasting is switched off.

Commissioner for Enterprise and the Information Society Erkki Liikanen emphasised that the EU was not considering 'intrusive measures' such as prescribing deadlines for digital switchover, since progress varies widely across the Union. However, the Commission is actively monitoring national processes and will continue to run benchmarking exercises. The Commission's aim is to elicit voluntary switchovers through a series of incentives. Under the eEurope2005 Action Plan, Member States were expected to publish their digital switchover plans – including a possible date for ending analogue television - by the end of 2003.

However so far a few European countries have committed to a prompt date for analogue switch-off. Sweden is the first European country that has resolved the date for the switchover to digital television. The analogue terrestrial network in the country will be shut down by February 2008 (Jutterstrom, 2003, p.2). The German government is committed to a region-by-region switchover process and expects analogue terrestrial transmission's phase out to occur in 2010. In fact, terrestrial television broadcasting has been fully digitised in the Berlin metropolitan area since Autumn 2003, with analogue signals being switched off. Other countries, such as Italy and Spain have asserted that they expect to switch-off the analogue frequency well before 2010. For example, in Spain the then Minister of Science and Technology, Josep Pique, announced in May 2003 his government's determination of a 2007 analogue switch-off, five years before than initially scheduled.[1]

[1] http://www.dtg.org.uk, 15/5/03.

In the UK, there is no announcement of a timetable, but digital switchover is expected to be achieved between 2006 and 2010. According to the regulator Ofcom, television screens should not go blank overnight, but switchover should be phased in, region-by-region. One or two analogue television channels should be switched-off first so that the digital signal can be boosted (Ofcom, 2004a).

Digital Television Penetration in the UK

The BBC report, *Progress towards achieving digital switchover*, describes progress so far as 'astonishing' for since autumn 2003 UK DTV penetration passed the psychologically important milestone of 50 per cent of households. As stated, this 'puts the UK in an enviable position' (BBC, 2004, p.1). Indeed, by the end of 2003 about half of UK's 24.9 million homes had access to digital multi-channel television – either via satellite, cable or terrestrial means, notably Freeview.[2] However, the latest updates examining figures published by operators and providers, combined with Ofcom's own research on DTV reveal that DTV penetration continued to increase in the first quarter of 2004. In particular, by 31 March 2004, DTV penetration was estimated to have increased to 53 per cent of UK households, up from 50 per cent from the previous quarter. This represents an increase of 2.8 per cent, with an additional 710,000 households adopting DTV during the quarter, bringing the total number of households to more than 13 million (Ofcom, 2004b).

BSkyB (satellite) is the market leader and continued its consistent growth, adding 66,000 paying subscribers over the quarter, to bring the total number of UK subscribers to just under 7 million subscribers. The total number of subscribers to digital cable television now accounts for around 2.4 million (3.3 million if analogue cable is also considered). *Freeview* (Digital Terrestrial Television) uptake has increased by 18.6 per cent on the previous quarter, with household numbers estimated to have grown to around 3.5 million (544,000 added during the quarter). BSkyB's share of digital homes is 53.2 per cent (a drop from 55.8 per cent in Q4 2003), while cable also saw a slight decline in share of DTV homes in Q1 2004, now at 18.4 per cent from 18.9 per cent in Q3 2003. However, digital terrestrial television showed the strongest increase in share of the DTV market from 23.7 per cent in Q4 to 26.5 per cent at the end of Q1 2004 (ibid). Therefore, although satellite is the undisputable winner so far, it is already apparent that digital terrestrial will dominate in the future. The figures will be a boost to the BBC's *Freeview*, which has been in the market for about two years and already makes BSkyB's biggest competitor by giving consumers access to up to 30 channels for a price of a set-top box (well under £80).

The BBC's Role in Digital Take-up

The BBC has general obligations to promote DTV, and in particular, to develop the market for consumers who want DTV but do not want to subscribe to pay-TV services (Starks, 2001). It is required to provide an attractive free-to-view package, appealing

[2] ADSL (Asymetric Digital Subscriber Lines) represents another DTV network but it is (and is likely to remain) a niche delivery platform.

enough to motivate consumers to invest in the necessary receivers. For this purpose it has proposed and obtained approval for a new set of digital services, including *BBC 3, BBC 4, CBBC, Cbeebies,* alongside *BBC News 24* and *BBC Text*. It is also required to offer affordable free-to-view receivers which consumers can buy with no subscription strings attached. Digital terrestrial television set-top boxes are now sold for a price of between £40-80. Finally, the BBC is committed to promoting and marketing its digital services and catering for consumer awareness and information over digital services. According to a recent BBC report, the corporation's investment in its digital channels and promotions for them 'has played a strong role in exciting consumer interest in digital, tackling consumer confusion and assuaging fears'. The continuing consumer enthusiasm for DTV during 2003 'makes achieving UK-wide digital switchover with the Government's timetable an achievable objective' (BBC, 2004, p.1).

Research confirms that the new BBC services have contributed greatly to overall digital take-up, which has increased by 2.1 million households since *BBC 4, CBBC* and *Cbeebies* were launched at the beginning of 2002, and 1.1 million since *BBC 3* launched in February 2003. While pay-TV take up has experienced some upheavals (particularly with the collapse of *ITV Digital*) over the period, free-to-view DTV penetration has increased from 0.5 million households to about 3 million. Two thirds of these free-to-view households receive their services through *Freeview,* , the BBC-led free-to-air digital terrestrial platform that was launched in late 2002 (Oliver & Ohlbaum, 2004, p.48). The BBC services have been the lead driver of *Freeview* penetration. The extra BBC services available through *Freeview* and digital satellite and cable, have played an important part in the take-up of free-to-air digital reception and the rapid adoption of *Freeview*. The BBC services make up over one quarter of the extra channels on *Freeview* and the presence of the new BBC digital services are an important reason for consumer adoption of free-to-air digital services (ibid).

Perhaps more importantly, evidence suggests that *Freeview* penetration has been largely additional to, rather than a substitute for, digital pay TV take-up (ibid, p.17). A Quest survey in March 2003 (Multichannel Quarterly, Q2 2003, ITC)[3] gave demographic data on the types of household that were using each platform. It found that *Freeview* had a different profile to other platforms. In particular, the findings suggest that many of *Freeview's* customers are affluent, older people who have no interest in purchasing satellite or cable pay-TV services. As the BBC states, *Freeview* appeals to those who reject satellite and cable pay-TV services and to whom a terrestrial free-to-air service is a welcome bonus (BBC, 2004, p.10). This shows that the broad platform impact of BBC services on different types of commercial channels and networks was not damaging for them. On the contrary, new BBC services have probably made a small contribution to the take-up of digital pay-TV platforms by enhancing the overall offer. Overall, the evidence suggests that the new BBC services have made a significant contribution to bringing forward the likely idea of analogue switch-off and the release of large amounts of spectrum' (Oliver & Ohlbaum, 2004, p.9).

Of course a criticism regarding the new BBC services is that only a minority of viewers enjoy the full benefits of all BBC digital channels, whereas everybody pays the licence fee. At the end of 2003, the four BBC services had a share of about 2.7 per

[3] http://www.itc.org.uk/uploads/ITC_Multichannel_Quarterly_-_Q2_2003.doc

cent of all day multi-channel viewing. However, this has increased compared with 1.9 per cent for the BBC Choice and BBC Knowledge services that predated the BBC's new digital strategy. Overall the BBC services have gained 0.8 per cent of multi-channel share since their launch (BARB; Oliver & Ohlbaum analysis, 2004, p.3). These low shares for the BBC digital services mean that the share taken from competitors is also low (ibid, p.5).

Freesat?

Alongside the BBC's general obligations to promote DTV, the regulator Ofcom argues that the UK government, as part of the review of the BBC's Royal Charter, should add specific obligations to the current general ones. They should include obligations on rolling-out digital transmission nationwide, providing public information, providing on-air marketing of DTV on a platform-neutral basis, and continuing to provide its channels on the free-to-view satellite platform (Ofcom, 2004a).

An attractive, viewer-friendly free-to-air satellite option available to everybody without having to pay a subscription would contribute to universal digital coverage and would certainly push forward the withdrawal of analogue services. In fact, the BBC has taken up the initiative of a free-to-air digital satellite platform, dubbed *Freesat*. Its launch, according to the corporation, will play a key part of the move to analogue television's switch-off (BBC, 2004, p.7). This is true because, unlike digital terrestrial television, satellite signals are technically available to every UK household. At switch-off, only an estimated 73 per cent of the population will have access to DTT, well short of the 95 per cent target set by DCMS. The reason for the gap is the shortcoming of the digital terrestrial signal, and once the network reaches a certain coverage there are diminishing returns from adding new transmitters. Getting digital terrestrial television to small villages is not economically viable (Robinson, 2004, p.4). A digital satellite platform with its wide reach and universality in which services are aired unencrypted would certainly contribute to the achievement of the government's switchover timetable.

Conclusion

In deciding to adapt to DTV, people consider a number of related aspects, ranging from practical issues like cost and usability, through to social issues like the effect of DTV on society. They assess the relevance and attractiveness of different DTV platforms as well as content and try to make rational decisions as to whether to convert to digital. Some consider DTV as 'more television' and/or 'better television' with a superior sound and picture, and greater interactivity potential. Others see little reason to convert to digital and would perhaps only consider it if there was a fixed date for the analogue turn-off. In any case the majority of viewers show a greater attachment to the traditional analogue channels and still settle down for 3-5 television services.

Given these observations it becomes a huge task to convince people to switch to digital. This submission attempted to show that the new digital BBC services have played a significant role in at least three areas: first, in enhancing consumer interest in DTV services and addressing confusion over them; second, in driving the take-up of

DTV in general and *Freeview* in particular; and third, in making the target of analogue switch-off seem more achievable than before. Based on evidence from market research analysts, it was also argued that *Freeview* penetration has been largely additional to, rather than a substitute for, digital pay-TV take-up. The figures show that *Freeview* viewers have a different profile to viewers using other platforms. In light of these, the UK government's stated intention to turn-off the analogue television signal before 2010 may be realistic.

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