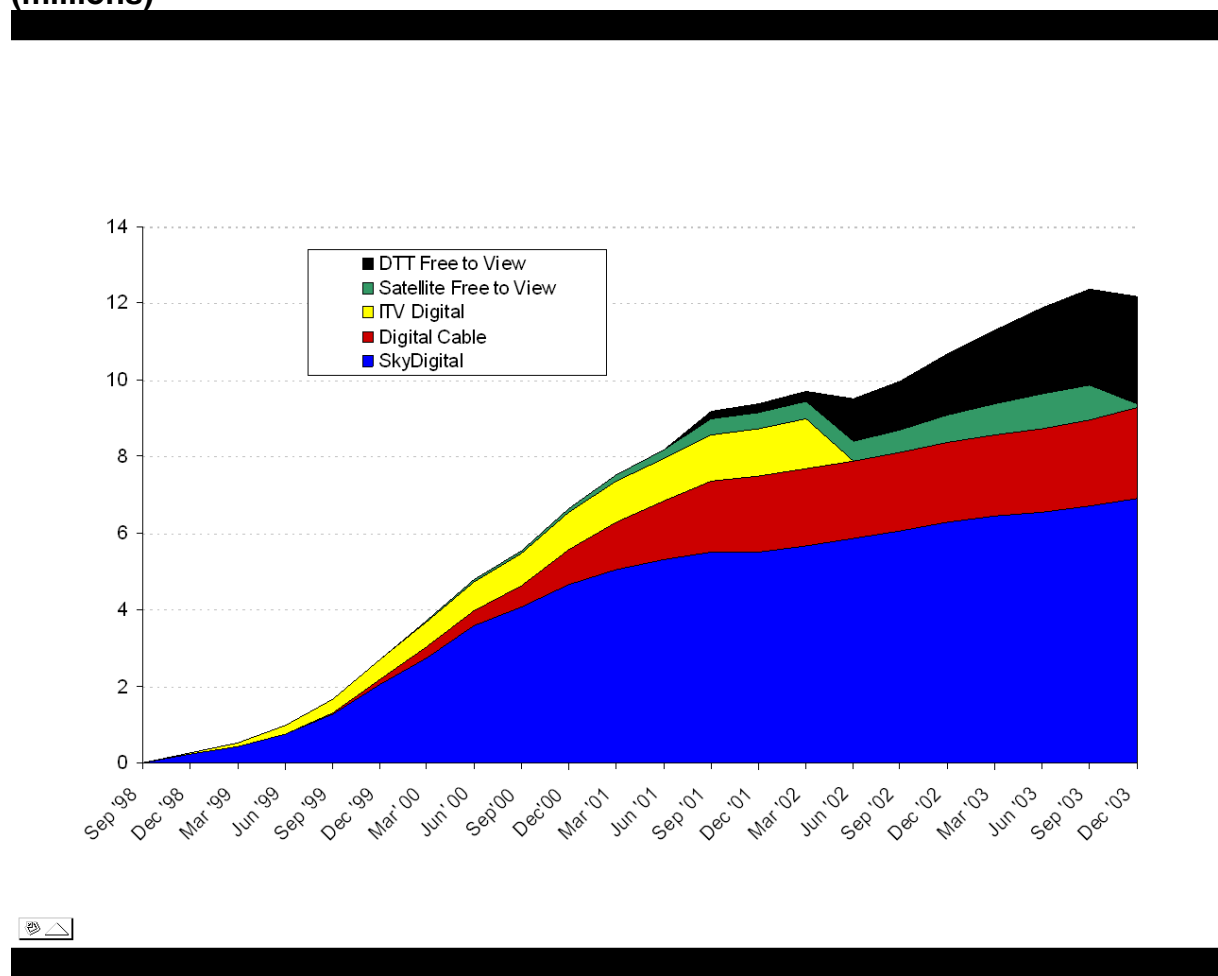


Fig. 2: Digital television is now in most UK households

**Installed households
(millions)**



Freeview take-up is an estimate which assumes that 600k ex-ITV Digital subscribers stayed with DTT and so far 10 per cent of adapter sales are not purchased for primary TV sets.

By stripping out sales of digital boxes to get Freeview which have converted secondary TV sets, the above chart understates the true extent of the consumer enthusiasm for Freeview.

The considerable decrease in 2003Q4 in free-to-view satellite viewers resulted from BSkyB switching off superseded "P1" viewing cards.

Does not include the small number of xDSL TV subscribers.

Sources: Quarterly financial results, press releases, estimates of free-to-view.

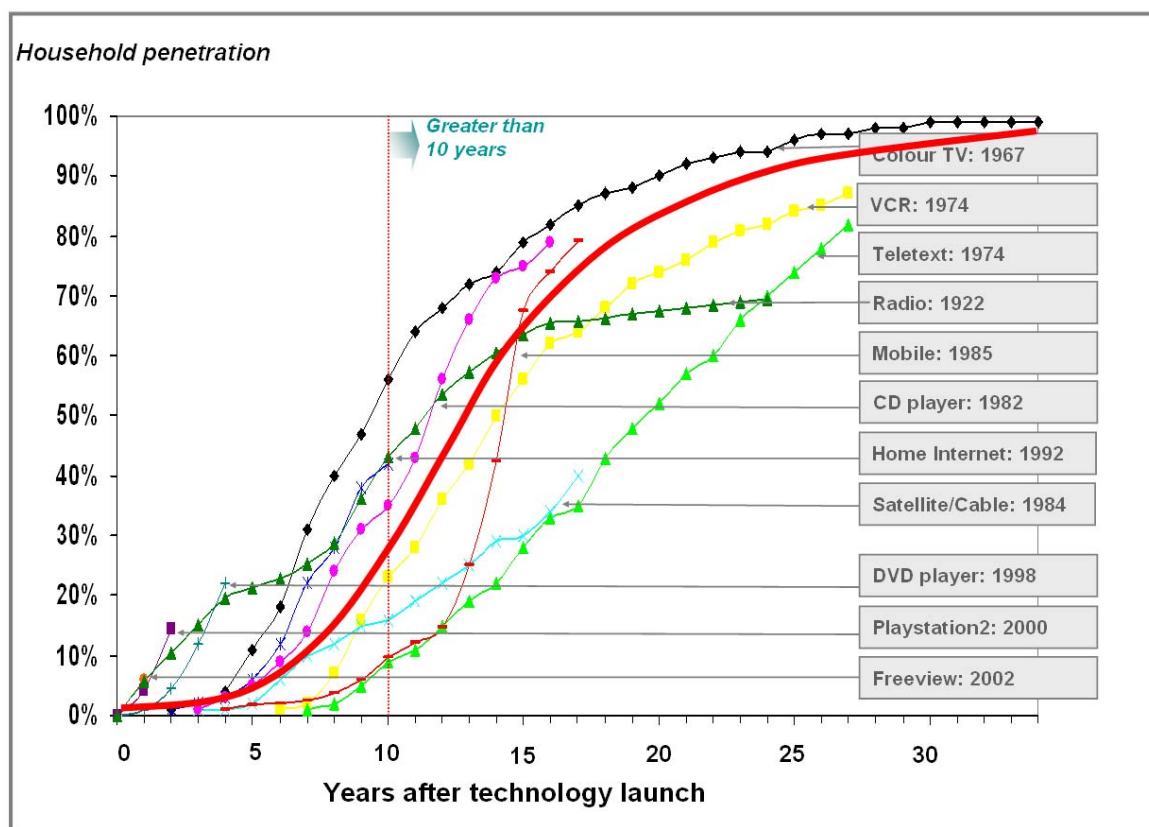
34. Given the strong, continuing consumer enthusiasm for adopting digital satellite and Freeview (albeit largely for their primary TV set only), the regional switchover process could well have started in the first half of the 2006-2010 'target window'. The Digital Action Plan is assuming that this process starts in 2007, which is a sensible planning assumption if the switchover process were to be completed throughout the UK by the end of the target window. However for this to be likely, there are several issues which the BBC believes need to be addressed:
- a) **Continuing Government commitment** to switchover (including financial investment in the process), and ways to provide re-assurance for viewers as the date of the start of the process, and the first region selected, are made public.
 - b) **Tackling the causes of digital resistance.** In spite of the strong consumer enthusiasm of 2003 to there remain many millions of consumers who see no reason to adopt digital TV – and that's just for the first set. Converting whole households, even those which already have converted their primary TV set, will be a huge marketing and communications task. There are also many consumers for whom digital TV is too confusing or just too difficult to use. In addition, many of those consumers who had adopted it for their primary TV sets only could be expected to be less than enthusiastic about losing the analogue services from their secondary sets.
 - c) **Selecting transmitter regions** for early switchover. The transmitter regions which would be logistically the easiest (see paragraph 126) to switchover may not be those with sufficiently high digital take-up that the Government would feel comfortable authorising the withdrawal of all analogue television from them. In all probability, digital take-up (primary TV set only) currently falls far short of this comfort level in all of the UK transmitter regions.
 - d) **Ensuring portable reception.** The challenges in ensuring widespread, reliable portable (i.e. using set top aerials) reception need to be tackled – see paragraph 150.
 - e) Creating a reliable **subscription-free** way of receiving all public service channels via **digital satellite**. The withdrawal of the 'solus card' service for new satellite viewers from 31 January 2004 makes digital satellite far less attractive to those households which do not wish to pay monthly subscriptions to receive all of the public service channels. 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 viewer-friendly solution to this problem.
 - f) **Solving the VCR problem.** Viewers must have an easy method of recording from digital channels. Analogue VCRs certainly record from digital receivers, but this is more complicated (especially when using the timer) and do not permit viewers to watch one digital channel while recording another. The Government should not assume that Personal Video Recorders (PVRs) will provide the

recording solution for all households with VCRs in time for switchover, especially given the challenging timetable for this.

Market summary - DTT

35. Freeview is a great success story, and its rapid take-up is largely due to the simple fact that it offers consumers truly free digital service at the point of use. The proposition is clear and the equipment is affordable. As the BBC originally anticipated, Freeview has great appeal to those consumers who have so far resisted digital television, and in particular pay-TV. For most viewers Freeview is their only digital system, and three quarters of those people are new to digital. Freeview is therefore overwhelmingly complementary to pay platforms, and is reaching an entirely new group of consumers who would not otherwise have got digital television.
36. Because Freeview is a genuinely horizontal market, DTT take-up can only be estimated. The proportion of ex-ITV Digital subscribers who continue to use their set top boxes also has to be estimated. However, research suggests about 3.4 million UK households now receive Freeview – about 2¾ million homes have bought digital boxes to get Freeview and idTVs since the launch of Freeview in October 2002, with the remainder of Freeview homes made up of ex-ITV Digital subscribers who continue to use their legacy (unsupported by their manufacturers) set top boxes.
37. The success of Freeview is especially striking given that the service launched following the high profile demise of ITV Digital, amidst a general air of despondency amongst manufacturers, retailers and consumers.
38. Since its launch 17 months ago, Freeview has grown at such a rate that it has become the second largest digital platform behind satellite, and is now the principal driver of digital take-up. Freeview has set a new benchmark as the fastest new consumer technology to reach 1 million homes (see fig. 3 below) – outstripping both PlayStation2 and DVD – and by the end of March it is estimated that it was in 3.4 million homes (just over 13 per cent of the total). Without the stock shortages of the previous Christmas, and with a momentum building from word-of-mouth recommendations, half a million Freeview receivers were sold in December alone.

Fig. 3: Technology take-up in the UK (from launch year)



Sources: BBC Digital Homes Project analysis from Ofcom, Screen Digest, ITC, British Video Association, BBC Audience & Consumer Research, Lexis Nexis

39. Freeview monthly sales for 2003 were generally between 2-3 times higher than 2002. In 2003Q4 800,000 Freeview set-top boxes were sold in addition to 80,000 idTVs³. By the end of 2003, the take-up of DTT had comfortably exceeded brokers' forecasts prior to the launch of Freeview.
40. Surveys of Freeview viewers and analysis of their demographics reinforces the notion that free-to-air digital viewers are largely additional to pay-TV subscribers and those considering getting pay-TV. More than 80 per cent of Freeview households had not considered getting any other digital TV platform before they bought the necessary reception equipment, and the make-up of Freeview households is skewed (although by no means exclusively) to the over 45, compared to satellite pay-TV take-up which is heavily skewed to the under 45s.

³ Source: Intellect.

41. It is estimated that about 10 per cent of digital boxes to get Freeview purchased thus far have been purchased to convert second and third TV sets or to replace old ITV Digital set top boxes i.e. they have not increased the number of digital households. As we expect digital converts to want to upgrade other TV sets, and as the range of digital boxes to get Freeview and idTVs increases, the BBC would expect this proportion to increase over time.
42. Unlike satellite or cable, Freeview is a genuinely horizontal market, with a diverse range of receivers already available (currently more than 100 models from more than 20 manufacturers), including an increasing range of idTVs (although there continue to be no portable sets on offer). Consumers can already purchase DTT receivers with integrated web browser, DVD players or with Personal Video recorder (PVR) functionality. The first adapter to include twin DTT tuners and an integrated video cassette recorder (thus solving the problem of digital tape-based recording being more difficult than its analogue equivalent) is expected to be launched shortly.
43. The range of services available on DTT also continues to grow. On Freeview, the BBC has launched 24/7 news loops and a scrolling text service for the BBC's radio stations and has continued to develop its text services.
44. Although all three platforms (and possibly broadband as well) will be needed to provide the digital universal coverage necessary to achieve switchover, Freeview will make a unique contribution. This is not only because it is the fastest growing platform, but because Freeview is the only platform with the potential, after switchover, to provide portable TV reception (it is estimated that 5 per cent of primary TV sets today use set-top aerials). In addition, Freeview also appeals to satellite and cable subscribers looking for an easy way to convert their secondary sets. With power increases at a further 22 transmitters recently implemented by the broadcasters, more consumers than ever are now able to receive the full Freeview line-up.
45. While consumer interest in Freeview remains high, 2004 has the potential to provide another year of substantial growth. The impact of the imminent launch of Top Up TV's pay service, as a separate service from Freeview operated on the DTT platform, is as yet unclear. Prior to the announcement of the launch of Top Up TV, some analysts had estimated that Freeview would be in 4 million homes by the end of 2004.
46. DTT's success is Freeview's success, and this has been built on the simple marketing message of "one off payment, no contract". Audience research shows that Freeview's marketing message has particular appeal to digital resisters, some of whom not only don't want to subscribe, but are also put off by the very idea of pay channels on it at all. Consequently, it has to be hoped that the appearance within the