Q2 2006

Digital television and switchover: market developments and consumer metrics

MGDS(06)24 Prepared for the Ministerial Group on Digital Switchover

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Contents

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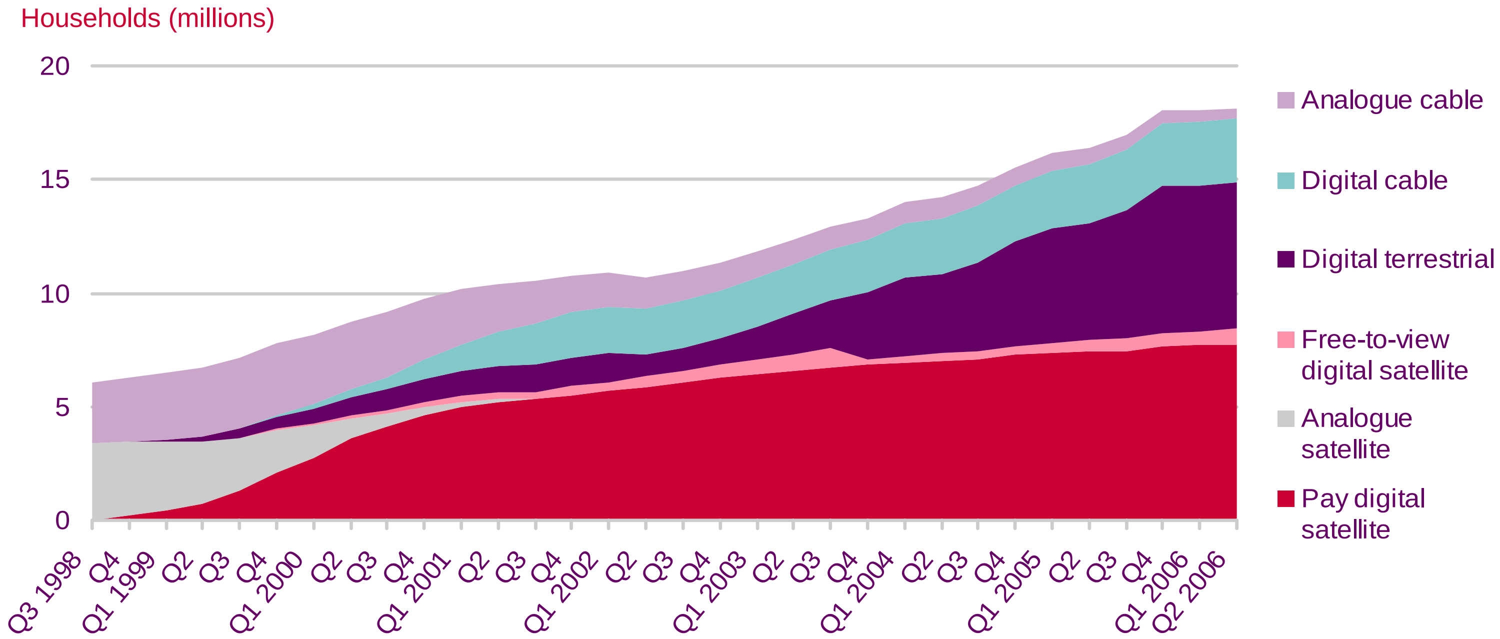
Conversion Update

Total household penetration continues to increase…

Digital and multichannel penetration of UK households



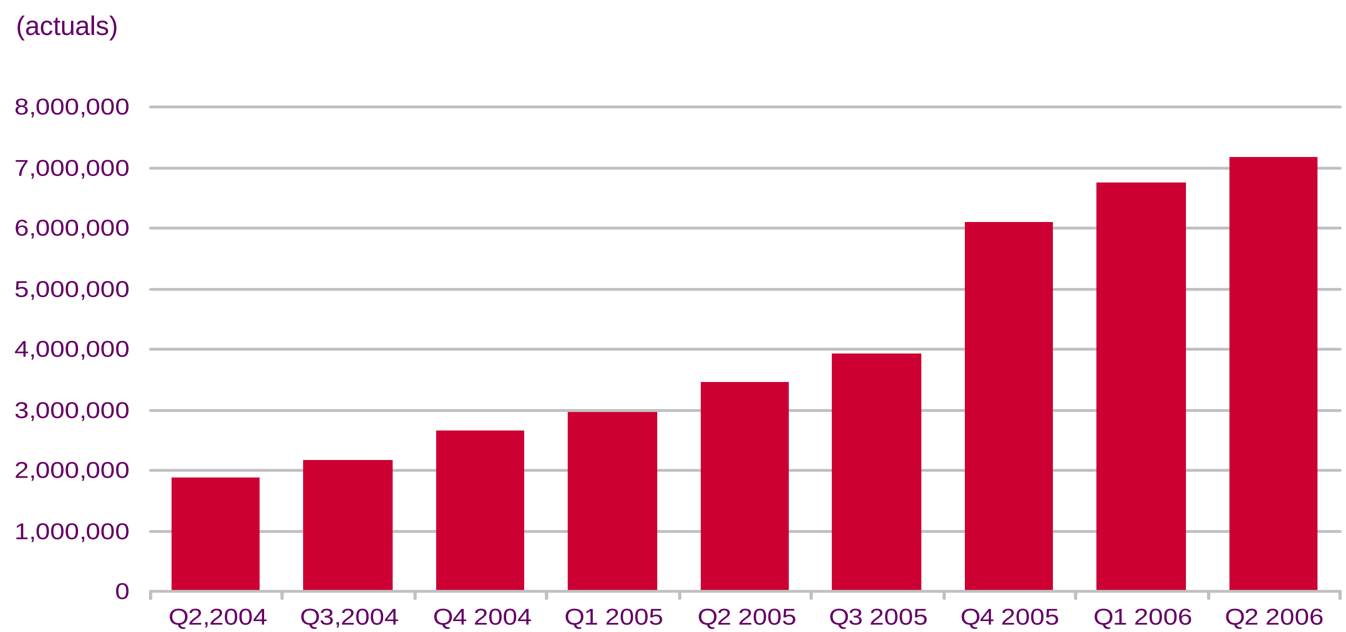
- Ofcom has changed its reporting methodology (to improve estimates of DTT take-up), resulting in a lower Q1 penetration figure of 69.7% (previously 72.5%)
- During the second quarter (April-June), overall take-up grew to 70.2%
- Multichannel penetration, which includes analogue cable subscribers, now stands at 72.0% using the new method of calculation

Source: Ofcom Q2 Digital TV Progress Report

Conversion Update

…while the past 12 months show rapid acceleration in conversion of secondary televisions

Secondary digital TV sets Q2 2005 – Q2 2006, all platforms



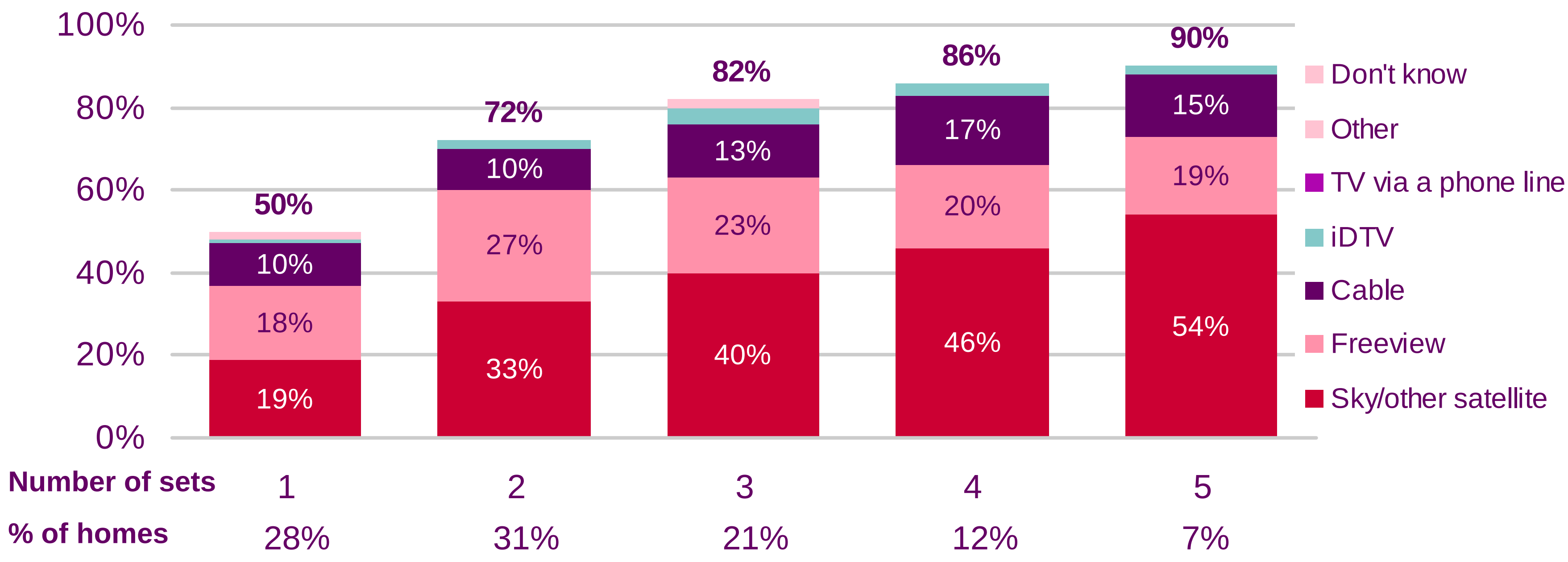
- Since Q3 2005 second set conversion has increased by over 3 million to reach over 7 million by Q2 2006, meaning that in the last year the number of digital second sets has doubled from around 3.5 million in Q2 2005 to over 7 million by Q2 2006
- Q2 figures show that 42% of all televisions in the UK are now multichannel

Source: Ofcom Q2 Digital TV Progress Report

Conversion Update

The more TVs in the home, the more likely the home is to be digital

Proportion of main sets converted to MC television (%)



Source: Ofcom / Digital UK Switchover Tracker; Ofcom Residential Tracker

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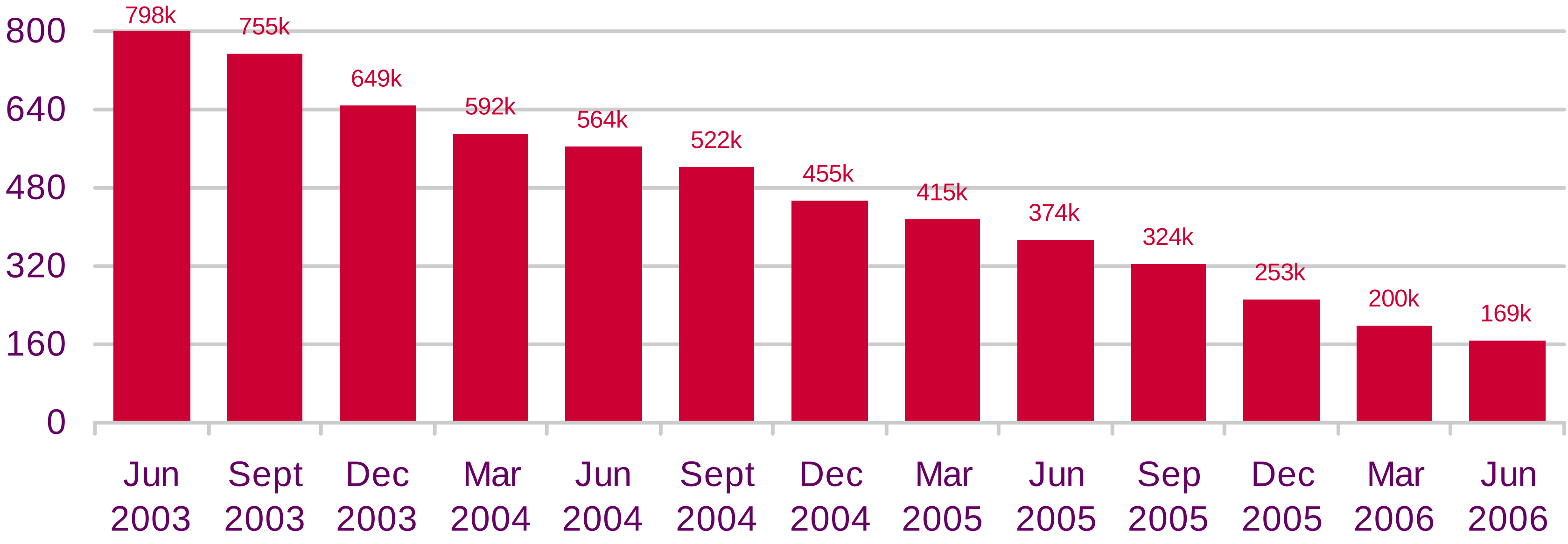
Conversion Update

Sales of VCRs continue to drop – fewer than 80% of homes own an analogue recorder

Volume of VCR sales (thousands)



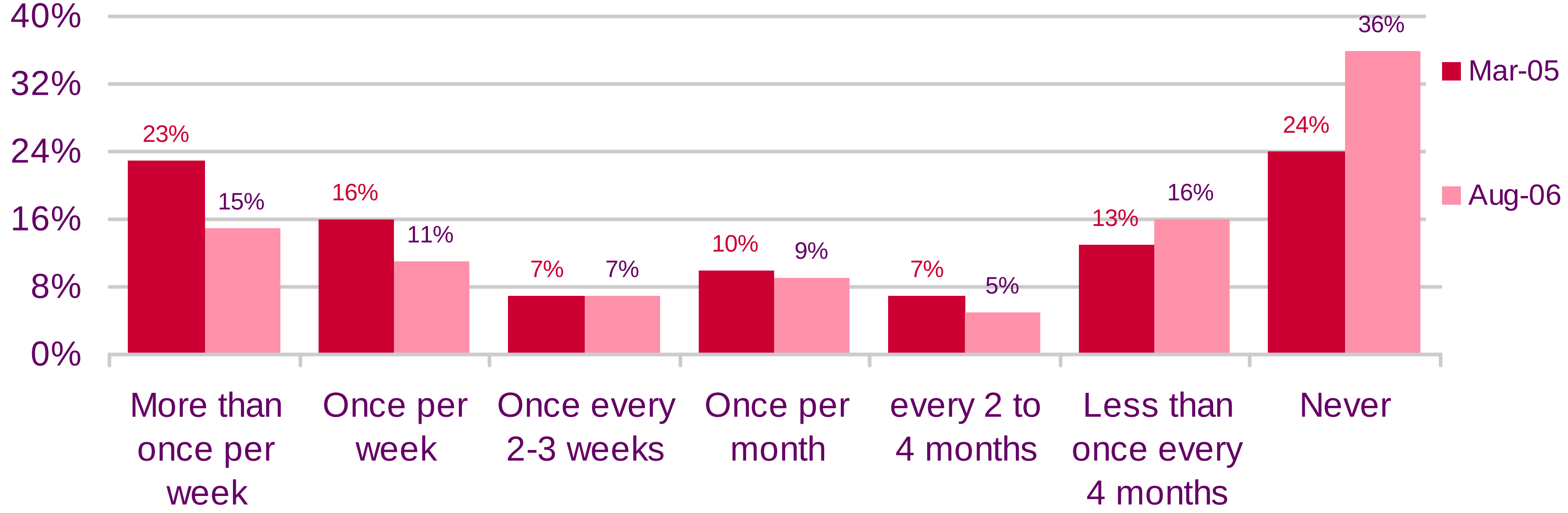
Source: GfK LekTrak Sales Data; four quarter rolling average

Conversion Update

The importance of VCR recording seems to be falling too

"How often, if ever, do you use your video recorder to watch programmes recorded from the TV?"

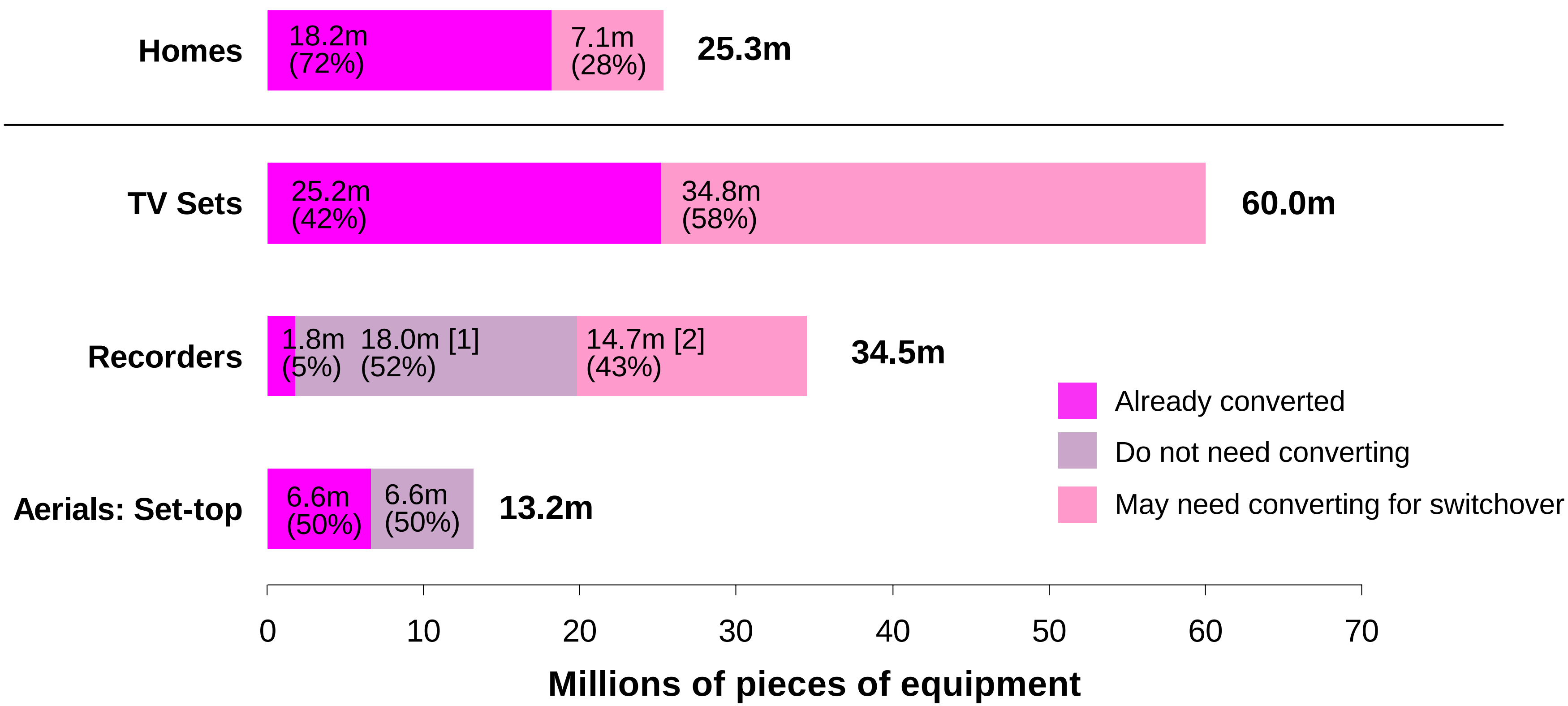
Proportion of homes (%)



Source: Ofcom Residential Tracker

Conversion Update

Equipment Conversion Status



60 million pieces of TV equipment remain to be converted

[1] – 55% of analogue recorders not used for independent recording, and therefore OK for switchover
[2] – 45% of analogue recorders used for independent recording, and may therefore need to be replaced for switchover
NOTE: Ofcom and Digital UK are conducting further work to estimate the number of roof-top aerials that will need replacing at switchover.

Source: GfK ConsumerScope, GfK LekTrak, Ofcom / Digital UK Switchover Tracker, Q2 2006

Consumer Metrics

Q2 Switchover Tracker Highlights

- Two thirds (**66%**) of the UK have heard of digital TV switchover
- The Digital UK May campaign saw a **13 point increase** in national awareness
- Awareness in lead regions **80%+** (Border = 88%, Westcountry = 82%, Wales = 83%)
- Awareness of switchover amongst older people aged 65+ is in line with the national average
- Around **half** the population understands that switchover will happen 2008-2012
- Knowledge of the local switchover date limited in all but Border, where almost half (**49%**) know that switchover will happen there in 2008
- Almost 9 in 10 (**88%**) already have plans to convert at least one set for switchover
- **3%** say that they won't convert for switchover – because TV is not important to them
- Satisfaction with digital TV is consistently high across all those who already have it. Almost 8 in 10 (**77%**) say that it is better than analogue TV
- The Border region, the first to switchover, leads the UK on all the awareness and understanding measures
- **45%** of people recognise the digital tick logo, and that 62% have an accurate understanding of what the logo means

Source: Ofcom / Digital UK Switchover Tracker, Q2 2006

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Consumer Metrics

Q2 Switchover Dashboard: Regions

* Very small base size – data should be viewed as indicative only

** Extremely small base size – data omitted

	BASE SIZE	-1- Awareness		-2- Understanding		-3- Attitudes	-4- Intentions to convert			-5- Conversion			-6- Satisfaction
		-a- Switchover	-b- Logo	-a- Concept	-b- Date	Positive/ Neutral	-a- Convert at least one set	-b- Will not convert any set	-c- Analogue h/holds to cnvrt 12m	-a- Primary set converted	-b- Other sets converted	-c- Full h/hold convrsion	With digital TV
NATIONAL	**2522**	**66%**	**45%**	**64%**	**N/A**	**67%**	**88%**	**3%**	**10%**	**74%**	**34%**	**37%**	**77%**
1 - Border	427	82%	54%	76%	49%	72%	91%	3%	5%	69%	40%	39%	79%
2 - Westcountry	300	77%	44%	75%	12%	67%	88%	2%	12%	71%	30%	32%	80%
3 - Wales	325	71%	45%	66%	12%	66%	90%	2%	4%	83%	44%	49%	83%
4 - Granada	314	64%	42%	57%	7%	68%	87%	5%	12%	79%	40%	41%	83%
5 - West	80*	75%	40%	62%	18%	61%	79%	2%		63%	36%	32%	
6 - STV/Gramp	137	62%	42%	64%	12%	72%	89%	3%		76%	47%	47%	84%
7 - Central	179	66%	45%	66%	2%	65%	91%	1%		76%	33%	39%	72%
8 - Yorkshire	172	67%	41%	63%	4%	59%	92%	4%		77%	29%	28%	74%
9 - Anglia	145	68%	39%	53%	3%	60%	88%	3%		68%	29%	27%	79%
10 - Meridian	152	79%	45%	73%	15%	65%	83%	8%		68%	34%	42%	71%
11 - London	174	59%	54%	66%	14%	77%	88%	1%		71%	27%	34%	77%
12 - Tyne Tees	76*	68%	48%	62%	16%	68%	95%	0%		89%	37%	39%	86%
13 - Ulster	41**	*Ulster sample sizes currently too small to report on a quarterly basis; data to provided 6 monthly with first report in Q3 2006*											

Source: Ofcom / Digital UK Switchover Tracker, Q2 2006

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Consumer Metrics

Q2 Switchover Dashboard: Consumer Groups

	BASE SIZE	-1- Awareness		-2- Understanding	-3- Attitudes	-4- Intentions to convert			-5- Conversion			-6- Satisfaction
		-a- Switchover	-c- Logo	Concept	Positive/ Neutral	-a- Convert at least one set	-b- Will not convert any set	-c- Analogue h/holds to cnvrt 12m	-a- Primary set converted	-b- Other sets converted	-c- Full h/hold convrsion	With digital TV
NATIONAL	**2522**	**66%**	**45%**	**64%**	**67%**	**88%**	**3%**	**10%**	**74%**	**34%**	**37%**	**77%**
Male	1194	72%	49%	72%	73%	90%	3%	10%	74%	35%	39%	80%
Female	1328	61%	41%	56%	63%	87%	3%	11%	73%	33%	35%	75%
16-24	279	47%	45%	49%	73%	88%	4%		82%	34%	37%	80%
65-74	326	78%	48%	77%	67%	87%	4%	6%	67%	23%	30%	73%
ABC1	1150	74%	44%	71%	70%	90%	2%	9%	74%	33%	35%	76%
C2DE	1372	59%	45%	57%	65%	87%	3%	11%	73%	36%	39%	78%
Rural	469	76%	42%	70%	61%	89%	1%	6%	70%	37%	38%	83%
Urban	2053	65%	45%	63%	68%	88%	3%	11%	74%	34%	37%	77%
Low income	581	59%	46%	59%	63%	84%	4%	10%	68%	26%	40%	82%
BME	102	42%	56%	41%	71%	87%	2%		75%	19%	44%	74%
Non-English	101	35%	56%	33%	75%	74%	2%		69%	37%	54%	75%
Disabled	456	68%	47%	64%	55%	83%	6%	3%	71%	32%	36%	77%
Socially isolated	29**											
Living alone	479	69%	37%	66%	62%	82%	6%	8%	53%	21%	31%	79%
Rent private	276	57%	47%	58%	69%	82%	5%	9%	60%	27%	38%	84%
Rent council	469	57%	49%	53%	63%	88%	4%	6%	73%	43%	42%	81%
House	2219	68%	44%	65%	68%	89%	3%	7%	76%	34%	36%	78%
Flat	269	55%	50%	56%	67%	84%	4%	7%	60%	33%	42%	76%
THS - 75+	232	63%	39%	59%	55%	76%	8%	1%	45%	25%	33%	81%
THS - DLA/AA <75	134	66%	47%	61%	59%	84%	5%		71%	39%	39%	85%

Source: Ofcom / Digital UK Switchover Tracker, Q2 2006

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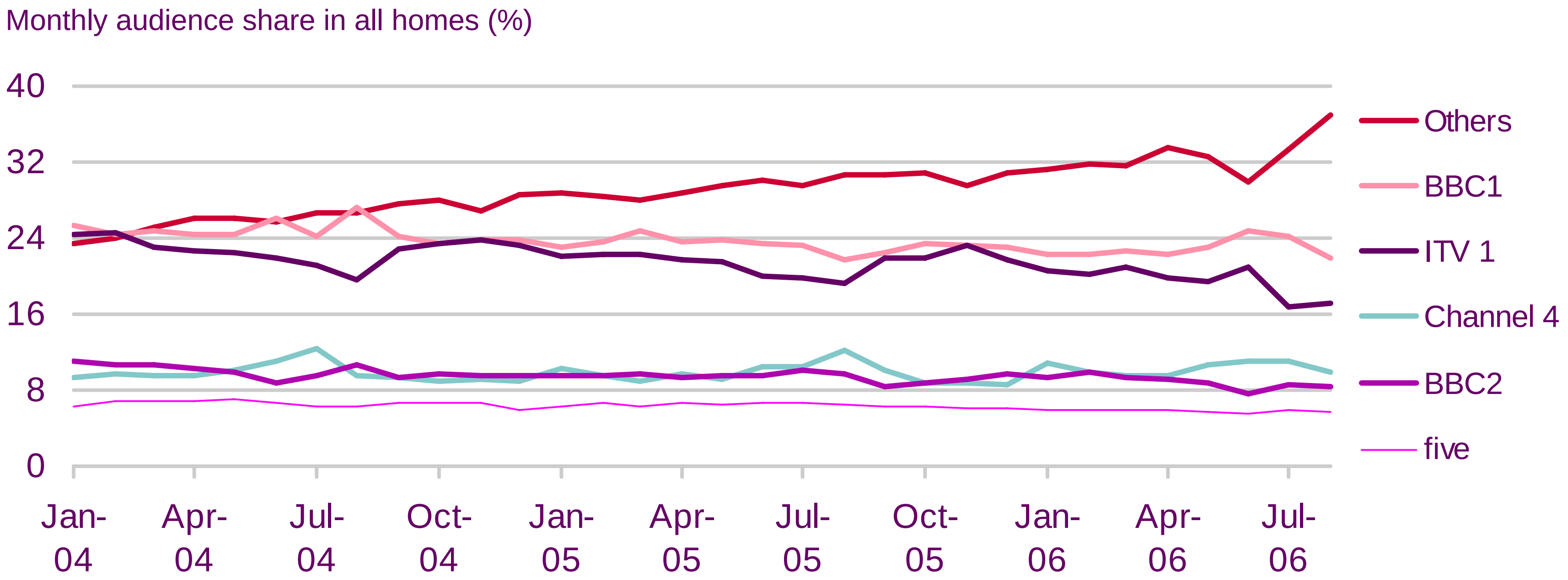
Consumer Metrics

Quarterly Targets

Actual / Target	Awareness					Conversion				
	Q2'06	Q3'06	Q4'06	Q1'07	Q1'08 TBC	Q2'06	Q3'06	Q4'06	Q1'07	Q1'08 TBC
NATIONAL	66%	70%	75%	77%	89%	74%	75%	76%	77%	81%
Border	82%	85%	91%	92%	97%	69%	70%	71%	72%	75%
Westcountry	77%	80%	87%	89%	95%	71%	72%	74%	75%	80%
Wales	71%	75%	82%	84%	93%	83%	84%	85%	85%	87%
Granada	64%	69%	80%	82%	93%	79%	80%	82%	83%	86%
Logo Awareness (National)	45%	50%	57%	60%	75%					

Consumer Metrics

Digital TV Viewing



- In August 2006 almost 37% of all TV viewing was on digital channels – more than BBC2, Channel 4, and Five combined
- In multichannel homes nearly 46% of TV viewing was on digital channels; in cable homes this rose to 51% and in satellite homes to over 55%

 Source: BARB

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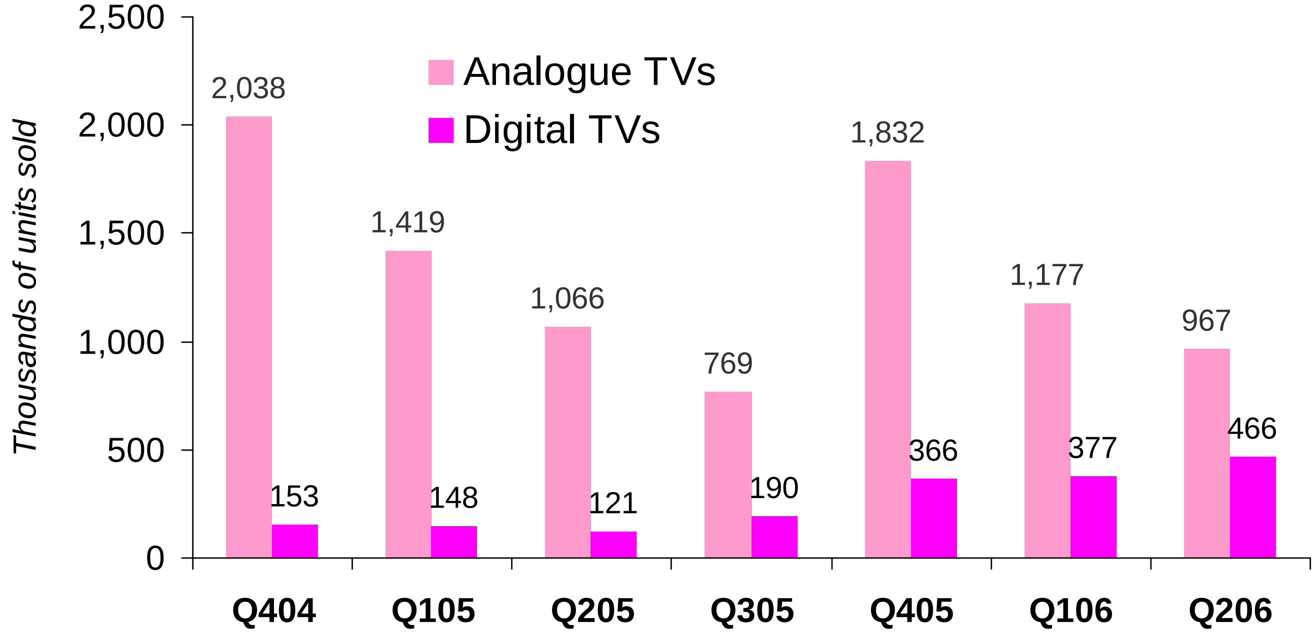
Market Developments

Equipment Sales Update : TV Sales



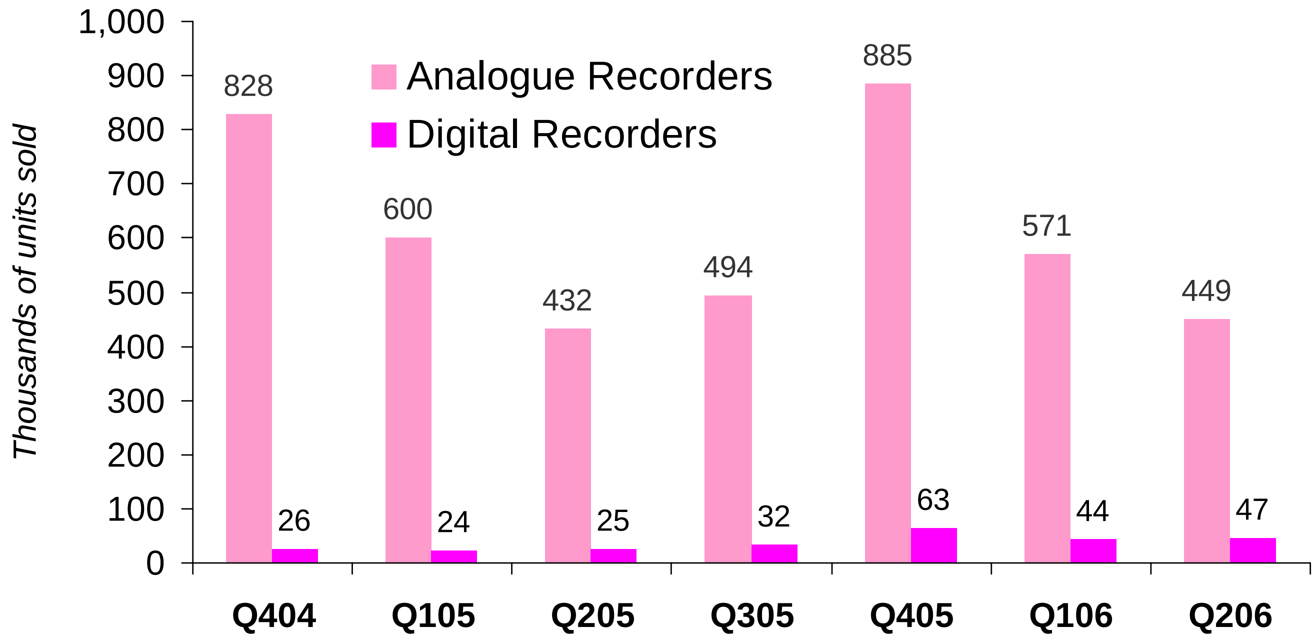
Units Sold (k)	2,191	1,567	1,187	959	2,198	1,554	1,433
% Digital	7%	9%	10%	20%	17%	24%	33%
Digital Growth: Quarter-on-Q		-7%	-18%	+57%	+93%	+3%	+24%
Digital Growth: Year-on-Yr					+139%	+155%	+285%

- In Q2 2006 one third (33%) of all TVs sold were digital
- This represented growth in number of digital TVs sold of +285% over Q2 2005, or a near quadrupling of digital TV sales quarter-on-quarter
- More than half of flat screens were digital, but only 12% of CRT screens (which made up 65% of the market) were digital

Source: GfK LekTrak

Market Developments

Equipment Sales Update : Recorders



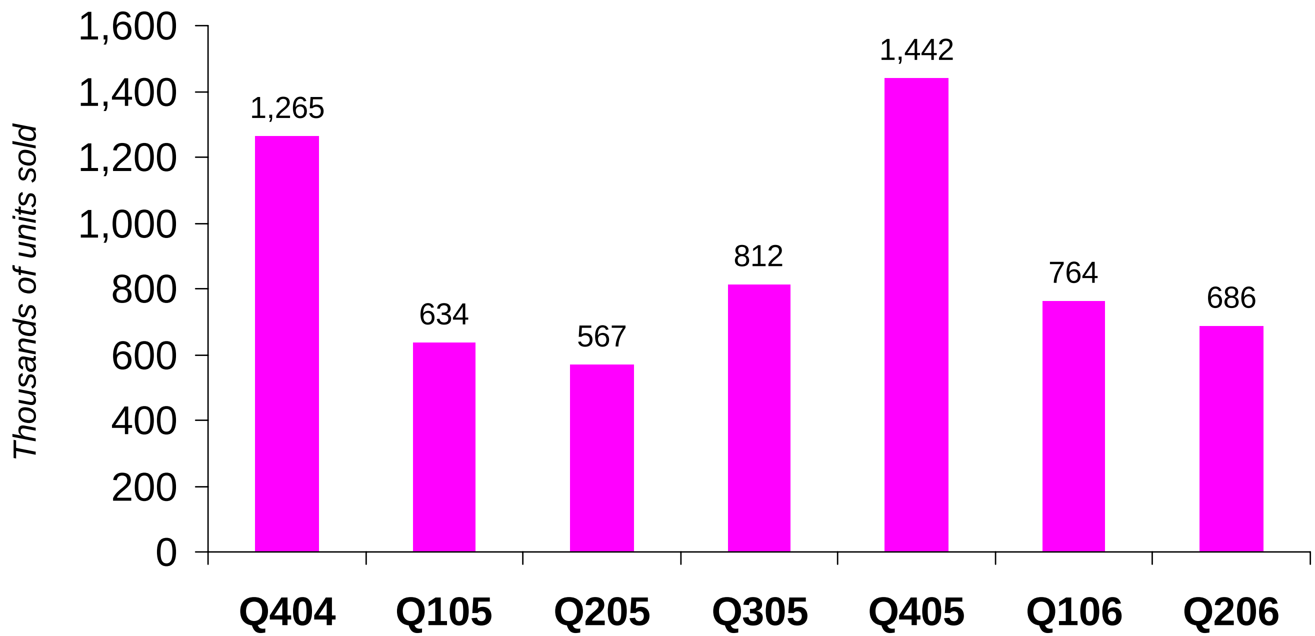
	Q404	Q105	Q205	Q305	Q405	Q106	Q206
Units Sold (k)	854	624	457	526	948	615	496
% Digital	3%	4%	5%	6%	7%	7%	9%
Digital Growth: Quarter-on-Q		-8%	+4%	+28%	+97%	-30%	+7%
Digital Growth: Year-on-Yr					+142%	+83%	+88%

- In Q2 2006 just 9% of all recorders sold were digital recorders
- Of the 449,000 analogue recorders sold in the quarter 107,000 (24%) were VCRs and 342,000 (76%) were DVD-Rs
- 47,000 digital TV recorders were sold, of which 11,000 (23%) were Sky+ units sold at retail and 36,000 (76%) were Freeview DTRs
- VCRs therefore outsold digital recorders in the quarter by 2 to 1

 Source: GfK LekTrak

Market Developments

Equipment Sales Update : Boxes



Units Sold (k)	1,265	634	567	812	1,442	764	686
Digital Growth: Quarter-on-Q		-50%	-11%	+43%	+78%	-47%	-10%
Digital Growth: Year-on-Yr					+14%	+21%	+21%

- 686,000 boxes (excluding recorder boxes) were sold at retail during Q2 2006
- This represented growth of +21% over the same quarter in 2005
- 3% were Sky and 97% Freeview boxes
- A further 34,000 boxes were added in direct sales from satellite and cable: Sky added 57,000 subscribers; cable lost 23,000 subscribers
- A total of 767,000 boxes and recorders were sold in Q2 2006 – versus 967,000 analogue TVs

 Source: GfK LekTrak

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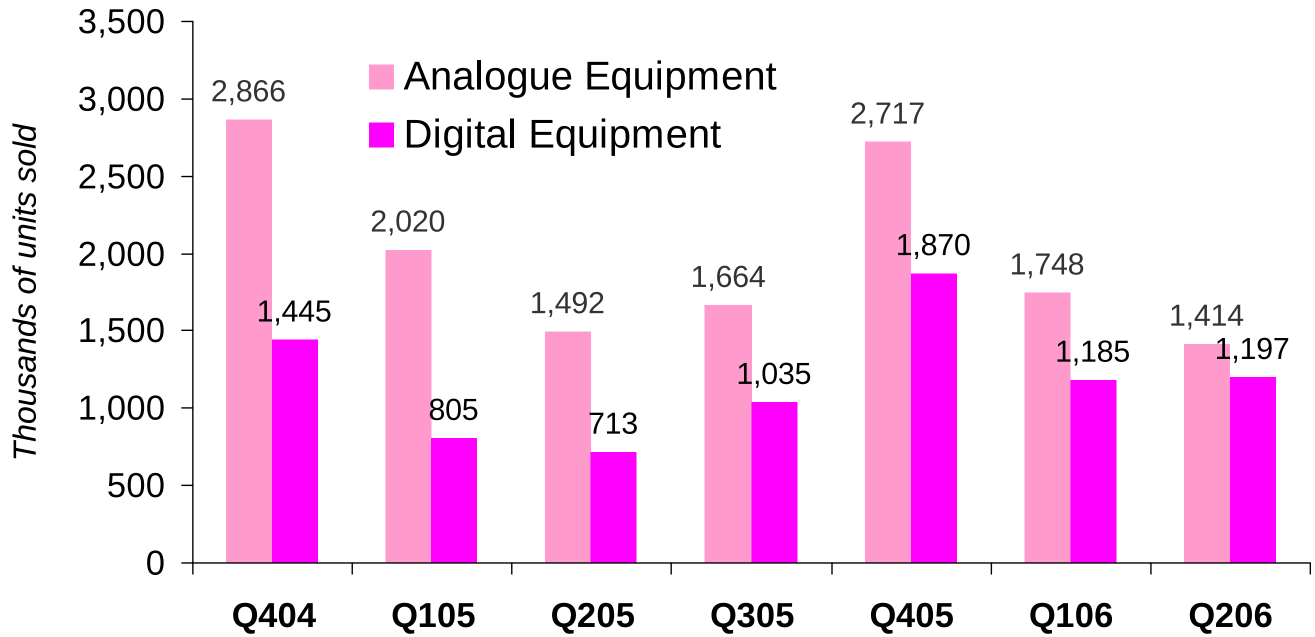
Market Developments

Equipment Sales Update : All Equipment*



Units Sold (k)	4,258	2,825	2,205	3,699	4,587	2,933	2,611
% Digital	34%	28%	32%	28%	41%	40%	46%
Digital Growth: Quarter-on-Q		-44%	-11%	+45%	+81%	-37%	+1%
Digital Growth: Year-on-Yr					+29%	+47%	+68%

- A total of 2.6 million units of television equipment (sets, recorders and box converters) were sold in Q2 2006 – up 18% on Q2 2005
- 1.2 million or 46% of these were digital units
- Early signs are that in Q3 2006 c. 50% of all TV equipment sold will be digital for the first time

Source: GfK LekTrak;
**** Analogue Equipment = TV sets, VCRs and DVD-Rs; Digital Equipment = iDTVs, digital TV recorders and other set-top boxes***

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Market Developments

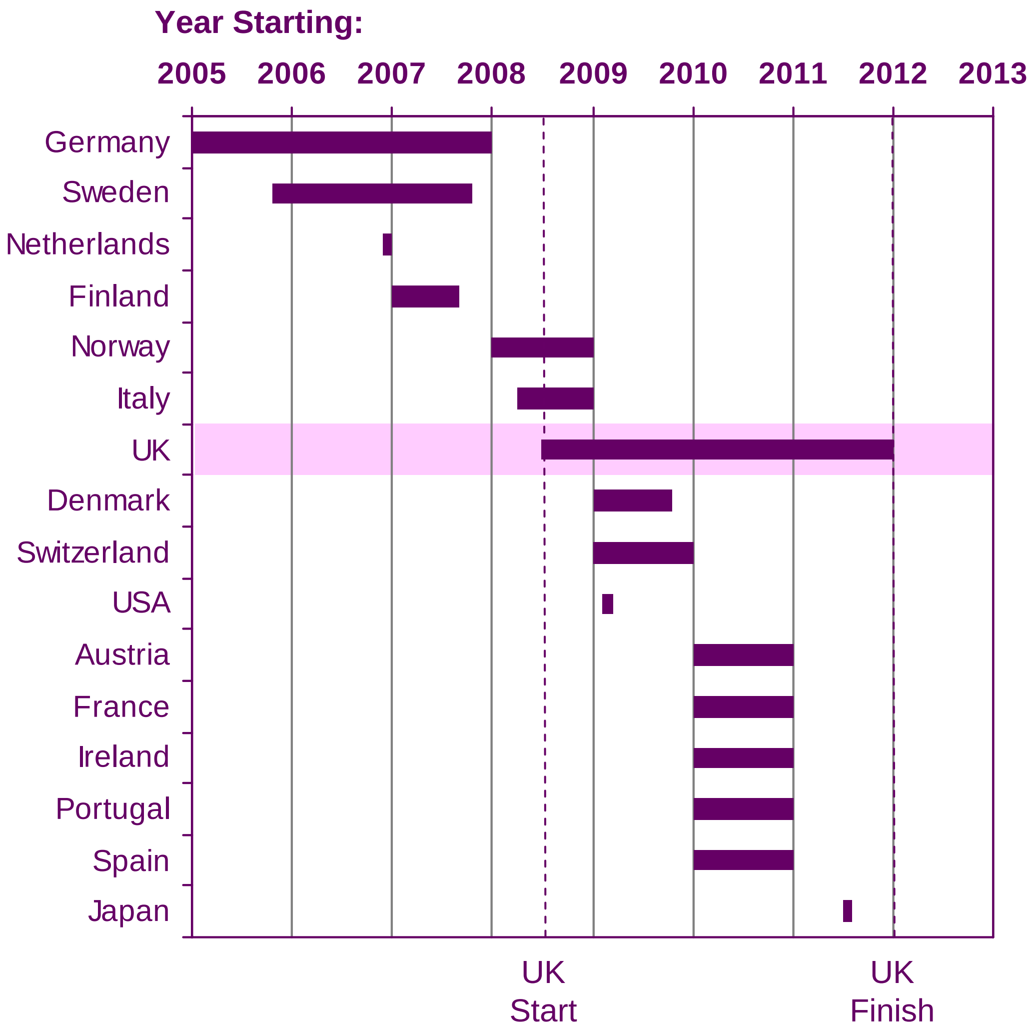
DTT Product Range and Pricing

Within the DTT platform, a wide range of products is emerging: idTVs and PVRs now start at around £100; digital DVD recorder/PVR combis cost as little as £200

Price	EPG?	Scarts	TopUp?	PVR?	iDTV?	DVD?
£24.99	7 day	1	No	No	No	No
£24.99 [4]	7 day	1	No	No	No	No
£27.99	Now & next	1	No	No	No	No
£29.99	7 day	1	No	No	No	No
£29.99	7 day	2	No	No	No	No
£34.99	Now & next	2	No	No	No	No
£34.99	Now & next	2	No	No	No	No
£39.99 [5]	7 day	2	No	No	No	No
£44.99	7 day	2	No	No	No	No
£44.99	Now & next	1	Yes	No	No	No
£59.99 [6]	7 day	2	Yes	No	No	No
£69.99	7 day	2	No	No	No	No
£99.99	7 day	2	No	Yes (80GB)	No	No
£99.99	7 day	1	No	No	Yes(CRT)	No
£129.99	7 day	2	No	No	No	Yes (recorder)
£139.99	7 day	2	No	Yes (160GB)	No	No
£149.99	7 day	1	No	No	Yes (CRT)	Yes (player)
£149.99	7 day	2	No	No	No	Yes (recorder)
£199.99	7 day	1	Yes	No	Yes (LCD)	No
£199.99	7 day	2	No	Yes (80GB)	No	Yes (recorder)

Notes: 1. Results based on a survey of Freeview devices on the Argos' website for under £200
2. 'Top Up' means that the device has a slot to accommodate a TopUpTV card
3. CRT means a traditional cathode ray tube television
4. Product description does not make reference to digital text nor DVB subtitling
5. Production description does not make reference to DVB subtitling
6. Product description does not make reference to digital text nor DVB subtitling

Recent international switchover developments



- **Sweden**
  - 25% of the Swedish population have now switched over
  - Confirmed October 2007 completion date
  - Not all TVs converted
  - Around 15% don't converted going into the 2-week transition period; only 1% don't convert at end, but these are people who have made a conscious choice not to have TV
- **Finland**
  - Finland remain on track for switchover by 31 August 2007
- **Netherlands**
  - Netherlands will be first European country to switch off in December 2006 (only 1% of Dutch households rely on analogue terrestrial)
- **Germany**
  - Germany remain on-track to achieve the 2010 target switch-off date
- **Italy**
  - Italy have further delayed the start of switchover in the first regions: Sardinia to 1 March 2008 and Val d'Aosta to 1 October 2008 (originally scheduled for 2006)
  - National switchover still slated for completion by 31 December 2008
- **Norway**
  - Norway to launch DTT between end of 2007 and end of 2008
  - Will then switch-off analogue terrestrial between end of 2008 and late 2009 or early 2010
- **USA**
  - The USA have set a switchover date of 17 February 2009
  - The FCC tuner mandate will mean that all new TV sets will have digital tuners by 1 March 2007
  - The Government expect to raise $10-20 billion from the auction of the released spectrum, and will use up to $1.5 billion of that to fund a voucher scheme to help convert the remaining c. 70 million analogue TVs

Annex: Digital TV is available on four platforms

Platform	Equipment	Availability	Brand	UK take-up (households)	Penetration	Price range
Satellite	Externally mounted receiver and a set top box	Estimated 95-97% maximum	Pay: Sky Digital	7.7m Q2 2006	30.7%	£15 - £42.50 per month
			Free to view: Sky/ Solus	0.7m Q2 2006	2.8%	Sky 'freesat' £150 one-off fee
Cable	Cable connection from network to the home and a set top box	51%	Pay: NTL, Telewest, Wightcable (Analogue & Digital)	3.3m Q2 2006	13.1%	£16 - £51 per month
Digital Terrestrial	Conventional TV aerial and either a set top box or a TV with a built-in digital tuner	73%	Freeview Pay: Top Up TV	8.5m Q2 2006 (6.4m DTT only platform)	25.3% (DTT-only homes)	DTT boxes from around £30. Top Up TV from £7.99 per month
TV over ADSL	Using existing telephone lines and set top box.	10%	Pay: Tiscali / Homechoice.	45,000 May 2006	0.2%	£15 - £44 per month
Total digital TV penetration of UK households:				**72.0% multi-channel 70.2% digital**		

Source: Ofcom Digital Progress Report, Q2 2006