



The Voice of British Advertisers

September 30, 2002

Jane Humphreys
DTI
151 Buckingham Palace Road
London SW1W 9SS
Jane.humphreys@dti.gsi.gov.uk

Catherine Smadja
DCMS
2-4 Cockspur Street
London SW1Y 5DH
Catherine.smadja@culture.gsi.gov.uk

Dear Jane / Catherine,

CONSULTATION ON THE ROLE OF INTEGRATED DIGITAL TV SETS IN ACHIEVING DIGITAL SWITCHOVER

Thank you for the invitation to contribute to this consultation process, which we appreciate.

ABOUT ISBA

ISBA - the Incorporated Society of British Advertisers – is a non-profit membership organisation representing the interests of major UK advertisers in both the private and public sectors across all areas of marketing communications, from media advertising and direct marketing to sponsorship and public relations.

Some 300 companies are in membership, including all 25 of the largest TV advertisers. Members' combined expenditure on advertising media amounted to over £4.5 billion in 2001, whilst their total television advertising expenditure alone for that period was some £2.3 billion, nearly two-thirds of the total.

They recognise that advertising represents a very important part of their activities - to many, it is one of their largest operational costs. Within this, television advertising continues to hold a special place in their favour - a fact reflected by the price premium it commands over other media. At the same time, ISBA's members are also rapidly increasing their use of the new communications and marketing opportunities afforded by the new technologies.

The starting point for our response to this consultation is therefore our members' wish to see strong commercial media, delivering maximum audiences and hence effective commercial communications channels. We have confined our comments to areas relevant to this goal.

ISBA'S VIEWS

We do not feel that the core issue of securing analogue switchoff can be addressed, let alone convincingly delivered, by considering the issue of Integrated Digital TV sets alone. Indeed, we very much hope that this apparently narrow consultation will flush out views on a much wider raft of solutions.

Rather, we feel that the key issues in achieving satisfaction of the conditions for analogue switchoff are :

- A driving consumer demand by service provision (particularly content), and
- B developing appropriate reception technology (which includes but goes far wider than IDTV's alone).

The demise of ITV Digital is still recent, and, we believe, serves as the last and perhaps most powerful reminder that technology launches based on an 'it's here, now, so you should want it' premise have usually fail, whereas products which offer clear, defined consumer benefits stay the course.

ISBA believes that the key consumer needs, satisfaction of which will drive demand for digital TV, are :

- A creating attractive / 'must view' content and
- B offering easy, affordable access to reception technology that suits a variety of needs and situations.

The former is principally a matter for the creators and commissioners of content, although content can include a wide variety of different streams, from conventional linear programming through online games to passive, enhanced and even interactive advertising.

Our principal role in this instance is merely to remind Government that, whatever the political pressure, whatever the equipment manufacturer goal, and whatever the broadcasters' individual motivations, content drives viewing.

Put simply, people must be provided with something they want to watch before they can be expected to watch it. This must then be marketed to them so that they are first aware of and then attracted by it to the exclusion of other entertainments, some of them also broadcast.

We would also take this opportunity to put to rest the long-standing misnomer of 'free to air'; television. No such thing exists, nor ever has done. All broadcasting – indeed all media – are funded by one of more of the following income streams : mandated licence fee; advertising and other commercial incomes; subscription; payment-per-view; and onward sales of content.

This, along with a clear and widely understood definition of 'public service broadcasting', are the cornerstones to any effective consideration of the best way to deliver analogue switchoff in the UK.

Similarly, we believe that any discussion of achieving digital switchover will be incomplete whilst discussion focuses largely on only one reception method, in this case Integrated Digital TV sets.

Relatively undemanding viewers, such as those viewing only a few channels through a single set, might eventually tend to update or upgrade to an integrated set, especially if it offered access to further open-access content (ie ITV2, BBC Four etc.) which they find attractive.

However, more demanding viewers with sets (and different viewing demands) in several rooms will most likely not, and there are many more viewers in this category. The UK's world-leading penetration of video recorders should be noted here - unless a new integrated set's decoder can be 'piggy-backed' by a older VCR, then even this obstacle would put such homes – which comprise over 85% of all UK TV homes - in the 'more demanding' category.

This latter group might wish to view digital programmes at more than one location in their homes; they might already be committed and used to a current offering based on a set-top box; they might have or aspire to home cinema in their principal family room; or they might simply wish to continue to watch videotapes through their VCR. Further, the Government is devoting more and more resources to ensuring that the UK population is computer-literate. There is now strong pressure behind encouraging high-speed data connections. More and more homes are being installed with appropriate cabling, whilst local wireless systems are also emerging as viable alternatives.

Whilst it is currently unusual to use a computer to watch TV, we foresee this becoming much more common, especially for niche programmes or where interactive content is concerned, as a result of the above influences.

Although digital TV penetration is approaching 50% of UK homes, and rises above this for some economically important groups like upmarket adults and households with children, we believe that the medium is still in its early days. In our view, the value of upgrade flexibility that 'separates', rather than integrated systems offer must not be overlooked.

As the consultation document identifies, consumers now expect the average life of a TV set to be several years or more. We believe that this may mean that viewers may not be so ready to saddle themselves with the latest integrated offering only to discover that developments in reception or display technology rapidly overtake them.

In the consumer's mind, integration merely increases the probability that one part or other of the integrated offering will be surpassed more rapidly than if they were separate. As the representative body of British Advertisers, we would counsel against protestations of 'future-flexible architecture', as rather than finding them compelling, we would suggest that they might be more likely to deter viewers recently stung by having chosen ITV Digital (or viewers still nursing a single-region DVD player or even Betamax videotape recorder).

Nor would we foresee market success for those manufacturers who might seek to massage sales of integrated sets by reserving their best components – for example, screens – for them.

In summary, any given reception solution is going to have deliver something to one or more of these segments in order to appeal to them. Conversely, any solution that proscribes delivery to some segments will not appeal to them, and may leave some important segments uncovered.

We believe that the Government's target of achieving total crossover of at least all public service broadcasting channels at prices which everyone can afford before switching off the analogue signal is a tough target which will require multiple platforms and reception solutions to be both the available and accessible to all those who have yet to convert to digital reception.

With the above comments in mind, there are our responses to the specific questions in the consultation document :

Q1 To what extent do you think consumers can benefit from having digital decoders included in television sets? Are some consumers, such as those with disabilities, particularly affected?

We see a range of different consumers (including those with disabilities) with different needs. Some – a few - might arguably see the attraction of integrated sets, but we feel it is difficult to argue that most will benefit from integration *per se*.

Q2 How far do you think iDTVs can contribute to encouraging take-up of digital services?

IDTV's may yet have a key strength in appealing to certain groups, particularly relatively undemanding viewers who might be the very last to convert.

Q3 How far do you think iDTVs can contribute to reaching the point at which analogue terrestrial transmissions could be switched off in the UK? And in the rest of Europe?

See Q2 for UK. From our perspective, we would question the reference to the rest of Europe. The UK's analogue switchoff targets are a national matter, so we regard a European perspective as relevant only from a manufacturing viewpoint.

Q4 How might we ensure that any proposal to make sets contain a digital decoder did not favour one platform over any other?

We believe this is critical to the achievement of maximum penetration of digital broadcasting, and thus the facilitation of maximum viewing audiences. In this day and age and with recent experience, we believe that no consumer in their right mind is going to plump for a TV receiver which proscribes what they can view (unless, perhaps, is it given to them free), so platform neutrality is a cardinal requirement.

Q5 How might we ensure that any proposal to make sets contain a digital decoder was neutral with respect to the market models and technical choices made by individual service providers?

From the appliance and service provision perspectives, through regulation.

From the consumer perspective however, we feel that it is essential to mandate manufacturers, importers, distributors, retailers and service providers provide clear labeling and information for consumers, indicating whether or not sets will allow and/or facilitate digital reception.

Q6 If there was a proposal to make sets contain a digital decoder, what conditions should apply? For example, should the proposal apply only to sets of a certain size, or including certain features, or from a certain date? Should it include all receivers (including VCRs) with a PAL or SECAM decoder?

One of the key attractions of digital television is that it offers the viewer more channels. Many of these channels appeal to segmented audiences, such as children or sports or music fans.

Even though it is only just emerging today, a key feature of a future, digitally delivered world must therefore be the facility for different receivers in each household autonomously to receive different channels. Yet although this requires separate tuners, our understanding is that it does not *require* separate decoders – they merely make it more convenient, though also more costly.

We would not support a proposal to require all receivers to contain a digital decoder, as that would clearly merely mandate added cost to the large majority of installations, which, in our view, would in turn deter some viewers from making the transition.

Rather, we believe that the market and free competition should be allowed to determine consumer demand, and that both integrated and ‘separate’ products should be made available alongside ‘sidecar’-type converter products.

(Given that all current CRT sets contain sufficient unused space in which to house a decoder, and also that decoders are extremely likely to fit within LCD screen surrounds and new, slimmer VCR’s in the foreseeable future, we do not believe that this would need to lead to the emergence of dramatically different integrated and non-integrated product lines).

In truth, and further our opening comment that we do not believe that IDTV’s alone will attract sufficient viewers to deliver analogue switchover, we feel that the most practical and cost-effective outcome will not be a regulated outcome, but one which sees the mass production of a wide variety of devices, from IDTV’s and separates to a variety of small decoder boxes which sit in the television’s aerial feed and whose channel selection is controllable by a remote which can also control, the TV set’s basic functions as does the current Sky handset.

ISBA would be happy to provide further comment, information and substantiation as required.

Please contact :

| | | |
|------------------|---|----------------------|
| Malcolm Earnshaw | Director General | malcolme@isba.org.uk |
| Bob Wootton | Director of Media & Advertising Affairs | bobw@isba.org.uk |
| Ian Twinn | Director of Public Affairs | iant@isba.org.uk |

| | |
|---------|--|
| Address | ISBA 44 Hertford Street London W1J 7AE |
|---------|--|

| | | |
|-----------|--------------------|------------------------|
| Telephone | +44/0 20 7499 7502 | Fax +44/0 20 7629 5355 |
|-----------|--------------------|------------------------|

Yours sincerely

Bob Wootton
Director of Media & Advertising Affairs