May 11, 2005

Submission to
House of Representatives
Standing Committee on Communications,
Information Technology and the Arts

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My qualifications

I have been an importer and distributor of TVs and audio equipment for a large part of my life. When we started importing the main TV brand we handle (Loewe) the brand was virtually unknown in Australia. A few years later we became one of Loewe's most successful export markets and were selling more in absolute terms than the USA. I have been invited to speak at national and international forums on consumer attitudes to DTV and TV. I therefore claim to have some knowledge of the buying habits of TV consumers.

Prior to the introduction of digital TV to Australia I made numerous submissions to various inquiries including that of the Productivity Commission and the Senate. I don't propose to repeat them verbatim at this enquiry but my predictions as to the likely lack of consumer acceptance for digital TV on the basis being proposed have proven correct (predictions made continuously since 1998). I'm not the only person who held these views at the time, but because I was regularly in the media I was considered among many supporters of the legislation to be its most vocal critic. This meant I received upwards of 1,000 abusive e-mails on the subject from those who confused opposition to the implementation plan to opposition to digital TV itself. In dealing with such objections I had to keep myself well versed in the subject.

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LOOKING AT THE PAST

The History

The history of the policy needs to be summarised. " Those who do not look at the lessons of history are condemned to repeat them." Santayana

The original policy was that digital TV would only come to Australia in the form of 1920x 1080i HDTV, a " world best " standard that would see Australia leading the world. From a technical point of view this claim was correct and a "feel good" story politically but from an acceptance by the general public point of view it was incomprehensible. The political and lobbying activities that went on over this issue at the time would be a worthy subject of a book. Eventually the legislation was changed. Had it proceeded in its original form hardly anyone would have taken up digital TV at all. In the end the government relented to pressure and we got an Australian standard that included both SDTV and HDTV. This system was unique to Australia, which effectively meant it was an orphan in world manufacturing terms with all the problems that such orphan standards create.

One alternative way of handling the introduction of digital TV was the European and English method, one that offered no mandatory HDTV but allowed the possibility it could be added in the future for those that wanted it. Unlike Australia, HDTV was not automatically allocated to every free to air channel. This meant less space was reserved for free to air HDTV within the spectrum and that the remaining spectrum could be auctioned off to interested parties and a more diverse channel choice could be offered to consumers as a result. According to business estimates at the time, had Australia followed this model, the remaining spectrum could have been sold for anywhere between $6 -12 billion.

The commercial networks were keen to avoid such a possibility. Mandatory HDTV remained. However over a period the original specifications for a television to qualify for the HDTV tag were relaxed so that prices for HDTV sets could appear at a more acceptable level. Nonetheless the appeal of the technology was still limited to a relatively small section of TV buyers.

What do we do now? I could make the suggestion that we totally unwind the present policy but there is no point in undertaking a detailed analysis of this option as it is both politically and commercially impossible to imagine it being accepted.

It is therefore more a question of how do we improve things from our present position, and accepting that the mistakes of the past have to put behind us as best we can.

An important matter to deal with along the way is how to strike the balance between the interests of the incumbent TV and pay-TV operators and the interests of the general public. While I recognise the interests of the incumbents deserves some recognition, in the previous decision making process the interests of the public were largely ignored. For example the Productivity Commission conducted lengthy inquiries and produced a volume of material and a series of recommendations that were largely left unimplemented. To what extent are we prepared to disadvantage (both potentially and actually) the incumbents in order to get more towards the desired uptake of DTV?

According to Digital Broadcasting Australia,
"The estimated total digital TV sales to 31 March 2005 is 777,000 units."

If this figure is not far off, we are only getting towards 5% of the total number of TVs in Australia being "digital". This is as far as DTV has penetrated in nearly four and half years.

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The Fundamental Market Reality

To illustrate the core issue, I'll start off with a realistic personal analogy of why people in general haven't been interested in digital TV. In real life I am a regular radio listener who can readily afford to buy a high-quality personal radio priced at $400. Yet instead I only own radios that are well over a decade old. Comparable units can be bought for not much more than $10 or so. The point is that while I may wish to listen to certain radio programs, I don't care enough to get a really good radio for the purpose, because as long as I can hear the programs to a standard where the words are readily comprehensible I'm satisfied.

The majority of TV owners are not so different. Many or most will only buy a new TV when the old one dies or becomes unwatchable. I frequently visit people who are watching TVs that I would consider dumpster material but such owners nonetheless seem content. Such behavior is not confined to people without much spending power. It is not uncommon for well-off people to do exactly the same. The point is that very high TV picture quality is not a primary concern for a large proportion of the population. The fact that a significant percentage of the population (said to be over 30% a few years ago) still operate TV sets with an indoor antenna of one kind or another is another indicator of this proposition. I remember when I was regularly getting calls from reporters on the subject. I always asked them the value of their TV and when they would replace it. The average value was only around $500, and nearly all said they would only replace it when the present one became unusable.

The televisions we sell are more expensive and sell primarily on the basis of picture quality, but this we recognize as a niche market. They are not televisions bought by the majority of consumers and we accept and understand this as a market reality.

Even among more expensive televisions, style can often overcome picture quality as a buying motivation. A recent English technical review comparing four different technologies, LCD, Plasma, Rear Projection and CRT (Cathode Ray Tube) gave the CRT the edge in outright picture quality, but buyers in that category may still pay a lot more to buy the flat panels in preference due to the ultra-slim styling. I personally have shown people the differences in the technologies, had them agree that the CRT gives the better picture (as well as being much lower in cost) but nonetheless they purchased the flat panel for style reasons. The picture quality from their point of view was good enough to satisfy them.

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LOOKING TO THE FUTURE

Being Factual with the Public

It is very important that the committee examines with great care what claims or statements are stated as facts and the specific basis upon which they are based. From previous experience earlier in the DTV debate, many so-called facts quoted by apparent authorities on DTV were either merely matters of opinion open to conjecture or were simply and provably wrong. A few minutes inquiry on the official government websites of other countries, for example, could have proved the folly of many claims that some Australian authorities had made.

Many opinions stated with great conviction at the time were no more than the hopes or wishful thinking of those making the policy, and in my view were deliberately promoted as fact in order to achieve the desired policy outcome. Consumer surveys that would have been laughed at by any good student were quoted as showing public sentiment to be positive towards HDTV. Consumer behavior since has subsequently told the real story.

Many more such examples of spin masquerading as fact can be provided on request. We need to avoid repeating such mistakes in future. The public detests being misled in such a fashion. It ends up being counterproductive as it takes time for people to forget and some never do.

A key lesson to be learnt from the past is to make any announcement on what is decided clear and unambiguous so the media will report the issue correctly.

In the early days of DTV there were many articles written which resulted from politicians and industry figures talking up the advantages of HDTV, which gave the impression that close to the 1st of January 2001 HDTVs should be available at very low prices. One report in the Age said they would cost $500.

TV sales immediately slumped all over Australia and I can remember all the irate people who didn't believe us when we said it would not happen so quickly. After all, important politicians had said so in all the papers.
Another example was how a complete switch off of analogue TV in 2008 was regularly quoted as an absolute fact. The legislation actually said analogue broadcasting could not be switched off before 2008, a very different proposition. No one from the government to my knowledge ever tried to correct this impression. This is despite the fact that I had been predicting right from the beginning that more than 50% of households would remain dependent on analogue in 2008. By contrast in Britain at time, the Times reported on the 29th of March 2000: "Chris Smith, the Culture Secretary, has, however, made it clear that final switchover will not be set until 95% of the country had digital television. " (This position, of course, was and still is subject to change.)

Every time a 2008 closedown story appeared I had worried people ringing me as they thought their TV was destined for the scrap heap come 2008. One lengthy TV program and its promo even showed an exploding TV to make the point graphic, that your current television was history.

If, at this new Inquiry, the media yet again report that the analogue signal will be totally switched off in 2008 as fact, more confusion will result. What they need to report is that the inquiry is evaluating ways of speeding up the uptake of digital TV so that the spectrum can be used for another purpose. The advantages of switching to digital needs to be conveyed.

I cannot recall any effort at the time to correct past misinformation. Yet in my view letting such sensationalism stand is one of the many reasons for the lack of take-up of digital TV since. What people really needed to hear was that their present TV could be made better for a modest expenditure on a set top box. They needed benefits on offer they genuinely valued. These benefits weren't forthcoming.

So made better how? That is a key question. Reality needs to match the promise.

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With the introduction of digital TV there was a tremendous opportunity to capitalise on the excitement of the technology and of its promise. However the delivery did not match the promises and an enormous number of people who would have been potential buyers quickly lost interest. It is a basic marketing fact. Over promising and under delivering are very negative for the introduction of any product. We found that many TV customers lost interest in digital TV. Some found what was being said was too confusing and they couldn't see the advantages. Many remarked how they had seen so much false information they didn't know what to believe.

There is much more knowledge about now but a botched introduction is only part of the reason for the lack of acceptance. For this reason it is very important that, from now on whatever is said by the authorities, is going to actually happen as stated

Many countries have now extended their proposed analogue switch off time for very practical reasons. Most consumers are sticking with analogue. So what can be done to hasten the switch to digital?

Plans of Attack

It is obviously in the interests of the current TV players in Australia not to open up the market to fresh competitors as has happened in the UK. I can't fault them for acting in the interests of their shareholders. The question of whether such interest is identical to the public interest is a separate one.

During the Senate Inquiry into Digital TV, I asked a number of senators about the equipment they had at home. I can't remember anyone who had taken advantage of the cutting edge modern technologies available at the time. I was told various reasons why but the fact remains that somehow the average consumer was expected to behave very differently

Some consumers will willingly embrace the new technology in the years ahead. Others will lag behind for some time, and it is these people's motivations that need addressing.

So what are the options to drive change, and what are their realistic chances of success?

HDTV

Originally HDTV was to be the driver of digital TV. As time has gone on, however, HDTV is rarely mentioned in media and not strongly promoted by the networks. I would suggest the sale and desirability of large screen television has done more for the sale of HDTV hardware than has HDTV content from the networks. Nor are people necessarily prepared at this stage to fully equip themselves for free to air HDTV. An HD ready plasma or LCD screen may be purchased as a form of insurance for the future (but without the HD set top box necessary to receive and display the broadcast HDTV on offer. Often the prospective purchaser asks to see a plasma or an LCD TV without mentioning HDTV at all, and the matter of HD may only be raised by the salesperson. Many are buying on the basis of size and style.

HD broadcasting will not in itself have most people rushing to purchase a new and relatively expensive television set. In reality if their present set malfunctions many people will simply opt to replace it as painlessly as possible. Many will not buy an expensive big screen TV capable of displaying HDTV together with an HD set top box for several thousand dollars, (or even a modest Standard Definition version of reasonable size that can cost them a couple of thousand). Why? Because they can purchase what they see as a perfectly adequate replacement entire TV set at K-Mart for $189 or even less. (Whether for the TV in the lounge, the one in the kid's room or the one in the kitchen.) That's around the same price as an SDTV set top box on its own.

At best HDTV broadcasting can currently drive a small portion of the market. As time goes on high definition DVD will also help as will falling prices of the technology and more HD broadcast content becoming available from overseas. But many consumers will remain insufficiently interested to the money necessary, and will remain so even if HD is broadcast 24 hours a day.

In the past my criticism of a HDTV driven future led to accusations by some HDTV enthusiasts that I had a vested interest because the televisions I imported were not HDTV (many of these accusations were very direct and abusive). However my position on the subject hasn't changed, despite the fact that I will be among the first to import an affordable, full specification 1920 x 1080i HDTV display panel to Australia. (There will be very few of the public who will have any idea what that means. It will be techno-babble to most.)

What consumers will live with in terms of picture quality is based more on utility than anything else. As mentioned previously, it is not so much HD broadcasting that has driven the HD display equipment take-up to date, it is more certain consumers' desire for a larger screen. HD is now becoming relevant overseas in this product category and most large screen technologies are being built with this in mind.

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More Channel Choices

Multi channeling is a benefit of digital TV broadcast that is yet to be fully tapped. In my view it will drive change more readily than picture quality, because providing the extra channels are valued for their content by consumers, they will see a tangible use beyond an improved picture. (They may be adequately satisfied with the picture quality they have at present.) This logic applies to viewers of all channels, commercial and non-commercial. Making at least one such channel attractive for older Australians would also be a good tactic. It is this demographic that may resist change more strongly.

A basic problem that exists for Australia, based on the current policy, is what financial advantage is there for the commercial networks to supply more program choices without an increase in revenue. After all, programs cost money. I have asked in the past to see some commercial modeling on multi-channeling, but without success. No serious plan evaluation is a recipe for disaster. I remember the fiasco where the "Datacasting" model of the time (said to be such a winner) disappeared. Of course it could be argued retaining their current free to air monopoly is already a worthwhile advantage to the networks.

Another approach, and one likely to be argued for strongly by at least one media proprietor, is the introduction of gambling as an interactive digital TV "service". There is no doubt gambling will have an appeal to a certain percentage of the population, but it will still not drive the majority to digital

It is only when people feel they are missing out on something they would find useful such as good alternatives to programs they don't like that voluntary take up will increase rapidly. Utility is a powerful driver of change as is evidenced by the rapid take up rate for VCRs, mobile phones and digital cameras. Quality in itself is not so relevant, as evidenced by 8 Track Cartridges, Elcaset, DAT and many others.

Reducing the cost

What is often overlooked is that for digital to replace analogue it is not just one set top box but one independent set top box for each TV in the house. Possibly a new antenna system will be required as well. A consumer might have to spend hundreds in addition to any set they might purchase.

Market forces will reduce such costs to an extent over time, but one radical option to seriously evaluate would be mass supply at the government's expense. Another would be to subsidise the financially disadvantaged. However both these options would result in other problems.

THE COERCIVE OPTIONS

DTV or Nothing

It would be possible like some countries have done, to switch to digital, district by district. This avoids the full annoyance of the population at large. However Australia is highly urbanized society and to attempt this on a metropolitan scale could prove difficult. Turning off analogue TV affects every household, even those that already have digital sets. (Take a look in other rooms and you will usually find they have also analogue sets around the house.)

Restricted Importation

One of the reasons analogue continues to be a popular purchase choice that is that inexpensive televisions are now emanating from China at very low prices due to China's massive domestic market. Outlaw the importation of 4:3 televisions above a certain size, or televisions without inbuilt digital tuning (or both) and this behavior will be modified. People will end up paying more for a TV, but they will not be forced to spend thousands more, only hundreds. The low-end price for a 66cm widescreen is around $699. The equivalent in a 68cm 4:3 TV is around $349. Unless the cyclical demand for low cost (and therefore 4:3 analogue) TV replacement is dealt with somehow, new analogue customers will be created everyday and with sets you can expect to last eight years or much longer.

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SUMMARY

More and better content will increase the acceptance of digital TV but there will still be a significant proportion of people who won't or don't care.

The substantial number of people who have multiple TVs also need to be considered. To fully go digital they will have to get set-top boxes for all TVs or to change each of their TVs to a digital model.

My basic point is very simple. Though there can be improvements made in the content and this will interest a proportion of TV owners who aren't presently interested in digital TV there will still be a sizeable proportion of TVs in Australia that will remain not connected to digital unless other options are pursued. On present take-up rates this will amount to far more than half the TV sets in Australia once you include people's second and third sets. These peripheral sets in particular will continue to be replaced with analogue sets due to their low price.

The question is whether it is politically and practically acceptable to turn off possibly more than half of the TVs in Australia on a specified date in 2008. I think not. Either more time is needed or we require very different policies than at present.

It must be remembered that a lot of people don't like buying new electronic equipment. They don't like talking to salesmen about things they don't understand if they don't care. They don't like reading instruction books, they don't like hooking things up, they don't want another box and so on. All this may be strange and unreasonable to technophiles but they are real issues nevertheless for many people.

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Action Option List

- Do not overplay the High Definition angle, but nonetheless keep it in the public eye.

- Get attractive commercial TV multi-channels up and running as soon as possible and have them publicised heavily by the networks. I'm not sure of the commercial feasibility of this from the government and FTA's viewpoint. However I do know the Pay TV industry would have strong opinions on the subject.

- Restrict or ban the importation of low cost 4:3 analogue televisions

- Consider the supply of free set top boxes to consumers to those remaining on analogue after 2008. On a grand scale of several million costs per unit would be a small fraction of the current import price of STBs. It would be a low two figure price, depending on features, packaging etc. The overall cost would not be high compared to the continuation of analogue. However if such a policy was known in advance, it could affect buying decisions of many. At this point I won't discuss at length some of the other problems associated with this policy.

- In regional areas consider a district by district closedown of the analogue network, known to the people affected.

- This time, let's not send so many of the public into a panic unnecessarily. Ensure the media get the story straight. Based on past experience, the media release for this inquiry would cause many reporters to report a total closedown of analogue will take place in 2008 as a fact even though no such date has actually been fixed as yet. Why? "The end of analogue transmission is scheduled for 2008" is a direct extract from within the document text as well as later repeated as a verbatim quote of the Committee Chair. Reporters won't look at the dictionary or legal meaning of "scheduled". They'll simply go for the most exciting headline.

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We should be wary of optimistic predictions based on rapid acceptance in other countries or rapid acceptance of other technologies. The ABA stated many years ago, very early in the DTV debate, that accurately predicting the consumer take up of new technologies was not possible.

It must be accepted that whatever choices are made, various significant players (including the viewing public) will be unhappy. How to balance the varying competing interests of these players and their degrees of unhappiness is the business of this inquiry.

This time we need to get it right. As Alan Mitchell observed in the Financial Review of April 27, 2004 "In 1999-2000 the most important regulation impact statements on digital television regulation were rejected by the Productivity Commission as inadequate."