

## **SUBMISSION – Digital Television – who’s buying it?**

### **Introduction**

Panasonic / Matsushita Corporation is a leading supplier of visual and audio equipment in Australia and have a major commitment to produce product and services for the Australian Digital Television (DTV) market.

Matsushita’s division in Australia, Panasonic AVC Networks Aust Pty Ltd designs and locally manufactures widescreen and integrated digital television (iDTV) product at its Penrith plant for the Australian and New Zealand market. Panasonic AVC Networks Aust Pty Ltd is the only company to locally design and manufacturer iDTV products for Australia.

Panasonic AVC Networks Australia Pty Ltd welcomes the opportunity to provide a submission to the Committee on the take-up of digital television in Australia and its views on the work necessary to successfully transition Australia to digital terrestrial television.

Panasonic AVC Network’s recommendations to the inquiry are:

1. The Australian Government must take a greater ownership and become more actively involved of the transition process to digital television by:
  - a. Commissioning independent consumer research to investigate and report on the take-up of digital terrestrial television and consumer perceptions of the current offering
  - b. Establishing a formal timeline, strategy and milestones for analogue switch-off including assessment of market-by-market switch-off
  - c. Taking a central role in brokering agreement amongst industry stakeholders and actively participating in the development of solutions
  - d. Mandating the inclusion of digital tuners commencing with large screen televisions
2. The Australian Government in partnership with industry should fund the establishment of an independent Test and Conformance Centre for digital terrestrial television to test the compatibility between broadcast streams and digital television receivers, and to establish a mechanism for over the air downloads.
3. Independent research must be commissioned to investigate the existing capability of residential and multi-unit dwelling antenna systems to receive a full range of digital terrestrial television services at high quality. The goal of the research should be to identify and develop workable solutions for the consumer in partnership with the MATV, home antenna and television installer industry.
4. The Australian Government should alter existing broadcast regulation to provide broadcasters with increased flexibility to make the digital terrestrial television value proposition more attractive to consumers

## Rollout and take-up of Digital Terrestrial Television

The Australian television market is comprised of an estimated 7.6 million homes and an estimated 16 million television displays. Digital terrestrial television broadcasts of all available analogue television channels are now available to over 85% of Australian homes while approximately 95% of homes have access to at least one of their free-to-air television channels broadcast in digital television format.

Digital Broadcasting Australia (DBA) most recently reported sales of approximately 777,000<sup>1</sup> digital television receivers to Australian retailers since the introduction of digital terrestrial television broadcasts in 2001. Assuming that each digital television receiver sold has entered a new home, this represents a penetration rate of approximately 10% of Australian homes and 5% of Australian television sets. The true penetration rate is likely to be less than this figure due to retail stock levels and upgrade purchases.

Sales of digital television receivers as reported by DBA during 2004 averaged just under 35,000/month with sales during the first quarter of 2005 averaging just under 40,000/month. GfK Marketing Services, which provides audited retail sales figures for digital television receivers, reports averaged sales figures of approximately 27,000/month<sup>2</sup>.

This represents a solid initial uptake of digital television product in line with the experience in other world markets that have introduced digital terrestrial television broadcasts. Panasonic AVC Networks believes that translating this start to a point where analogue switch-off is possible remains a significant challenge for government and industry. This is demonstrated by a simple analysis of the transition task that faces industry if an analogue television broadcasting switch-off in metropolitan areas by 2008 were to be achieved.

Firstly, based upon current sales trends, it is very likely that the total Australian market penetration for digital television receivers reaches 1 million units by the end of 2005. To predict a point at which analogue switch-off might prove to be a viable consideration, a reasonable digital terrestrial television penetration level must be established. For the purposes of this analysis this mark has been set at 85% of homes and television sets in the relevant market.

Australian metropolitan broadcast markets are comprised of some 5.1 million homes and approximately 10.2 million television sets. For an analogue switch-off to be considered viable in these markets by 2008, approximately 1.2 million homes and 2.7 million television sets would need to be converted to receive digital terrestrial television broadcasts every year for the next 3 years. The size of this challenge becomes apparent when these numbers are compared to the 1.5 million new television sets and 1.4 million DVD players sold in Australia during 2004.

## Perceived Consumer Value – Who's Buying and Who's Using?

There is little hard evidence or knowledge of the average Australian consumer's perceptions and use of digital terrestrial television. There are however, several trends that can be inferred from the sales data being reported for digital television receivers and televisions.

The price of hardware, once decried within the media as a significant obstacle to the take-up of digital television, does not appear to be an issue with the average retail price of digital television receivers at \$195 for a standard definition receiver and \$506<sup>3</sup> for a high definition (HD) receiver. This compares well with the price of similar entertainment products such as DVD players and recorders that are selling in large quantities at an average retail price of \$216<sup>4</sup>.

Retailers have reported that supplier bundling of digital television receivers as bonus or giveaway items with the purchase of new technology widescreen displays has proved a popular method of selling digital

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<sup>1</sup> Digital Broadcasting Australia digital television receiver sales figures as at 31 March 2005

<sup>2</sup> GfK Marketing Services reports January and February 2005 – averaged monthly digital television receiver sales

<sup>3</sup> GfK Marketing Services report February 2005 on average price of digital television receivers

<sup>4</sup> GfK Marketing Services report February 2005 on average price of DVD equipment

terrestrial television. Figures reported by DBA show a close correlation between the sales of new widescreen televisions and the number of digital television receivers sold in the Australian market. This may indicate that the majority of Australian consumer's that are purchasing digital receivers are being driven by a desire to upgrade or replace their existing television.

Determining, why this is the case is more difficult as there has been no independent research conducted on the Australian consumer's perception of digital terrestrial television. Questions such as:

- ✍ Consumer awareness of digital terrestrial television?
- ✍ Consumer motivation for purchase?
- ✍ Consumer use of digital receivers?
- ✍ Satisfaction with the digital terrestrial television service?
- ✍ Homes with more than one digital terrestrial television receiver?
- ✍ Homes that have both pay television and digital terrestrial television?

Panasonic AVC Networks believes that detailed research is necessary so that government and industry can make informed decisions about the future path of the transition to digital television. Its recommendation is that independent research be commissioned to investigate the take-up of digital terrestrial television and the Australian consumer's perception of the product.

Panasonic AVC Networks believes that digital terrestrial television currently is perceived by consumers as having a lower value as an entertainment proposition when compared to other home entertainment options. This is demonstrated by the small number of consumers who appear to be purchasing digital receivers as an addition to their existing television experience and becomes more obvious when compared to the consumer demand for standalone DVD players. There is currently little evidence to suggest that digital terrestrial television has captured the imagination of the majority of Australian consumers who continue to watch free-to-air analogue television on a 4:3 screen.

Panasonic AVC Networks advocates that the digital terrestrial television proposition needs to be considerably more attractive and compelling if the pace of the consumer take-up of digital television is to be increased. Panasonic AVC Networks believes that new digital terrestrial television services should be fostered and given the opportunity to evolve and that broadcasters must be provided with the flexibility to offer different services from their existing analogue television service allowing them to explore new business models and potential income streams. These changes would provide additional differentiation from the current analogue television service and has the potential to raise the consumer's value perception of digital television.

Panasonic AVC Networks believes that it is critical that any such change be made while preserving the existing benefits and quality that digital terrestrial television brings to consumers; better picture, better sound, widescreen and high-definition (HD) television.

## **Technology Issues**

Digital terrestrial television has been hampered by the difficulty in getting industry stakeholders to reach consensus on solutions to address a range of issues, which 4 years after its introduction in Australia's metropolitan cities, continues to impact the industry's ability to deliver a compelling consumer proposition for digital television.

Compatibility issues between digital television broadcasts and digital receivers continue to impact upon the Australian consumer's experience of digital terrestrial television in the home. Even once an issue is identified and a solution found, there is no simple method available to industry to provide fixes to software in the digital receiver once it is in a consumer home. Panasonic AVC Networks believes that the establishment of an independent test and conformance centre focussed on the early testing of broadcast streams and digital receivers, is an important element missing from the digital landscape. Panasonic AVC Networks believes that this facility, coupled with an ability to provide over-the-air software downloads to a consumer's digital receiver in the home, would result in a significant reduction

in the occurrence of these types of consumer problems. The creation of such a centre will require funding from government and would provide a base for industry to move towards the creation of a platform for the introduction of new content and services including interactive applications and an industry electronic program guide.

Another significant contributing factor to the less than compelling digital television experience for many consumers are reception issues that are caused by the use of inapt antenna systems to receive digital television broadcasts. This is further compounded by the inability of many head-end and backbone distribution systems currently installed in multi-unit dwellings to deliver digital terrestrial television. At present, it is entirely possible that many millions of Australian televisions will experience unreliable or poor quality reception should they convert to digital television utilising their existing antenna installation. Problems of this type are already adding significant cost to the support of digital television product in the Australian market.

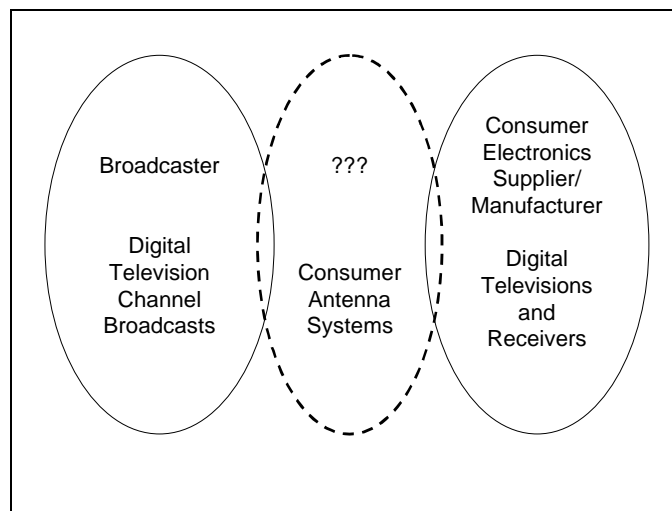


Figure 1 Who resolves Antenna Reception Issues?

While broadcasters are responsible for the performance and behaviour of their digital television broadcasts and consumer electronics suppliers and manufacturers are responsible for the behaviour of their digital televisions and receivers, responsibility for the other key element of digital terrestrial television reception lies with the consumer. Consumer's current expectations are that digital television will work with their existing antenna system. Panasonic AVC Networks believes that for many Australian consumers this is simply not the case.

Panasonic AVC Networks believes that industry and government must act to quantify the size of this problem through research into the ability of residential and multi-unit dwelling antenna systems to receive a full range of digital terrestrial television services at high quality. The goal of the research should be to identify and develop workable solutions for the consumer in partnership with the MATV, home antenna and television installer industry.

Panasonic AVC Networks believes that the goal of a speedy take-up of digital terrestrial television will remain unfulfilled while these issues remain unresolved. It is the view of Panasonic AVC Networks that the Australian Government must take a more central role in brokering agreement amongst industry stakeholders and the development and funding of solutions to these issues.

## **Future Options**

Panasonic AVC Networks believes that Australian Government involvement is the key to a smooth and fast transition to digital terrestrial television. Government must take ownership of the transition process to digital television by establishing a formal timeframe, strategy and milestones for the switch-off of analogue television broadcasts.

This process will need to investigate the best method by which analogue television could be switched off including the potential for a region or market-based approach similar to that taken during rollout. One possible option might include a trial analogue switch-off in a suitable market located in regional Australia when an appropriate penetration level for digital terrestrial television has been reached.

Panasonic AVC Networks recommends that the government must also seriously consider mandating the inclusion of digital television tuners in televisions sold in the Australian market. This could start in a staged manner at the upper end of the market with large, new technology screens and panels and would ensure that as people adopting newer technology screens are automatically digital television enabled. This would act to ensure that replacement televisions purchased by consumers are automatically capable of receiving digital terrestrial television and not unwittingly adding years to the potential date for analogue switch-off.

In conclusion Panasonic AVC Networks believes that the recommendations contained in this submission will assist both the Australian Government and industry in speeding the consumer uptake of digital terrestrial television.

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