The Communications Market: Digital Progress Report

Digital TV, Q2 2006

This is the eleventh of Ofcom's Digital Television Update quarterly reports. The data are the latest available at the time of writing and include quarterly figures provided by platform operators as well as market research.

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Methodology review and restatement of Q1 data

In previous digital television updates Ofcom calculated the number of DTT-only households by estimating the proportion of DTT device sales which were for bought for the primary set and then adjusting for inactive boxes. The results of this methodology have largely concurred with the findings of other research sources such as GfK and Ofcom's residential survey.

However, as the market matures and the number of DTT households grows, a larger proportion of DTT devices are being used to convert second television sets to digital television or as upgrades or replacements to existing DTT equipment. This means that sales data can no longer be relied on to produce the most accurate estimates of new DTT-only homes.

Ofcom strives to provide best-in-class research and to use the most robust methodology available. We believe that, now that DTT has become a mass-market product, the best way to gain a clear view on how take-up trends are changing is to use survey-based research. The research data used in this report has been provided to Ofcom by research agency GfK, which surveys 18,000 homes per quarter in relation to take-up and usage of digital and multi-channel television.

Ofcom will, for the time being, continue to use platform operator data for calculating the number of homes using the cable and satellite platforms, as paying subscribers are seen as a reliable indicator of take-up. In the future, however, we may consider areas of overlap between the digital platforms more closely and also examine how best to allow for non-residential. Free satellite households are also becoming increasingly prevalent and we will endeavour to ensure that we source reliable information on the use of non-subscription satellite equipment.

In the interests of comparability and in order to produce a consistent time series of data we have also restated the DTT homes figures for Q1 2006, as published in our previous Digital Television Update. The previously published Q1 data is indicated in red italics throughout this report alongside the new Q1 restated figures. Figures prior to Q1 have not been restated as the sales-based and research-based methodologies produced very similar results until this point.

Ofcom will continue to monitor the effectiveness of its methodologies in calculating digital TV homes and will continue to make use of the most up to date research available.

In calculating platform totals in the report, DTT-only homes are defined as those households where DTT is the only digital TV platform in the home. A household with satellite or cable on the main TV set and DTT on a second set, would be counted as a satellite or cable home. Satellite and cable subscriber figures are already shown net of second receivers (e.g. a household with two Sky boxes is only recorded once).

Section 1

Overview

1.1 The proportion of households in the UK which received digital television services on their primary TV set increased slightly during the three months to June 2006 to reach 70.2%. This figure is derived using a new calculation methodology (see below).

1.2 However, there were over 1.2 million sales of digital terrestrial television (DTT) equipment and100,000 net subscriber additions to digital pay television services during the quarter, illustrating that a growing number of households are converting secondary television sets.

1.3 With a further 1.8% of households subscribing to analogue cable services in Q2 2006, the total number of homes receiving some form of multi-channel television stood at 72.0%.

Key findings

Key developments in the second quarter of 2006 included:

- The number of households with digital TV equipment rose by over 168,000 to reach almost 17.7 million.
- There were 1.2 million sales of DTT equipment, marking the fourth consecutive quarter,where sales exceeded one million. Sales were higher than for the equivalent period in 2005 and over the past year total sales have reached almost 5.4 million. Of the 1.2m sales, 736,000 were DTT set top boxes while 488,000 were Integrated Digital Televisions (IDTVs).
- DTT-only households grew from 6,387,000 to 6,402,000 over the quarter (using Ofcom's new methodology), an increase of 15,000.
- On satellite, the number of BSkyB UK subscribers rose by 57,000 to 7.7 million. When free-to-view satellite viewers are included, the total number of satellite homes exceeded 8.4 million.
- The number of cable subscribers decreased modestly during the quarter to stand at just over 3.3 million. Analogue cable subscriptions fell by 72,000 while digital cable increased by almost 50,000. Digital cable subscribers now account for over 2.8 million, or 86%, of all cable subscribers.
- Latest estimates suggest that there are also around 700,000 free-to-view digital satellite homes. This figure includes viewers who use satellite equipment to receive the free-to-view channels.
- In total there are now around 7.1 million free-to-view digital households (DTT and free-to-view satellite).

Section 2

Platform figures Q2 2006

	Old method - previous Q1 2006	New method - restated Q1, 2006	New method Q2, 2006	Net additions	Growth rate
Pay TV digital subscribers					
Digital cable	*2,793,771*	2,793,771	2,843,471	49,700	1.8%
Digital satellite (BSkyB)[1]	*7,692,000*	7,692,000	7,749,000	57,000	0.7%
TV over ADSL[2]	*48,545*	48,545	45,000	-3,545	-7.3%
Total digital pay TV subscribers[3]	*10,534,316*	10,534,316	10,637,471	103,155	1.0%
Free-to-view digital households					
DTT (Freeview) only homes[4]	*7,090,000*	6,387,000	6,402,000	15,000	0.2%
Free-to-view digital satellite[5]	*645,000*	645,000	695,000	50,000	7.8%
Total Free-to-view households	*7,735,000*	7,032,000	7,097,000	65,000	0.9%
Total UK digital households	***18,269,316***	**17,566,316**	**17,734,471**	**168,155**	**1.0%**
Digital penetration	***72.5%***	**69.7%**	**70.2%**	**0.5%***	
Other multi-channel households					
Analogue cable	***530,554***	530,554	458,054	-72,500	-13.7%
Multi-channel penetration	***74.6%***	71.8%	72.0%	0.2%*	

Source: Platform operators, GfK research, Ofcom market estimates.

* This figure represents the increase in percentage penetration not the % quarterly growth rate.
Note: Percentages may not add to 100% owing to rounding.

[1] BSkyB subscriber figures include commercial premises and TV over ADSL households that subscribe to Sky packages. Double counting therefore occurs for TV over ADSL households subscribing to Sky packages.

[2] The Q2 figure for TV over ADSL includes Homechoice figures that were released by the company in May 2006.

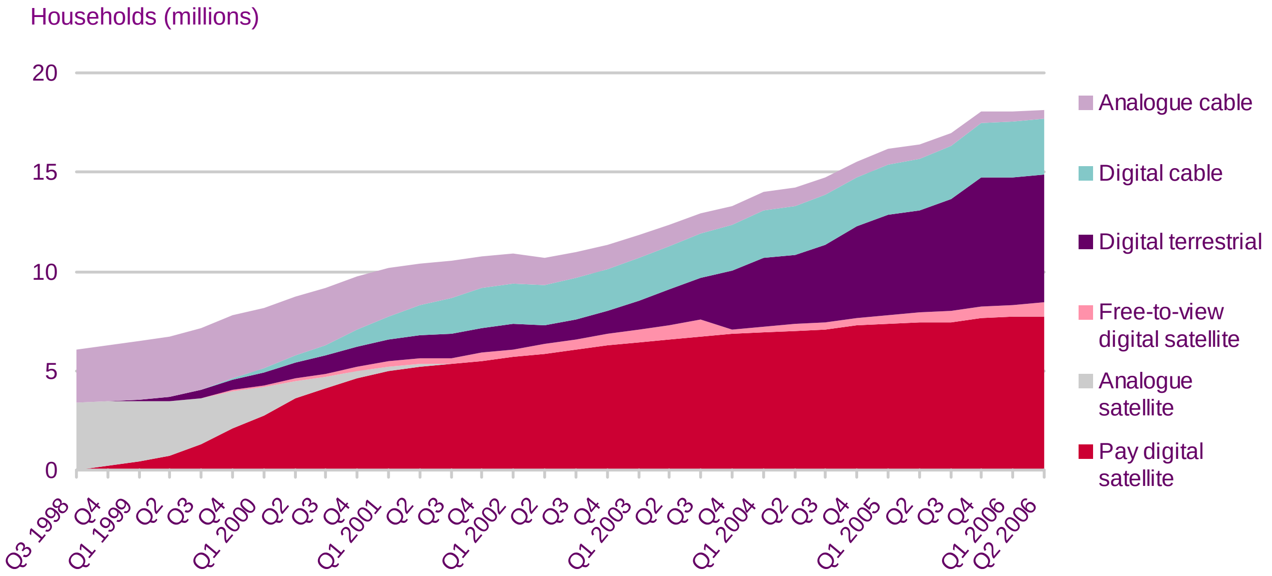
[3] Pay TV households do not include figures for Top Up TV because these figures are not in the public domain. Top Up TV subscribers are therefore counted in free-to-view digital terrestrial homes.

[4] Ofcom uses survey data from GfK for the number of homes where DTT is the only digital platform. The total number of all homes with DTT is therefore higher.

[5] Ofcom estimates the number of viewers using satellite equipment to receive the free-to-view channels.

2.1 Allowing for the revised Q1 figure for DTV homes, digital penetration increased by half a percentage point during Q2 2006, reaching 70.2% of UK households. Multichannel penetration, which includes analogue cable subscribers, has now reached 72.0%.

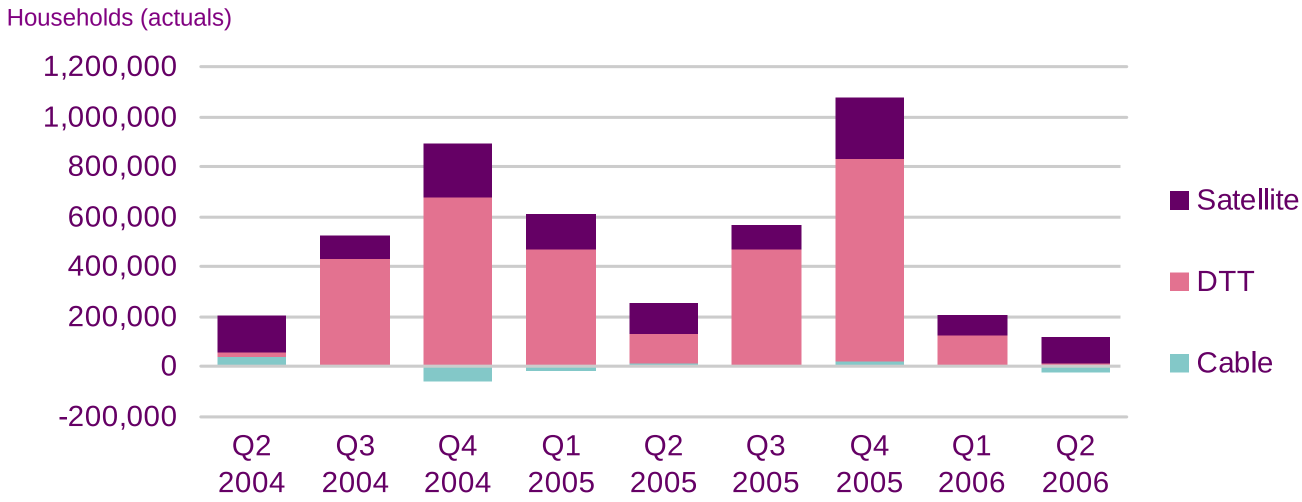
Digital and multichannel penetration of UK households



Source: Platform operators, GfK research, Ofcom market estimates.

2.2 The chart below shows net additions for the DTV main platforms over the nine quarters to Q2 2006. Satellite and DTT have been the main drivers of DTV growth over the period, although DTT-only homes growth has slowed in 2006.

Multichannel homes net additions by platform

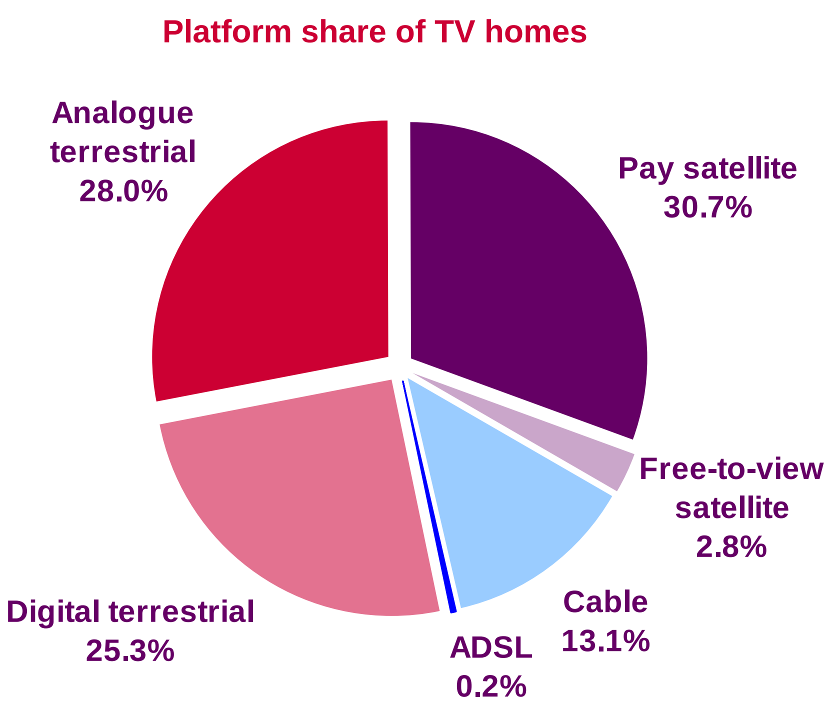


Source: Platform operators, GfK research, Ofcom market estimates.

* Please note that Q1 and Q2 2006 figures use the new methodology for calculating DTT homes

Share of TV platforms on primary sets, 30 June 2006

2.3 The chart below shows Q2 platform share on the primary sets in the UK's 25.2 million television homes (analogue and digital).



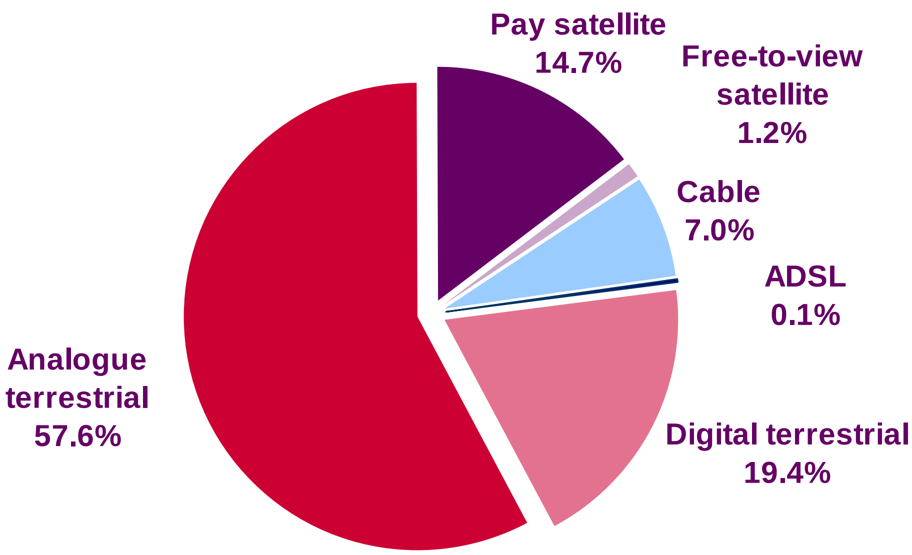
Source: Platform operators, GfK research, Ofcom market estimates.

- By Q2 2006 pay satellite was still the leading platform on primary sets, with 30.7% of UK homes subscribing through BSkyB.
- Analogue terrestrial was second with a 28.0% share; DTT came third with 25.3%.
- Free-to-view satellite share also gained modestly during the quarter, up by 50,000 homes to 2.8%. This increase could be explained by homes acquiring free satellite equipment for the first time or by viewers churning from BSkyB's pay services.
- The remaining market share was made up of cable (13.1%) and ADSL (0.2%).

Share of TV platforms on all TV sets, 30 June 2006

2.4 When we examine the universe of all TV sets (both analogue and digital), analogue terrestrial still accounts for more than half of all the UK's 60m TV sets.

Platform share of all TV sets



Source: Platform operators, GfK research, Ofcom market estimates.

At the end of Q2 2006:

- Of analogue terrestrial sets (57.6% of all sets), an estimated 11.8% were primary sets and 45.8% secondary sets.
- Digital terrestrial was the second biggest platform with a 19.4% share of all TV sets in Q2 (up from 17.6% in Q1). This growth was as a result of the increase in DTT devices connected to secondary sets.
- Pay satellite had a share of 14.7% of all TV sets, up on Q1 by 0.5%, as net subscriptions and Sky multiroom saw an increase during the quarter. Adding-in free-to-view satellite, satellite overall had a 15.9% share of all sets.
- Cable was fourth with a share of 7.0% of all TV sets. ADSL made up the remaining 0.1%.

Growth in secondary digital sets

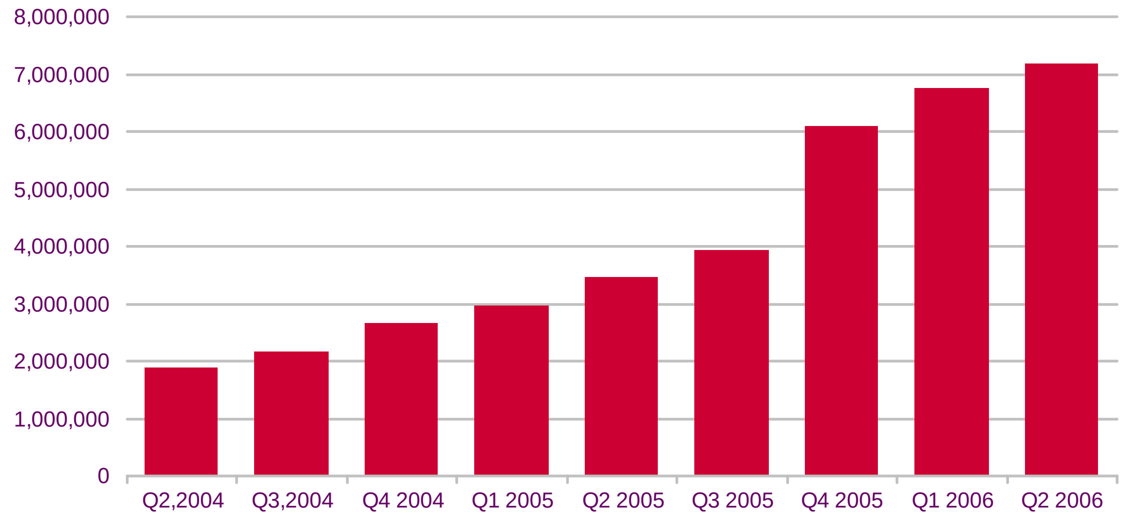
2.5 The key change observed over the last three quarters has been the increasing growth of digital television on secondary sets. This trend has developed as more homes have become aware of digital television as well as the options for converting secondary sets. This indicates that viewers have become accustomed to having the extra choice of channels on the main set in the home and now want more channels on additional sets.

2.6 The chart below illustrates the growth in the number of digital-enabled secondary TV sets over the past two years. This includes second sets for the satellite, DTT and cable platforms. Previously in Q2 2004, secondary digital sets numbered just under two million; just over one year later, in Q3 2005, this had almost doubled to approaching 4 million. However since Q3 2005 second set conversion has increased by over 3 million in three quarters, to reach over 7 million by Q2 2006. This means that in the last four quarters the number of digital second sets has doubled from around 3.5 million in Q2 2005 to over 7 million by Q2 2006.

Secondary digital TV sets Q2 2005 – Q2 2006

Secondary digital sets across all platforms

(actuals)



Source: Platform operators, GfK research, Ofcom market estimates.

Please note that this chart will also include a small number of analogue cable second sets.

Summary of trends in digital take-up and market share in UK homes.

	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	*2006 Previous Q1*	2006 Restated Q1	2006 Q2
Digital take-up								
Digital cable	10.1%	10.2%	10.4%	10.6%	10.8%	*11.1%*	11.1%	11.3%
Digital satellite	30.8%	31.3%	31.7%	32.1%	32.8%	*33.1%*	33.1%	33.4%
DTT	18.5%	20.3%	20.8%	22.6%	25.7%	*28.1%*	25.3%	25.3%
ADSL*	0.1%	0.1%	0.1%	0.2%	0.2%	*0.2%*	0.2%	0.2%
Total digital	**59.4%**	**61.9%**	**63.0%**	**65.4%**	**69.5%**	***72.5%***	**69.7%**	**70.2%**
Analogue cable	3.2%	3.0%	2.8%	2.6%	2.4%	*2.1%*	2.1%	1.8%
Total multichannel	62.6%	64.9%	65.8%	68.0%	71.8%	*74.6%*	71.8%	72.0%
Pay TV take-up**								
Cable	13.3%	13.2%	13.2%	13.2%	13.2%	*13.2%*	13.2%	13.1%
Pay digital satellite	29.2%	29.5%	29.8%	29.9%	30.5%	*30.5%*	30.5%	30.7%
ADSL*	0.1%	0.1%	0.1%	0.2%	0.2%	*0.2%*	0.2%	0.2%
Total	**42.6%**	**42.8%**	**43.1%**	**43.2%**	**43.8%**	***43.9%***	**43.9%**	**43.9%**
Share of digital TV market								
Cable	17.0%	16.5%	16.6%	16.2%	15.6%	*15.3%*	15.9%	16.0%
Digital satellite	51.8%	50.6%	50.4%	49.0%	47.3%	*45.6%*	47.5%	47.6%
ADSL*	0.1%	0.1%	0.1%	0.2%	0.2%	*0.3%*	0.3%	0.3%
DTT	31.1%	32.8%	32.9%	34.5%	36.9%	*38.8%*	36.4%	36.1%
Share of multichannel TV market								
Cable	21.2%	20.3%	20.1%	19.4%	18.4%	*17.7%*	18.4%	18.1%
Digital satellite	49.1%	48.2%	48.2%	47.2%	45.7%	*44.3%*	46.1%	46.4%
DTT	29.5%	31.3%	31.5%	33.2%	35.7%	*37.7%*	35.3%	35.2%
Share of net additions								
Cable	-6.7%	-2.2%	5.3%	0.0%	2.0%	*0.8%*	6.2%	0.0%
Digital satellite	24.0%	24.0%	48.1%	17.2%	22.6%	*10.5%*	84.3%	87.7%
DTT	75.0%	76.0%	46.7%	79.7%	75.2%	*87.5%*	0.0%	12.3%
ADSL*	0.9%	0.0%	0.0%	3.1%	0.2%	*1.2%*	9.5%	0.0%

Source: Platform operators, GfK research, Ofcom market estimates.

* ADSL figures for Q2 include Homechoice figures as released by the company in May 2006.

** Figures for the pay DTT service, Top Up TV, are not in the public domain for Q2. Subscribers to Top Up TV also receive free-to-view DTT, and are therefore included in the DTT market shares.

Some figures in the table may not add exactly due to rounding.

Section 3

Update by platform

Digital satellite – pay TV households

	Pay digital satellite – Sky	
	Q1, 2006	**Q2, 2006**
Pay-TV households	**7,692,000***	**7,749,000***
ARPU (annualised)	£392	£388
Churn	11.4%	10.6%
Basic package price	£15.00	£15.00
Sky Multiroom	990,000	1,047,000
Sky+	1,430,000	1,553,000

Source: BSkyB Q2 2006 results

* These figures are for the UK and exclude BSkyB's subscribers in the Republic of Ireland.

3.1 BSkyB's pay-TV subscriber base increased by 57,000 net additions during the quarter to reach 7,749,000 UK subscribers. This was an increase on the previous quarter's 26,000 additions but was down by 49,000 on the comparable quarter in 2005.

3.2 The number of BSkyB subscribers taking the multiroom service (which converts additional sets in the home to receive BSkyB channels) increased by 57,000 during Q2 to 1,047,000.

3.3 BSkyB's PVR service Sky+ had another strong quarter, adding 123,000 new subscribers. 1,553,000 homes now have Sky+.

3.4 Annualised average revenue per user (ARPU) for the quarter was down by £4 to £388 on the previous quarter. Churn decreased during the quarter from 11.4% to 10.6%.

Digital satellite - free-to-view households

	Free-to-view digital satellite	
	Q1, 2006	**Q2, 2006**
Free-to-view households	645,000	695,000

Source: Ofcom market estimates.

3.5 Free-satellite viewers: An increasing number of homes now use satellite reception equipment to receive free-to-view channels. Free satellite viewers fall into one of three categories:

- Homes that have churned from BSkyB pay services but have retained their satellite equipment so that they continue to receive the free-to-view channels.

- BSkyB's own non-subscription service 'Freesat'. For a one-off payment of £150 (covering installation of satellite equipment) viewers can receive the free-to-view channels.

- Some homes have obtained satellite receiving equipment from BSkyB or from other retailers and also have a viewing card which allows them to receive the free-to-view channels.

3.6 By the end of Q2 2006 the total number of homes using satellite equipment to receive the free-to-view channels was estimated at 695,000.

Cable

	ntl:Telwest	
	Q1, 2006	**Q2, 2006**
Homes passed and marketed	12,656,700	12,661,100
Total residential subscribers (TV, telephony, internet)	4,983,800	4,928,700
Digital TV homes connected	**2,786,500**	**2,836,200**
Total TV homes connected	3,315,900	3,293,100
TV penetration rate	26.2%	26.0%
ARPU* (annualised)	£498	£507
Churn rate*	15.6%	18.0%
Basic package price	£16.50	£16.50

Source: Ntl:Telewest Q2 2006 results

Note: The above figures are the combined results of the previous ntl and Telewest Broadband statistics, Q2 was the first full quarter following the merger of the two cable operators.

* Ntl ARPU and churn rates relate to their total consumer division.

3.6 The combined ntl:Telewest results show that the company added 49,700 digital TV subscribers during Q2. However net ntl:Telewest TV homes fell by 22,800 in Q2 owing to a reduction in analogue TV customers of 72,500. Ntl:Telewest also cleansed its data during Q2 which resulted in a further reduction in the number of active subscribers.

3.7 The total number of UK cable households in Q2 stood at 3,301,525, including Wight Cable subscribers. There are now 2,843,471 digital cable subscribers, an increase of 1.8% on Q1 2006. Digital cable now accounts for over 86% of all cable TV subscribers.

Digital Terrestrial Television (DTT) sales

3.8 Q2 saw over 1.2 million sales of DTT receivers and IDTVs – the fourth successive quarter in which sales have exceeded the 1 million mark (Q1 2006, Q4 2005 and Q3 2005 saw sales of 1.2m, 1.9m and 1.0m respectively). Q2 sales for 2006 were up by more than 70% on last year's Q2 total figure of 710,500.

3.9 IDTVs comprise an increasing proportion of total DTT sales, accounting for around 40% of all DTT sales in Q2 2006 compared to 18% in Q2 2005. Overall IDTV sales almost trebled in the first six months of 2006 - 900,000 compared to just under 300,000 in the first half of 2005.

Quarterly DTT sales	DTT sales Q1, 2006	DTT sales Q2, 2006
Freeview set top boxes	817,215	736,470
IDTVs	395,115	487,725
Total sales	**1,212,330**	**1,224,195**

Source: Q2 sales figures, GfK as adjusted by Freeview.*

* Freeview adjusts the sales figures upwards by 5% to represent its estimate of the number of Digital TV set top boxes and IDTVs sold via Northern Ireland, offshore islands, staff sales and business to business, to allow for the sales details for which are not compiled by GfK.

3.9 Between the launch of Freeview in October 2002 and Q2 2006, 13 million DTT units have been sold. This includes over two and a half million TVs with integrated DTT units and over 10 million DTT set top boxes.

Total DTT sales*	DTT total Q1, 2006	DTT total Q2, 2006
Freeview set top boxes	9,559,495	10,295,965
IDTVs	2,208,425	2,696,150
Total digital terrestrial sales since launch of Freeview	**11,767,920**	**12,992,115**

Source: GfK sales data, Freeview

*Sales since the launch of the Freeview digital terrestrial platform in October 2002.

DTT households

3.10 While overall DTT equipment sales are stronger than last year, a larger proportion of the new sales are for use on second sets in homes that already have DTT or another digital platform on the main TV set.

3.11 Ofcom had previously estimated that around 38% of all sales of DTT equipment went to second sets – but latest estimates suggest that this figure is currently closer to 90%.

3.12 It also appears that an increasing number of purchases are for upgrades or replacements for existing set-top-boxes on the primary set (newer models for example, can offer additional features such as 7 day programme guides or recording facilities). This can in turn lead to an increase in churn in DTT equipment as older equipment is replaced or is moved to secondary sets.

3.13 There is also a possibility that while IDTVs are often being used as the main set in the home, they also receive satellite or cable services, leading to an overlap in this area, and therefore a lower rate of digital conversion in relation to DTT sales.

3.14 This means that the original methodology that Ofcom used to estimate the number of DTT homes – incorporating sales data – may lead to an overstatement on the number of new DTT homes unless an accurate second set sales figure is applied every quarter. With sales of DTT approaching 13 million since the launch of Freeview in October 2002, we believe that market research now provides a more accurate picture of household ownership of DTT.

3.15 The difference between the figures produced by Ofcom's sales-based approach and survey data was first identified as being material in Q1 2006. As a result, and to provide comparability and consistency in the figures, we have restated the DTT homes figure for Q1 using the same GfK market research data. In future the DTT homes figure will therefore be calculated solely from survey data.

3.16 When applying the new research methodology: of the 1.2 million DTT sales in Q2, the vast majority were bought for use on secondary sets in the home. Secondary set sales have increased rapidly during 2006, indicating that many more homes are now converting additional sets to digital TV.

3.17 These sales bring the total number of DTT enabled TV sets currently in use to over 11.6 million. The total number of homes using DTT equipment is now estimated to be approaching 8.6 million.

3.18 After allowing for DTT homes which also use another digital platform such as satellite or cable, the estimate for homes where DTT is the only digital platform stands at 6.4 million in Q2.

3.19 The table below shows the effect of restating the previous Q1 figures to be consistent with the research methodology used for Q2. This results in a downwards adjustment in the overall number of homes using DTT. The total number of homes using DTT equipment falls by 500,000 to 8.3 million in the restated Q1 figure, whilst the number of homes where DTT is the only digital platform has fallen by 700,000 to 6.4 million. These changes are as a result of the restatement reflecting the higher number of sales for secondary sets during Q1. Many of the Q1 sales therefore did not go into first time DTT homes but homes which already had DTT or another digital platform. The total number of DTT enabled sets remains the same in Q1 at 10.9 million, as these figures are unaffected by the shift in sales to secondary sets.

DTT sets and households	*DTT Previous Q1, 2006*	DTT Restated Q1, 2006	*Change on previous Q1*	DTT Q2, 2006
Total number of DTT enabled TV sets	*10.9 million*	10.9 million	*no change*	11.6 million
Total number of homes using DTT equipment	*8.8 million*	8.3 million	*- 500,000*	8.6 million
Number of homes where DTT is the only digital platform	*7.1 million*	6.4 million	*- 700,000*	6.4 million

Source: GfK consumer research, Ofcom market estimates

Note: Some Q1 figures have been restated in order to be consistent with the same research source used for Q2.

3.20 When compared to the Q1 2006 TV sets estimate, DTT has added around 700,000 new sets during Q2, to reach a total of 11.6 million DTT enabled sets.

3.21 Using the restated Q1 figures, DTT equipment was being used in 300,000 more homes by Q2 and was in use in 8.6 million homes in total, (this increase in homes was mainly seen in homes that already had satellite or cable).

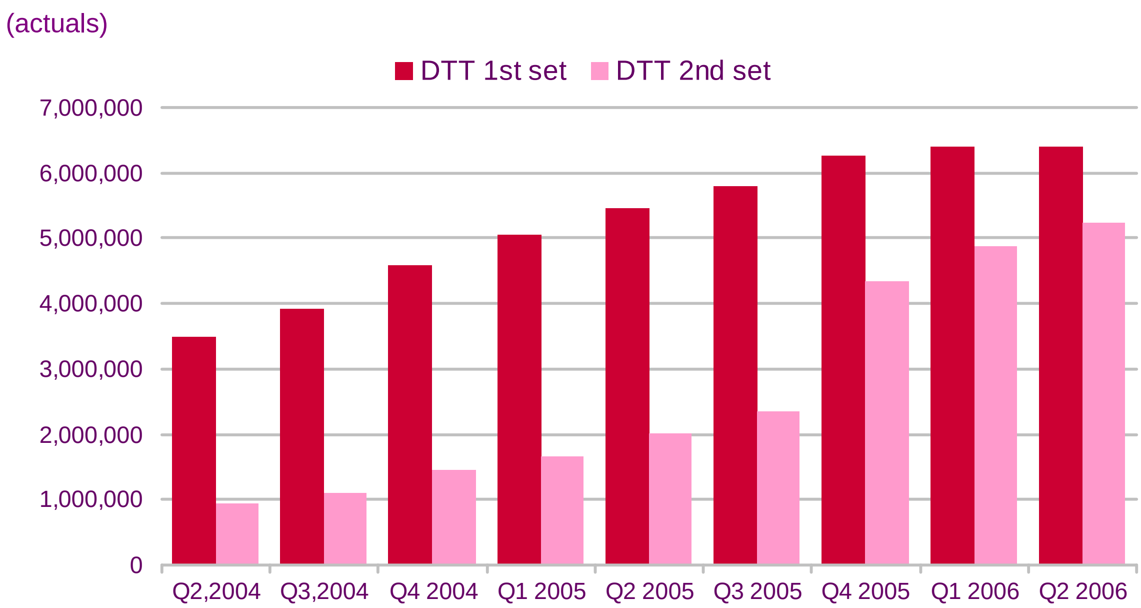
3.22 Meanwhile, the increase in DTT-only homes has slowed in 2006, and saw only a small increase during Q2. It remains to be seen whether this is a temporary lull before the typically higher additions that have been seen in previous third and fourth quarters.

DTT growth on primary and secondary sets

3.23 DTT sales continue to be strong, with sales so far in 2006 being higher than the previous year, with a particular increase in the number of iDTV's sold. When looking at the usage of DTT equipment in the home, another trend is noticeable in that the number of homes acquiring DTT for the first time has slowed since Q4 2005 as the market matures. An increasingly higher percentage of sales are now purchased for secondary sets in the home or as upgrades to existing equipment.

3.24 The chart below illustrates the growth in DTT over the past two years and also shows how DTT in use on secondary sets is gaining on the number of DTT primary sets. In Q2 2005 DTT was being used on the main set in around 3.5 million homes with less than a million DTT second sets. By Q3 2005 the number of DTT on main sets had increased to approaching 6 million whilst second set DTT had increased to over 2 million. Over the last three quarters the increase in the number of DTT being used on the main set has slowed since Q4 2005 and was around 6.4 million by Q2 2006. Meanwhile DTT on second sets has gone from just over two million in Q3 2005 to over 5 million by Q2 2006 and has therefore more than doubled over the last three quarters.

DTT on 1st and 2nd sets



Source: GfK consumer research, Ofcom market estimates