

Summary of focus group research

Annex 15 to pay TV market investigation consultation

A report of market research conducted for Ofcom by
Essential Research



Research Document

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Section 1

Summary

The digital TV market: awareness, understanding and attitudes

- 1.1 In order better to understand consumer attitudes towards the digital TV market, independent research consultants, Essential, were commissioned to conduct qualitative consumer research into current and potential pay TV models among those with existing pay TV packages (from Sky and Virgin Media) and those viewing via digital terrestrial TV (DTT or Freeview).
- 1.2 Essential conducted eight focus groups in central London. As the research was qualitative and fieldwork was in London only, the findings should be treated as indicative.
- 1.3 The digital TV market was seen as complicated, but viewers were broadly satisfied that the market enabled them to access the content that they wanted to watch.
- 1.4 While Sky was felt to be the major force in digital TV, all respondents were aware of alternatives to the Sky service. Awareness of Virgin Media was high however respondents felt the Virgin Media offer lacked clarity for many, and respondents mentioned certain content that could only be accessed via Sky, and for which some respondents had switched to Sky.
- 1.5 In the pay TV market, consideration of competing providers was limited by a degree of inertia in some cases and a fear of switching in other cases, particularly where bundled services were concerned.
- 1.6 Around a fifth of Freeview viewers we talked to felt truly confused by the digital TV market. The majority, while broadly aware of various pay TV options, were resolutely opposed to the current pay TV options since they believed these would oblige them to pay for a large number of poor-quality channels they would never watch. The majority of our Freeview viewers also cited long-term subscriptions as a further barrier to take-up of pay TV.
- 1.7 However, these Freeview viewers did not reject *all* pay TV channels. Nearly all could name two or three subscription channels which they claimed they would like to be able to access and which they would watch regularly.

Bundling and features

- 1.8 The majority of pay TV viewers we spoke to acknowledged the potential cost savings that could be achieved through subscribing to bundled services such as TV, telephone and broadband, and claimed that bundles – together with TV hardware features such as digital video recorders (DVRs) – were playing a growing role in consumers' decision-making process when choosing a new pay TV service.
- 1.9 But of those who had recently switched pay TV provider, more had done so in order to receive specific content, than had done so because of deals on bundled services.
- 1.10 Among both the pay TV and Freeview viewers, the decision to switch to a new provider of telephone and broadband services was not one to be taken lightly, with many claiming that negative word-of-mouth reports concerning customer service or

reliability problems in the broadband and telecoms markets were discouraging consideration and churn at present.

Satisfaction with digital TV; spontaneous positives and negatives

- 1.11 Customers experiencing specific technical or reception difficulties with their digital TV service were not recruited for this research, given the risk that such problems might have dominated the discussion. Questions relating to satisfaction focused instead on content and (in the case of pay TV) value for money.
- 1.12 The pay TV subscribers mostly claimed to be broadly satisfied with their service, despite many claiming that pay TV was expensive, although a minority were highly critical of pay TV content.
- 1.13 Programmes or channels (either specifically or broadly) were seen by the majority of pay TV respondents as the key benefit of digital TV, although roughly a quarter spontaneously mentioned features such as DVR functionality or video on demand (VoD), or bundled services (phone or broadband) as key benefits, ahead of programmes or channels.
- 1.14 Among most pay TV viewers there was evident uncertainty – or in some cases a claimed lack of concern – about the monthly cost of the subscription, and this had to be taken into consideration later in the discussions, when an à la carte approach to channel selection and payment was proposed.
- 1.15 Nearly all Freeview respondents claimed to be content with their TV set-up, whether they had upgraded from analogue TV or had switched from a satellite or cable service.
- 1.16 Alongside the fact that it was free to view, Freeview viewers' satisfaction with their current TV set-up was driven by the absence of fixed contracts or hidden charges and by the value they attached to channels from the public service broadcasters.

Channels: range and choice vs. specific channels

- 1.17 More than half of the pay TV respondents in this research claimed that pay TV provided too many channels with poor quality content. However, opinions were mixed as to whether this content was paid for directly through the subscription, or was provided free of charge as part of the channel package – and few had given this much thought prior to the research.
- 1.18 For roughly a third of these pay TV respondents, the inclusion of hundreds of channels of perceived poor-quality content was felt to have a detrimental impact on the overall appeal of their chosen digital TV service, while others valued the range or breadth of choice implied by such a large number of channels. Broadly, pay TV viewers divided into two groups: those who value range and those who value specific channels or content that would be unavailable elsewhere, and this was a key distinction which strongly influenced reactions to the à la carte model discussed later on.
- 1.19 Among those who claimed to value pay TV mainly for specific channels or content, there was some spontaneous demand for an à la carte approach to channel subscription.

- 1.20 In the groups Freeview viewers were fairly unanimous in their rejection of the unconstrained 'choice' of channels as offered by Sky or Virgin Media, offering this as a key reason for avoiding pay TV. Freeview viewers believed that they would never choose to watch the majority of channels on offer from pay TV and therefore a large number of channels did not equate to value for money (and indeed for most Freeview viewers the converse would be true.)

Reaction to the à la carte concept

- 1.21 An à la carte concept for channel subscription, where consumers choose bespoke channel menus, was introduced to the Freeview and pay TV viewers. Naturally, Freeview viewers – who saw the à la carte concept as a potential opportunity to 'trade up' – responded very differently to pay TV customers, for whom à la carte represented a 'downsizing' of their existing channel package.
- 1.22 Among pay TV viewers there was no unanimous response. Reactions were influenced by the attitudes towards range versus specific channels, as discussed above, and also by the requirements of the household as a whole. Some pay TV viewers also expressed concern at the cost-effectiveness of à la carte when combined with bundled services such as telephone and broadband.
- 1.23 Based on their responses, pay TV viewers can be broadly split into one of three groups, as follows:
- Enthusiasts: viewers who tend to value specific channels and have a relatively narrow channel repertoire. Like Freeview viewers, they believe wide 'choice' is detrimental to the digital TV experience and attach value to reducing 'clutter'. They believe that à la carte would offer increased clarity of choice and better value for money.
 - Pragmatists: responded cautiously to the à la carte concept, largely because they were unsure whether a tailored approach to channel selection would offer any cost savings when compared to the existing model. This concern was generally due to one of two key factors. Firstly, those in family households often subscribe to multiple channels or genres in order to cater for the different tastes of those in the home and felt their current subscription would probably offer greater value for money than the à la carte concept. Secondly, those who subscribed to bundled service deals expressed concern that the bundling of free or subsidised services may not be compatible with an à la carte arrangement.
 - Rejectors: viewers who value range or breadth of channels and the act of 'browsing' for content. They watch a wide repertoire of channels and believe that wide 'choice' is fundamental to the digital TV experience. They attach value to the option of choice (even if not all channels are actually watched)
- 1.24 Freeview viewers believed that an 'à la carte' option is not available in the pay TV marketplace – and that the current pay TV model does not reflect how they would like to consume certain subscription TV content. Therefore the majority of the Freeview sample responded very positively to the à la carte model.
- 1.25 However, it was clear that Freeview viewers were unwilling to sign up to individually costed channels unless the issue of fixed contracts could be addressed. As discussed earlier, fixed-term contracts represent a major barrier to pay TV among Freeview viewers and the majority felt that a key condition of the à la carte model

should be that there would be no long-term contract and that the channels could be bought on a one-off monthly basis.

Intra- and inter- platform competition

- 1.26 The concept of intra- and inter- platform competition was introduced to respondents¹.
- 1.27 Respondents found it easier to consider the merits of intra-platform competition (i.e. multiple suppliers via one platform) than inter-platform competition (necessitating more than one set-top box.) While a multiple supplier model could be complicated for viewers, this was not rejected outright by Freeview viewers, or by pay TV viewers who favoured the à la carte model.
- 1.28 Respondents recognised similar models in other markets and some suggested spontaneously that the process could be made more consumer-friendly by the use of internet comparison and payment engines or through a simple on-screen selection tool.
- 1.29 However, the concept of multiple 'competing' set-top-boxes was difficult for respondents to grasp, and few were willing to entertain this idea, even if cost savings could be achieved.

¹ Intra platform competition refers to channel retailers competing on a specific transmission platform – such as Digital Satellite or Digital Terrestrial Television. Intra platform competition refers to channel retailers competing across different transmission platforms.

Section 2

Research objectives and methodology

- 2.1 Essential was commissioned to conduct qualitative consumer research into current and potential pay TV models among those with existing pay TV packages (from Sky and Virgin Media) and those viewing via digital terrestrial TV (DTT or Freeview).
- 2.2 As the research was qualitative and fieldwork was in London only, the findings should be treated with some caution and as indicative only.

Objectives

- 2.3 The role of this qualitative research was to complement previous research by providing an understanding of consumer 'language' and terminology used, filling specific knowledge gaps, probing for further explanation of some issues that had arisen in the quantitative research, testing hypotheses and proposals and suggesting areas for further investigation. Specifically, the research was designed to explore:
- market awareness and attitudes;
 - satisfaction with existing digital TV (DTV) providers and the current status quo;
 - reaction to possible new pay TV models, specifically an 'à la carte' option for choosing channels or packages; and
 - reaction to possible intra-/inter-platform competition.

Methodology and sample

- 2.4 Eight 90-minute focus groups were conducted in Central London on 2nd and 3rd October 2007. Two slightly different discussion guides were used; one for the pay TV sample and one for the Freeview sample.
- 2.5 The discussion guides covered the following broad areas:
- Attitudes to the current TV market.
 - Reasons for choosing current TV package and satisfaction with it, and consideration of other providers.
 - Channel consumption and preferences: exploring the benefits of choice vs. specific channel repertoires.
 - Barriers to pay TV adoption among Freeview viewers.
 - The impact and role of service bundling in churn, consideration and perceived value for money.
 - Assessing potential pay TV package alternatives (using stimulus and step-by-step explanation)
 - Reactions to inter-/intra-platform competition in future channel subscription scenarios.

- 2.6 Essential created the following sample breakdown, designed to cover as far as possible key segments of the pay TV market and key groups of Freeview viewers, enabling us to consider how attitudes and behaviours differed across particular audience groups and other key variables.

Table 1: Sample description

Subscribe to pay TV (50% Sky, 50% Virgin Media)	Main TV is Freeview
1. Football fans 25-44 who actively choose to have both Sky Sports and Setanta (either via Virgin Media or via Sky). All male	2. Football fans 25-44 who actively choose to have Setanta. All male
3. Adults, 30s and 40s, recently signed up to 'bundled' deals from Sky/Virgin. Half to have acquired from existing provider; half to have moved to the provider for the bundling deal. 50% have Sky+ or Sky HD or Virgin V+ box 50% male, 50% female	4. Adults in 30s and 40s actively considering signing up to 'bundled' deals from Sky or Virgin. 50% interested in Sky+, Virgin V+, HD content, or VoD 50% male, 50% female
5. Parents 25-44 with children aged 3-10. Mix of premium subscribers and non-premium subscribers. 50% have Sky+ or Sky HD or Virgin V+ box 50% male, 50% female	6. Parents 25-44 with children aged 3-10. 50% male, 50% female
7. 'Empty nesters' aged 50s, 60s. Mix of premium subscribers and non-premium subscribers. 50% have Sky+ or Sky HD or Virgin V+ box 50% male, 50% female	8. 'Empty nesters' aged 50s, 60s. 50% male, 50% female

- 2.7 Respondents were a mix of C1 and C2 socio-economic groups and all were the main or joint decision-maker in the household, in terms of TV service provider.
- 2.8 London was chosen as the venue for this research, since most households have at least two digital TV alternatives to Sky. The research is to give a broad insight into viewers' consumption preferences and was not designed to provide in-depth analysis. Therefore, the results are indicative only and represent the views of the consumers we spoke to. The results are not representative of all UK Freeview and pay TV viewers.

Section 3

The digital TV market: awareness, understanding and attitudes

Pay TV subscribers

- 3.1 Among the pay TV subscribers we spoke to, the market was felt to be fairly complicated, particularly since the products offered by Virgin Media and Sky were not considered to be directly comparable. However, despite this, viewers did not express any anguish or sense of injustice about the nature of the market, other than in a few isolated cases of claimed mis-selling by either Sky or Virgin Media, whereby allegedly misleading sales claims meant the service provided was different to that offered, in terms of content or features.
- 3.2 Sky was seen as the major force in the digital TV market, but all respondents were aware of alternatives, notably Virgin Media. However, among those currently subscribing to Sky, few intended to switch to another provider in the near future. Some subscribers attributed this to satisfaction with Sky's service, while others claimed that inertia was the main reason for staying with one provider.
- “I've had Sky for a very long time. I wouldn't say I was satisfied with it, I just accept it” – ‘Empty nester’, pay TV
- 3.3 It was also apparent that the specific nature of the Virgin Media service was not fully understood and that switching provider was perceived as a ‘hassle’. This was particularly true among customers currently subscribing to bundled services (e.g. TV, telephone and broadband.) Several respondents also referred to negative word-of-mouth reports concerning the Carphone Warehouse ‘Talk Talk’ broadband offer and problems with NTL/Virgin Media customer services, claiming that these examples underline the potential pitfalls of switching provider.
- 3.4 Overall, competitor understanding was limited, with Sky customers often exhibiting confusion about the content available via Virgin Media. Almost no respondents spontaneously mentioned BT Vision or Tiscali/Homechoice as competitors and Freeview was not considered as a viable alternative to pay TV, mostly due to the lack of Sky Sports, Sky Movies or specific subscription channels – although the channel line-up, once understood, was more appealing than respondents had expected. Indeed, several pay TV viewers had been unaware that certain channels were ‘free to air’.
- 3.5 It should be noted that fans of particular content felt they had to switch to Sky from Virgin Media for specific content now unavailable elsewhere, e.g. *Lost*, *24* or *Prison Break* or, in some cases, Sky Sports News. The removal of Sky Sports News from Virgin Media had also contributed to dissatisfaction with Virgin Media, among male sports fans.
- 3.6 A minority of respondents also claimed they had not had a free choice of digital TV provider, due to local restrictions on satellite dishes or TV aerials, or unavailability of cable TV in the area. Pay TV subscribers suggested that a range of different factors had played a role when considering their current digital TV provider or set-up, the most common factors being:

- a wide range of channels;
- availability of specific channels (or programmes);
- viewing preferences of children in the household, or visiting grandchildren;
- value for money or simplicity achieved through 'bundled' services such as TV, telephone and broadband (NB: value for money was *not* mentioned as a consideration when comparing competing channel packages); and
- specific hardware features. NB: Tools offering convenience or control such as digital video recorders (DVRs), Virgin's video on demand service and Sky's Multiroom product were spontaneously mentioned as key factors.

Freeview viewers

3.7 The Freeview sample comprised viewers whose awareness and understanding of the digital TV market ranged from those who knew little and found the market confusing, to those who had a fairly sophisticated understanding of the market, its main players and the kind of channel and hardware packages available to them.

3.8 The confused Freeview viewers – no more than around a fifth of the overall Freeview sample – claimed to be baffled either by the sheer volume of channels and delivery platforms available, or by the pricing/bundling structures offered by the main players:

"It's as clear as mud – the choice is overwhelming, all these different ways you can get it" – Parent, Freeview

"It's just confusing. I had a look on their [Brand x] website and they've got so many different offers" – 'Empty nester', Freeview

"I'm totally bamboozled – there's too much out there. This guy had got 6 boxes and 6 remote controls" – Bundle considerer, Freeview

3.9 As in the pay TV groups, a minority felt that the main suppliers were deliberately misleading subscribers or potential subscribers in order to secure maximum revenue:

"I looked at [Brand x] but there's all these additions, different packages – I went to their website and I couldn't understand how much the final price would be" – Sports fan, Freeview

3.10 The remainder of the Freeview sample were fairly well-versed in the various platforms and packages available to them – indeed, some had subscribed to satellite or cable before switching to Freeview, and all had friends and family who were pay TV subscribers.

3.11 As with the confused Freeview viewers, they believed it to be a very competitive marketplace, but did not necessarily see this as a negative. Many embraced the shift of TV into a more competitive and sophisticated arena:

"It's getting more niche – the market's splitting up into niche areas which I think is good" – Sports fan, Freeview

“It’s interesting to see where it will go in the next few years – more like the American market” – Sports fan, Freeview

“It’s hard to describe because it’s changed so fast – and it’s still changing – there’s all this on demand stuff starting now”
– Bundle considerer, Freeview

- 3.12 For some, there was an expectation that increased competition and the emergence of new platforms (especially broadband) would push prices down and eventually allow them to enter the wider multi-channel marketplace.
- 3.13 As in the pay TV groups, Freeview viewers felt Sky was the dominant force in the pay TV market– both as pay TV pioneer and market leader and there were isolated negative comments regarding Rupert Murdoch. Whereas Virgin Media had a much lower ‘share of mind’ both in terms of the brand and of its various offers.
- 3.14 Again, we encountered a high level of criticism (via direct experience of ntl, or word of mouth) of Virgin Media’s service capabilities, while the recent Sky-Virgin spat has left neither company looking good.
- “Taking out full page adverts in the newspapers to have a go at the other one – that’s just childish” – Bundle considerer, Freeview
- 3.15 There was a notably higher awareness of BT Vision than seen in the pay TV groups, perhaps reflecting BT Vision’s targeting strategy for marketing activity to date.

Freeview viewers: barriers to take-up of pay TV

- 3.16 The primary reason for Freeview viewers rejecting pay TV in its current form was a basic aversion to paying for channels that they believe they would never want to watch. (Indeed, the primary reason for satisfaction with the Freeview service was the relatively small number of free-to-air channels that offered valued content.)
- 3.17 However, there were a number of other reasons for rejecting pay TV.
- 3.18 For some, life stage plays a part in the rejection of wide channel choice. Some Freeview viewers felt that at their life stage they did not need a large channel package in their household, while other household types - families with children in particular – may benefit from channel variety and volume:
- “We had [Brand x] and we gave it up because we just weren’t watching all the channels – it’s only my husband and I and we do have a life. If we had kids, it would be different. But we’re a different market” - ‘Empty nester’, Freeview
- 3.19 Most of the Freeview sample spoke of their aversion to being tied into a long-term supplier contract. Compared to their Freeview set-up, they believed pay TV contracts to be inflexible and full of hidden charges:
- “It’s like my mobile – costs will just creep up” – Parent, Freeview
- “You’re a prisoner to [Brand x] or [Brand y] – you’re scuppered” – Bundle considerer, Freeview
- 3.20 Some sports fans, whilst they admired Sky Sports’ Premier League and European football coverage, felt there was a danger of becoming ‘addicted’ to football and were

wary of the implications of this for themselves and other household members not interested in sport.

“I’ve got a colleague at work - he must watch football from about the time he gets home to the time he goes to bed. Barnsley v Oldham, Spanish 2nd division, anything” – ‘Empty nester’, Freeview

- 3.21 Others commented generally on how having a pay TV package did not improve the viewing experience and even made it worse, cementing their conviction that Freeview was the ideal setup:

“My eldest daughter’s got [Brand x] and most days they’re sitting there and flicking through and watching something for 5 minutes – and when they do stop to watch a programme from start to finish it’s the same 4 or 5 channels we watch anyway” – ‘Empty nester’, Freeview

- 3.22 Importantly, Freeview viewers did not reject *all* pay TV channels. Nearly all could name two or three subscription channels which they claimed they would like to be able to access and which they would watch regularly. These differed according to personal preference but the list included, in no particular order, Discovery, National Geographic, Paramount, Living, Sky One, MTV and TCM.

Section 4

Bundling and features

Pay TV viewers

- 4.1 When interpreting the views of respondents about bundling it is important to remember that this research intentionally included a proportion of respondents who had recently switched to bundled services or who – in the case of Freeview viewers – were considering bundled offers from Sky or Virgin Media. Two of the eight groups exclusively featured the above audiences.

- 4.2 Many viewers felt that hardware features, e.g. video on demand (VoD), digital video recorder (DVR), or Multiroom, or bundled services such as telephone or broadband, were playing an increasing role when considering a digital TV provider or an upgrade.

“The thing that pulled me to [Brand x] was the extras, the Talk and broadband. It sealed the deal” – Sports fan, pay TV

- 4.3 While the majority of viewers were open to the idea of receiving bundled services through their pay TV provider, there were felt to be both positive and negative aspects of having a sole supplier and, as discussed earlier, negative word-of-mouth reports concerning problems in the broadband and telecoms markets were discouraging churn.

“It’s quite daunting; the idea of changing your TV, your phone supplier and your broadband is just too much so you tend to stick where you are.”
– Bundle subscriber, pay TV

- 4.4 Of those who had recently switched pay TV provider, more had done so in order to receive specific content, than had done so because of deals on bundled services.

- 4.5 Competition between Sky and Virgin Media (and in the telecoms and broadband market) was felt to be driving down the cost of bundled services and of certain hardware features such as DVRs. There was a belief among some (more sophisticated customers) that hardware features or bundled services will become ‘hygiene factors’ as the market evolves.

“If I get a better mobile phone, my monthly contract with [Brand z] doesn’t get higher. You just accept you’re getting better and better technology as part of the deal” – Sports fan, pay TV

- 4.6 Viewers with Sky+ felt that the product encouraged strong loyalty to Sky, and there was considerable positive word-of-mouth feeling about Sky+, even among Virgin Media customers. There was no evidence that Virgin media’s V+ service was contributing to loyalty to Virgin Media.

Freeview viewers

- 4.7 The Freeview sample was structured to ensure that at least a quarter of Freeview viewers were actively considering bundled deals from Sky or Virgin Media. Consequently, around half of this Freeview sample had bundled deals covering at least two of fixed-line, broadband and mobile, and some were actively considering

offers from AOL, Carphone Warehouse or Virgin Media. Many also had bundled arrangements for their domestic energy supply.

- 4.8 However, there was fairly consistent opposition to bundles which included multi-channel TV (MCTV). The main reason for this was respondents' existing aversion to pay TV and its extra channels – the presence of these extra 'unwatched' channels, in their minds, devaluing the whole bundle.

- 4.9 As in the pay TV groups, some of the Freeview sample – particularly the older respondents - expressed wariness about being dependent on just one supplier providing what they feel are relatively 'fragile' services, compared to gas and electricity supply.

"If your phone goes down you don't have broadband either – you don't want your TV suffering too" – 'Empty nester', Freeview

"Gas and electricity is easy to deliver, the pipes are there. But with broadband it all goes belly up" – 'Empty nester', Freeview

- 4.10 Again, as in the pay TV groups, this view was exacerbated by what appeared to be currently low levels of trust in the media bundling market (among the respondents in this sample it was driven mainly by negative word-of-mouth reports about ntl/Virgin Media).

"I just do not have confidence in all these companies that are out there promising this that and the other" – Bundle considerer, Freeview

- 4.11 Among respondents in rented accommodation, a further consideration was the inconvenience of being tied in to a single supplier when they were likely to move house on a fairly frequent basis.

Section 5

Satisfaction with digital TV: spontaneous positives and negatives²

Pay TV viewers

- 5.1 Pay TV subscribers mostly claimed to be broadly satisfied with their service, despite many claiming that pay TV was expensive, although a minority were highly critical of pay TV content.
- 5.2 The majority of pay TV subscribers were broadly able to explain their set-up (i.e. channel packages, features, bundles) although some were more confident than others in doing so.
- 5.3 Programmes or channels (either specifically or broadly) were seen by the majority of pay TV respondents as the key benefit of digital TV, although roughly a quarter spontaneously mentioned features such as DVR functionality or video on demand, or bundled services (phone or broadband) as key benefits, ahead of programmes or channels.
- 5.4 It is important to remember that recruitment was structured to ensure that a proportion of pay TV respondents had features such as DVRs or HDTV, or subscribed to bundled services. Therefore, respondent views are indicative of consumer who have these features, and not necessarily shared by all pay TV viewers.
- 5.5 Among most pay TV viewers there was evident uncertainty – or in some cases a lack of concern – about the monthly cost of the subscription.

“I’ve got TV on command. I’m not sure if I can record on it though. It’s a new updated box, so maybe I can.”
– Bundle subscriber, pay TV

“I set it up as a direct debit and now I don’t really pay much attention to what I’m spending on it” – Parent, pay TV

“It’s entertainment. It’s like the theatre. If you enjoy it you don’t ask if it’s been value for money.” – ‘Empty nester’, Pay TV

² Important to note that customers experiencing specific technical or reception difficulties with their digital TV service were not recruited for this research, given the risk that such problems might have dominated discussions. Questions about satisfaction focused instead on content and (in the case of pay-TV) value for money.

Freeview viewers

- 5.6 Nearly all Freeview respondents claimed to be content with their TV set-up, whether they had upgraded from analogue TV (the majority of our Freeview sample) or had switched from a satellite or cable service.
- 5.7 Alongside the fact that it was free to view, Freeview viewers' satisfaction with their current TV set-up was driven by a number of general attitudes to TV. We found that the majority of Freeview viewers we spoke to shared the following characteristics:
- a tendency to claim that they don't want or need to watch as much television as their friends/family/neighbours with pay TV packages;
 - a preference for public service broadcasting (PSB) and more factually-based channels;
 - a lower incidence of sports lovers (excluding the Freeview/Setanta group);
 - among parents, a strong sense of obligation to keep their children's viewing to a manageable amount, and a tendency to value 'educational' children's TV as opposed to mere children's entertainment TV (this was much less evident in the pay TV groups); and
 - (among some) a claimed aversion to long-term supplier contracts for leisure services - as opposed to essentials such as utilities.
- 5.8 In the light of the above, few could find fault with their Freeview service, and the claimed benefits of Freeview were fairly consistent across the sample:
- a one-off, relatively low initial outlay;
 - more channels at no extra cost, in particular digital channels offered by public service broadcasters;
 - no tie-in to contracts or hidden ongoing charges – especially among the more mobile, younger respondents;
 - for those with young children, the presence of dedicated PSB children's channels; and
 - for those who had upgraded, increased picture clarity over analogue.
- 5.9 The minority who claimed to be less content with their Freeview service were found almost exclusively amongst the Freeview/Setanta sample: they were aware of the fuller coverage of sports available on a premium sports package but were prohibited from take-up, either through inability to pay or through consideration of the viewing needs and preferences of others in the household:
- “My situation is a house share with 3 people, if we had Setanta and Sky Sports and we were watching it every night it would cause confrontation with the girls” – Sports fan, Freeview

Section 6

Channels: range and choice vs. specific channels

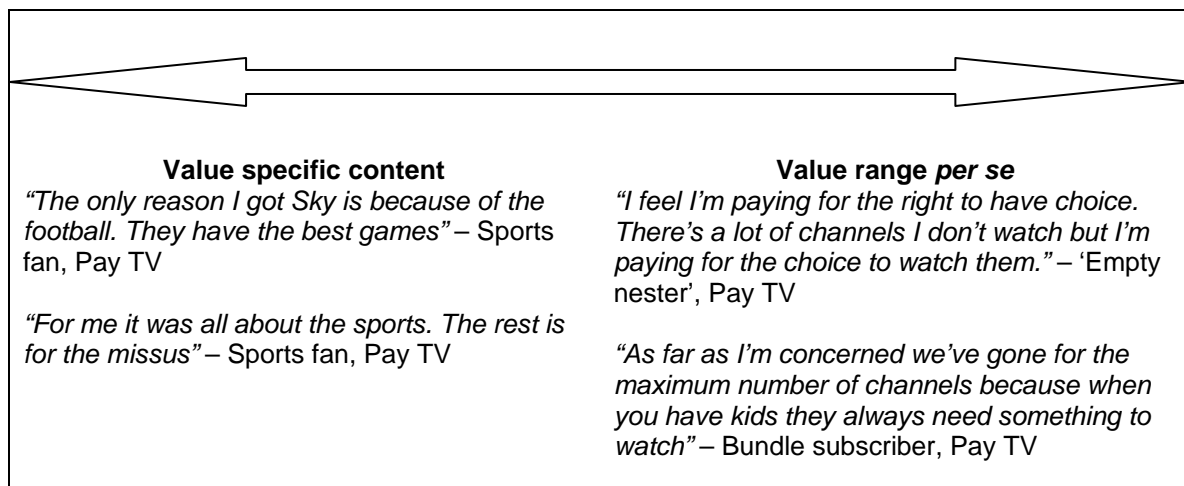
- 6.1 Respondents were asked to discuss their relationship with the channels available to them and specifically the proportion of digital channels they felt they or their households watched.

Pay TV viewers

- 6.2 More than half of pay TV respondents claimed that pay TV provided too many channels of poor-quality content, widely referred to as ‘crap’ or ‘rubbish’. Spontaneously mentioned examples included gambling channels, shopping channels, religious channels, fishing channels, foreign channels, or ‘repeat’ channels.)

“It’s £75 a month and half the channels are just crap” – Sports fan, pay TV

- 6.3 However, opinions were mixed as to whether this content was paid for directly through the subscription, or was provided free of charge as part of the channel package – and few had given this much thought prior to the research.
- 6.4 For roughly a third of the pay TV respondents we spoke to, the inclusion of hundreds of channels of perceived poor-quality content was felt to have a detrimental impact on the overall appeal of their chosen digital TV service, while others valued the range or breadth of choice implied by such a large number of channels.
- 6.5 Broadly, pay TV viewers divided into two groups: those who valued range *per se* and those who valued pay TV, or their digital TV provider, for specific channels or content that would be unavailable elsewhere.



- 6.6 In addition to premium content such as Sky Sports and Sky Movies, a number of other subscription channels were also spontaneously mentioned as reasons to subscribe to pay TV, including, in no particular order, Sky One, Living, UKTV Gold, Discovery, Animal Planet, National Geographic and the Disney Channel.

- 6.7 Among those who those who claimed to value pay TV for specific channels or content, there was some spontaneous demand for an à la carte approach to channel subscription, enabling viewers to subscribe only to those channels they specifically valued, without paying for those they did not:

“If you could have just Sky Sports and Setanta and the channels you get on Freeview I’d be happy. But that wasn’t an option, so I found myself forking out for the whole lot (from Sky)” – Sports fan, Pay TV

“What they should do is let you just choose the channels you actually want to watch” – Bundle subscriber, Pay TV

“All I wanted was Animal Planet but they make you pay for the whole package” – Parent, Pay TV

Freeview Viewers

- 6.8 The topic of channel ‘choice’, volume and perceived quality prompted much discussion among the Freeview sample, and their attitudes towards this subject largely defined why they claimed not to be interested in take-up of pay TV in any of its current forms.
- 6.9 The majority of the Freeview sample claimed to be relatively light television viewers, watching content from a small group of public service broadcast (PSB) digital channel portfolios and (in some cases) Sky News and Sky Sports News. These groups of channels were felt to be of superior quality to the less well regarded content available on pay TV platforms.
- 6.10 Unsurprisingly therefore, the overwhelming attitude to the wide channel offering on pay TV platforms was negative (and not dissimilar to that of a proportion of the pay TV viewers); the consensus being that there are literally ‘hundreds’ of channels, and most of them are of poor quality:
- “An awful lot of channels offering an awful lot of rubbish – and just a few channels offering any sort of quality” – ‘Empty nester’, Freeview
- 6.11 When the idea of ‘choice’ was put before Freeview viewers, it was consistently rejected on the basis that they would never choose to watch the majority of channels on offer:
- “Well you’re not getting choice if what you want is linked to a load of rubbish and you’re paying for it” – Sports fan, Freeview
- 6.12 Given the attitudes among Freeview viewers to both volume and ‘choice’ as described above, the notion that a pay TV channel package offering a large number of channels as standard equates to good value for money was almost universally rejected – in fact it is evident that for Freeview viewers the converse is true.

Section 7

Reaction to the à la carte concept

- 7.1 An à la carte concept for channel subscription was introduced to the Freeview and pay TV viewers.

Introducing the à la carte concept

- 7.2 Viewers were shown the logos of the free-to-air channels available via DTT and told that during the exercise, they could create their own ideal channel package by adding subscription channels, premium channels or a mix thereof to the free-to-air channels. Viewers were also shown a display of popular subscription channel logos and a description of the Sky genre 'mixes' such as the 'Kids Mix' and 'Knowledge Mix'.
- 7.3 Pay TV customers were reminded that at present, a 'basic tier' package of channels costing about £17 for Sky and £11 for Virgin Media was required, before additional channel packages could be selected. In the à la carte concept, no such requirement existed, and viewers were free to select as few or as many channels or packages of channels as they wished, in addition to the free-to-air channels as broadcast via DTT, which would cost nothing. Viewers were also reminded that a premium package subscription such as Sky Sports currently costs £34 - £37. (Interestingly, this came as news to many of those who currently subscribe to premium content, who believed the cost to be less.)

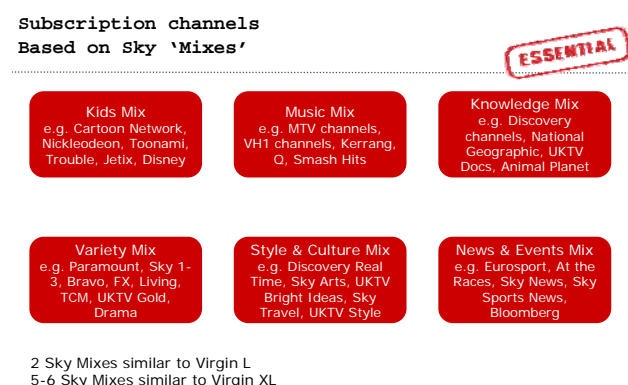
Figure 1: Example of free-to-air TV channels available via DTT as shown to respondents



Figure 2: Example of popular subscription channels (excluding premium content) as shown to respondents



Figure 3: Example of Sky genre 'Mixes' as shown to respondents

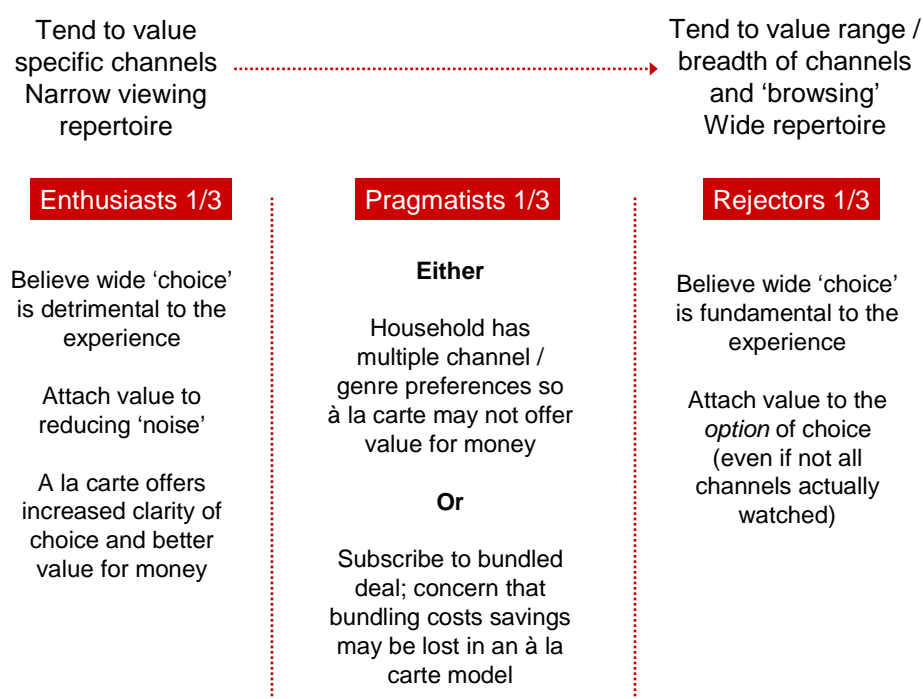


- 7.4 Viewers were told that they could purchase additional channels, or combinations of channels as follows:
- one popular subscription channel at £5
 - two popular subscription channels at £6
 - five popular subscription channels at £8
 - ten popular subscription channels at £10
 - Sky Sports or Sky Movies only at £20
 - Sky Sports and Sky Movies together at £30
 - Sky Sports + Setanta together at £30
 - one genre 'mix' package e.g. Sky knowledge mix' at £10
- 7.5 Naturally, Freeview viewers – who saw the à la carte concept as a potential opportunity to 'trade up' – responded very differently to pay TV customers, for whom à la carte represented a 'downsizing' of their existing channel package.

Pay TV viewers: reactions

- 7.6 Among pay TV viewers there was no unanimous response. Reactions were influenced by attitudes towards range/breadth versus specific channels, as discussed in Section 6, and also by the requirements of the household as a whole, e.g. where parents and children have a number of different channel or genre preferences, this may limit the amount of tailoring possible. After further deliberation, some pay TV viewers also expressed concern at the cost-effectiveness of à la carte when combined with bundled services such as telephone and broadband.
- 7.7 Based on their responses, pay TV viewers can be divided into roughly equal thirds, as follows:

Table 2: Response of pay TV viewers to the à la carte concept



Pay TV viewers: Enthusiasts

- 7.8 Those who responded most positively to the concept were often male and less likely to have children at home, therefore their viewing repertoires were often much narrower than those in family homes.
- 7.9 They expressed annoyance about poor-quality channels crowding out quality content (or favoured content) in the on-screen programme guide, and claimed to resent paying for a large number of channels that they did not watch. Some had spontaneously suggested an à la carte style solution in the discussions covered in Section 6.
- 7.10 Attitudinally, they appeared similar to Freeview viewers, in that they perceived the bulk of pay TV channels to be of poor quality. However, they or their households valued specific subscription content sufficiently that they were prepared to pay for it e.g. Sports, Movies, Discovery Channel. Their characteristics and preferences suggest that in the future, the proposed Sky 'Picnic' offer on Freeview may appeal strongly to this group.

"If I've got my sport and my National Geographic, that works for me. The channels on Freeview are fine" – Sports fan, pay TV

- 7.11 Enthusiasts believe that tailoring (i.e. reducing) their channel line-up would enhance the overall product and would offer a tangible benefit.
- 7.12 Some attach a cost to the time they believe is wasted looking for specific content and claim the à la carte concept would offer a benefit beyond cost savings.

"If I could avoid having to flick through loads of channels to find the thing I want, I'd probably even pay extra for that" – Parent, pay TV

“It’s not about the cost, it’s about the convenience. It’s about not having to trawl through hundreds and hundreds of channels” – Bundle subscriber, pay TV

Pay TV viewers: Pragmatists

- 7.13 Pragmatists responded cautiously to the à la carte concept, largely because they were unsure that a tailored approach to channel selection would offer any cost savings when compared to the current model. This concern was generally due to one of two key factors:

- 7.14 Firstly, those in family households often actively subscribed to multiple channels or genres in order to cater for the different tastes of those in the home. For example, based on the costs described on page 18, a family subscribing to Sky Sports, Sky Movies, ten specific subscription channels and a ‘Kids Mix’ could expect to pay £50, which would represent limited cost savings when compared to the current subscription.

- 7.15 The pragmatists were often uncertain as to the exact cost of their current subscription, but felt it would probably offer greater value for money than the à la carte concept, in that it provided considerably more channels for a similar monthly payment. The current pay TV model was felt to be more cost-effective when multiple channel options are selected. However, they acknowledged the potential benefits of à la carte for viewers who want a truly bespoke or pared-down offer.

“If the gap between the (cost of the) channels you want and the complete package wasn’t that high, you’d stick with the complete package” – Parent, pay TV

“If you aren’t buying all the channels, it’s going to cost Sky more to provide the individual channels, so they’re going to pass that cost on to us. It’s going to end up costing us more” – Bundle subscriber, pay TV

- 7.16 Secondly, some pragmatists felt that bundled services such as telephone and broadband, or key features such as DVRs, were offered by providers at a reduced or subsidised rate in return for the relatively high cost of a channel package subscription. They expressed concern that any gains achieved from à la carte billing may be negated by the additional cost of broadband, phone or a DVR, which were unlikely to be subsidised in the same way as part of an à la carte arrangement.

“There’s things they currently offer you like Anytime or Multiroom. If you did this package (à la carte) you wouldn’t get half of those things, because it’s part of the subscription” – Bundle subscriber, pay TV

- 7.17 Most customers with bundled services or specific hardware features felt that it was impossible to truly extricate the cost of a pay TV subscription from the cost of features or bundled services, which inevitably complicated the calculation of any potential cost savings achieved through an à la carte model.

“The features are growing all the time. Now there’s on-demand video. It’s hard to break out in pounds how you apportion it all. You’re buying a package and it’s impossible to break out what’s what.” – Bundle subscriber, pay TV

Pay TV viewers: Rejectors

7.18 Pay TV viewers who rejected the à la carte concept were those who believed that breadth or range of channels was the key benefit of a pay TV subscription - even if many of the channels were never or rarely watched. In this instance, 'choice' as a concept was highly valued.

7.19 Rejectors were often female and claimed to enjoy the serendipity of 'flicking' or 'browsing' through a large number of channels, or believed that a high volume of channels guaranteed 'something to watch' at all times.

"(A la carte is) all right for people who only watch the same channels but I love the choice, I'm always finding new stuff on new channels"
– Parent, pay TV

"Sometimes there's nothing on 'normal' telly at all. That's when the cable channels come in, you just browse to find out what's on the channels further up the list" – 'Empty nester', pay TV

7.20 Rejectors attached a definite value to the concept of choice, and were prepared to pay to ensure that this choice was preserved; and so the à la carte concept was seen as a negative, rather than a positive development.

"I'd rather pay £40 and have whatever I want, whenever I want, than to pay £30 and only have a limited number of channels" – Parent, pay TV

7.21 Furthermore, since rejectors had generally subscribed to the maximum number of subscription and premium channels, they valued the role of the digital TV provider in 'choosing' the channels in their package, meaning that the subscriber did not have to spend any time thinking about it.

"I'd never be that anal (to select à la carte). In the evening I just want to flick through and see what's on" – Parent, pay TV

7.22 Rejectors strongly believed that the bulk of basic tier channels are 'free', and that removing them would devalue the service.

"You're not paying for the channels you don't watch, you're paying for the channels you do watch" – 'Empty nester', pay TV.

7.23 Others (a minority) claimed that their channel subscription payments included a nominal fee for multiple 'basic tier' channels and that these fees were funding a diverse TV landscape in the UK, and that a move to an à la carte model would have a negative impact on this diversity.

"Removing two hundred channels wouldn't make much difference to the cost, but having all those channels adds to the diversity of the package. I don't watch the God Channel but I'm sure lots of people do" – Bundle subscriber, pay TV

Freeview viewers

7.24 Across all of the Freeview groups, respondents spontaneously commented that an 'à la carte' option was something that was not available in today's pay TV marketplace

– and that the current pay TV model did not reflect how they, individually, would like to consume TV content:

“You can’t cherry-pick what you want, and listening round the table we all want very different things” – Bundle considerer, Freeview

“I’d only pay for TCM. I wouldn’t pay for any of the others but you can’t get TCM on its own” – ‘Empty nester’, Freeview

“Ideally I’d like to select just ten channels and just pay for them – just your ten, no need to trawl through” – Sports fan, Freeview

“What I find annoying with [Brand x] is that you can’t get what you actually want – if you want sport you have to have the rest of the crap with it, and that bumps up the price” – Sports fan, Freeview

- 7.25 The majority of the Freeview sample therefore responded very positively when presented with examples of the à la carte model.

“If they say for X pounds a month you can pick X amount of channels, then that I would look into it, especially as the kids get older, you’re not going to want the same channels”
– Parent, Freeview

- 7.26 As in the pay TV groups, some took the à la carte channel model further and spoke of wanting to buy on a programme (or football match) level:

“For me it’s not so much the channel – I’d like to see 24 but I don’t particularly want to watch the rest of what [Brand x] are offering – that’s the drawback with [Brand x]” – Parent, Freeview

- 7.27 Indeed some believed that this was the natural evolution of the TV market and cited BT Vision as an emerging programme-level VoD service. Others saw Setanta as an emerging example of how the market should evolve:

“All of a sudden Setanta comes along and says £9.99, no contract, watch live football as long as you want it – a great time to come into the market” – Sports fan, Freeview

- 7.28 Top Up TV, on the other hand, although spontaneously mentioned by around a third of the Freeview sample as an alternative TV buying model, was largely rejected on the basis that it still forced the viewer to buy a range of channels of which only a few appealed to them personally.

- 7.29 Among those who claimed they would consider an à la carte channel purchase option, the notional benchmark was Sky’s pricing (as driven by Sky’s marketing, which appeared more top-of-mind than Virgin Media’s), which they perceived to be around £20 for a basic package and £35+ for a package including Sky Sports or Movies.

- 7.30 Therefore, when considering how much they would pay for individual channels or combinations of channels, they weighed up the total monthly package and then priced it at a point lower than the Sky package, to make it feel like good value for money.

- 7.31 Typically, respondents felt that £3 - £4 per month would be acceptable for a single subscription channel and £10 for ten subscription channels – although when they were told of Virgin Media’s basic package cost (£11) they reassessed and lowered their multiple channel price expectation.
- 7.32 Across the à la carte exercises, however, it was clear that Freeview viewers were unwilling to sign up to individually costed channels unless the issue of fixed contracts could be addressed. As discussed earlier, fixed-term contracts represented a major barrier to pay TV among Freeview viewers and the majority felt that a key condition of the à la carte model should be that there would be no long-term contract and that the channels could be bought on a one-off monthly basis.
- “I want flexible payment too – TV isn’t about being tied in for a year at a time”
– ‘Empty nester’, Freeview
- “It’s not just cost, it’s commitment as well, with [Brand x] you’re in for 12 months” – Sports fan, Freeview
- 7.33 As with some pay TV viewers, Freeview viewers felt that this flexibility would allow them to drop out when they wanted, and recognised the fact that they might want to change the channel(s) they had chosen from month to month, according both to their availability to watch and to the programming or sporting season.

Section 8

Intra- and inter- platform competition

- 8.1 Respondents were told that in the à la carte model, channels could be selected and subscribed to through their existing TV provider, or alternatively that consumers might be able to 'shop' for deals with the channels or channel owners themselves (i.e. entering into one or more direct transactions with broadcasters or other organisations.)

Pay TV viewers

- 8.2 Multiple supplier relationships were largely perceived as a 'hassle' but were not rejected outright by those who favoured the à la carte model. Respondents recognised similar models in other markets and some suggested spontaneously that the process could be made more consumer-friendly by the use of internet comparison and payment engines (as seen in other industries) or through a simple on-screen (TV) selection tool.
- 8.3 However, there was no sense that respondents would actively prefer to transact directly with channel-owners, rather than selecting channels through their existing digital TV provider.
- 8.4 Overall, those who favoured the à la carte model believed that empowering viewers to choose specific channels would lead to more flexible contracts, whereby viewers could subscribe to or pay for specific channels (or even specific content) on an ad-hoc basis. This led to some spontaneous demand for pay-per-view as an alternative or a complement to the à la carte subscription model.
- 8.5 The notion of flexible channel subscriptions or payments attracted support in varying degrees from the majority of respondents.

Freeview viewers

- 8.6 Freeview respondents had spontaneously suggested more complex content buying arrangements during the à la carte discussions, so the option of buying content from various suppliers was very well received by them, with most believing this was the way the market was going:

"I'd pay for HBO – they get all the decent American stuff, all the dramas" – Sports fan, Freeview

"Tesco's, Sainsbury's Nectar points for a TV channel – I'd be up for that. It's the way it's going" – 'Empty nester', Freeview

- 8.7 While the idea of multiple (and increasingly eclectic) suppliers was accepted by most and embraced by some, as with pay TV viewers, this was underpinned by the expectation that there would be a simple and user-friendly billing interface, without the need to purchase multiple boxes or additional cables or aerials.

Inter-platform competition

8.8 Respondents were also told that the à la carte model might offer cost savings to consumers, (if existing pay TV customers) but might require consumers to use more than one digital TV set-top box.

8.9 The concept of multiple 'competing' set-top boxes was difficult for respondents to grasp, and few were willing to entertain this idea, even if cost savings could be achieved.

"We've already got far too many remote controls, without having extra boxes as well. No way." – 'Empty nesters', Pay TV

"Healthy competition is good – as long as you don't need ten boxes" - Bundle considerer, Freeview