Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title: FREEVIEW RESPONSE TO OFCOM UHF SPECTRUM CONSULTATION

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Name LIZ REYNOLDS Signed (if hard copy) pp [signature]

FREEVIEW response to:

Ofcom call for inputs on the long term future of UHF spectrum bands IV and V

June 2011

1. Introduction

Freeview is the UK's largest TV platform. In order to secure its long term sustainability in an increasingly competitive market, the platform must be given the opportunity to evolve in line with consumer needs and expectation. Spectrum is fundamental to this evolution. We therefore welcome Ofcom's invitation to respond to its call for input into a framework for future use of UHF spectrum bands IV and V. We firmly believe that the future of the country's most popular TV platform must be safeguarded and look to Ofcom to ensure that the interests of the millions of consumers (well over two thirds of homes in the UK) who have bought into DTT are protected. We wholly support Ofcom's initiative to develop a long term strategic framework for spectrum use and view this consultation as the first part of a longer process.

Our response to this consultation has been put together on the basis of Freeview's role as overall custodians of free digital terrestrial TV and champions of our viewers' interests. It has been prepared by Freeview's management team and although shareholders have been consulted in its preparation, it does not necessarily represent their views.

2. Consumer and citizen demand for services using UHF spectrum

2.1 Demand for DTT - current and future take-up

Freeview is one of the UK's great success stories. Few in or outside the industry could have predicted its phenomenal take-up by consumers at its inception almost nine years ago. Today, three quarters of the country's homes have Freeview. Just over 10m (10.1m) on their main set and a further 8.8m on additional sets. Almost 40% of UK homes rely on Freeview as their primary source of television[1].

Since the launch of Freeview in 2002, receiver equipment sales have reached over 66 million[2]. Consumers are continuing to invest in new equipment - Freeview+, launched at the

[1] All penetration figures are based on Ofcom Digital Progress report, Q1 2011
[2] GfK LekTrak, April 2011

Freeview

end of 2008, is now in over a third of Freeview homes[3] and Freeview HD, introduced only a year ago, has already surpassed the 2 million sales mark for televisions and boxes[4].

Freeview is set to remain the single most popular platform with penetration on main sets forecast at over 40% of all homes in 2020[5]. This will only be possible if Freeview can evolve its proposition in line with the competition and consumer expectation.

2.2 Demand for television - current and future viewing habits

Consumers love television. In recent Ofcom research, almost half of UK adults (44%) cite watching TV as being the medium they would most miss were it not available. Other activities are not nearly as highly valued with only 17% of adults saying they would miss using the internet the most and 13% their mobile phone[6]. However big the excitement about smart phones and tablets, television remains by far the primary source of entertainment and dominant means of consumption.

Not only do consumers enjoy watching television but we are watching more of it than ever before, with average viewing figures reaching an all time high of four hours a day in 2010, 28 hours a week[7].

And it is live television that consumers value. Of those who would miss television the most, 90% would prefer to watch a programme on a TV at the time it is broadcast rather than a recording later. Current forecasts indicate that linear TV will continue to dominate viewing with live programming accounting for just over 80% of total viewing in 2015[8]. Increasingly, consumers are likely to supplement their viewing with catch-up and on-demand services but the majority of their viewing will be live for the foreseeable future.

Furthermore, linear TV will continue to be dominated by broadcast transmissions (DTT, cable and satellite) rather than online simulcast. In 2015 78% of linear TV is forecast to be broadcast and only 2.5% online[9]. DTT is a key platform for delivering broadcast TV to mass audiences.

3 BARB Establishment Survey, Q4 2010
4 GfK LekTrak, April 2011
5 3 Reasons Ltd. Market model Spring 2011
6 Ofcom Media Literacy Study 2010
7 BARB viewing figures 2010
8 Futuresource Consulting Ltd. June 2011
9 Total linear TV in 2015 80.5%. Broadcast 78% and online 2.5%. Futuresource Consulting Ltd. June 2011

Once switchover is complete, Freeview and Freeview HD will be universally available in the UK for the first time with rooftop aerials long established and near-ubiquitous. By contrast, universal availability of high speed broadband remains long in the future and available only via subscription (even if the 2015 2Mbps target is met). Even then a significant minority of homes are unlikely to pay to connect even when a service is available.

Demand will remain high for event television for sport, politics and occasions of national importance like the Royal Wedding. The same will apply for mass-market event programming such as talent shows and reality TV. Content that brings the nation together will by and large always be viewed live and it is Freeview that will give those consumers who are unwilling or unable to pay for subscription TV access to this programming.

3. Technological developments that will influence UHF spectrum usage

In the immediate future, two of the main technological developments that will increase the demand for spectrum on DTT are HD and 3D. Conjoint research undertaken by Freeview at the end of 2010 demonstrates that of all technological attributes offered by a TV provider (HD, 3D, VOD, PVR etc.) HD is the most highly valued by consumers[10]. Both our research and industry intelligence suggest that HD is becoming a 'hygiene factor' for consumers when comparing platforms. Increasingly, consumers will come to expect the main channels to be broadcast in HD and for Freeview homes that means on a free-to-air basis. 3D, on the other hand, is still in its infancy but has support from the consumer electronics industry and as awareness grows and content supply increases, consumer demand could potentially rise quite quickly, particularly for event programming such as the Olympics, which have high viewing figures. To this end, we welcome the BBC's decision to broadcast this year's Wimbledon finals in 3D via its BBC HD channel.

On technologies that may reduce demand we note that MPEG4 and DVB-T2 are playing a crucial role in facilitating the more efficient use of spectrum with the latter delivering a 67% increase in capacity. However it is important to remember that, for many years to come, a large number of homes watching Freeview do not yet have this equipment and safeguarding their access to a high quality viewing experience must remain a high priority.

[10] Mindshare Freeview competitiveness research, November 2010

4. Benefits to citizens and consumers

4.1 DTT delivers significant benefits to citizens and consumers

The DTT platform delivers considerable value to citizens and consumers by providing universal access to PSB and other high quality content on a free-to-air basis via good quality equipment at competitive prices. Those who are unwilling or unable to pay for subscription TV have the opportunity to enjoy the most popular content (Freeview has 18 of the country's 20 most watched channels)[11] and benefit from functionality that is similar to pay operators' (ie. PVRs and HD) thereby addressing the digital divide.

In the last decade, UK citizens have bought into DTT in good faith. The process of digital switchover has required all homes in the country to make the transition to digital television with many consumers having to invest in new receiver equipment and, in some cases, aerials. At the very minimum, consumers will expect continuity of service. To remain compelling and relevant, they will also expect the Freeview service to evolve in line with the competition. We consider it Ofcom's responsibility to ensure that both are possible.

4.2 DTT drives platform competition

The UK's free-to-air platform provides a counter-balance to the pay platforms. It is this competitive tension that drives all the platforms forward. Technological innovation from the pay operators drives developments on the DTT platform and the success of DTT no doubt, in part, drives the pay operators to innovate. It is vital that Freeview retains the ability to compete. As digital switchover draws to a close and pay operators look to Freeview homes for growth, the capacity to evolve becomes even more important.

Healthy levels of competition between the market players result in continually evolving and improving services for consumers. Remove this and DTT churn will increase and pay TV will become more dominant, to the detriment of consumer interests.

4.3 DTT delivers a more dynamic consumer electronics industry

The wider economic benefits created by DTT are clear - over 65 million Freeview devices sold since its launch in 2002 and the introduction of new services such as HD and connected TV stimulating further demand. Great free-to-air content from primarily the public service broadcasters and constant innovation from the consumer electronics manufacturers have been key to driving sales of equipment. Over time more players have entered the market resulting in a wider range of products and price points. This is positive for consumers.

5. Summary

The long term sustainability of the country's major free-to-air platform is of paramount importance - to citizens and consumers, to society and to the wider economy. As demonstrated in our response, the DTT platform is highly valued by UK consumers. Freeview's service of high quality free programming combined with an evolving offer of free digital functionality has been at the heart of the nation's viewing for the last decade and will continue to be central for the next decade and beyond. Whilst other technologies such as internet and mobile are important to consumers, increases in their availability should not be to the detriment of DTT. What is at stake is ensuring that Freeview - and the UK's great tradition of universal access to free-to-air, high quality TV - does not go down as a last anachronistic gasp of late Twentieth Century media policy but is safeguarded as the vibrant and dynamic core of the nation's viewing long into the Twenty First Century. Ofcom's role in ensuring this happens by way of optimal spectrum use will be vital.

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[11] BARB viewing figures, Q1 2011 - All Sets