



## KPMG ANALYSIS

# Digital TV Transition Prompting Education Efforts as Clock Ticks

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With 13 months left before analog TV broadcasts end, the industry is working with the public sector, consumer electronics firms and retailers to make sure more than one-tenth of its audience doesn't vanish after the switch is thrown.

On Feb. 17, 2009, U.S. broadcasters will be required to stop broadcasting analog signals, and will return a large swath of the 700 MHz spectrum (to be reallocated for public safety and commercial wireless services) to the federal government. The Federal Communications Commission is scheduled to begin an auction for wireless services spectrum on Jan. 24.

Broadcasters are concerned because consumers will not be able to receive programming on analog TVs connected to an antenna.

The run-up to digital TV transition comes at a challenging time for U.S. broadcasters. Network TV audiences have been shrinking for years due to competition from cable and satellite services, video games, the Internet, online video, DVDs, video-on-demand and other sources.

"TV networks are in fierce competition for [the] leisure time people spend staring at screens," says Sanjaya Krishna, a partner in KPMG's Information, Communications & Entertainment (ICE) practice and U.S. digital services leader. "Broadcasters recognize that the portion of their audience is not going to be able to receive digital signals, and they're doing a lot to address that."

The digital TV shift will affect consumers with older sets that lack digital tuners -- and according to the Nielsen Company, about 14.3 million U.S. households (about 13 percent of TV households) rely exclusively on over-the-air TV reception. (TV sets connected to cable or satellite TV services won't be affected by the transition.)

Adding to the pressure is the near-certainty that the switchover date will not change. FCC chairman Kevin Martin said at the 2008 International Consumer Electronics Show that postponing the digital TV transition date would be a disservice to the companies placing bids in the 700 MHz auction.

"We're going to be going through an auction where we're requiring people to pay billions of dollars for the use of that spectrum," Martin said. "To then turn around after asking people to do that and say, 'We were just kidding,' couldn't do anything more to [discourage] people to think about how to utilize the spectrum effectively."

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To prevent over-the-air TV viewers from being unable to receive programming, the broadcast industry is launching numerous consumer education efforts to tell viewers about the pending switch to digital broadcasting and to help them prepare for it.

### **A \$200 Million Campaign**

The National Association of Broadcasters, for example, has committed \$200 million in commercial time to run public-service announcements explaining the transition, and has enlisted a group of executives from local TV stations to address community organizations.

"Our goal is to make sure no consumer will lose the reception of free TV due to a lack of information," said Jonathan Collegio, NAB's vice president, digital television transition.

Cable and satellite providers -- who may pick up viewers as a result of the transition -- are also running announcements as part of a marketing effort expected to peak in the third quarter.

"Similar to any successful TV campaign, we're going to build the volume and intensity of the messaging as we get closer to the end of the year," said Rob Stoddard, senior vice president, communications and public affairs for the National Cable & Telecommunications Association.

"The 2008 holiday season is a convenient time to remind people about their options, and if we all work in our respective self-interests, we'll see these [education] efforts ratcheting up," Stoddard said.

Catherine Seidel, head of the FCC's Consumer & Governmental Affairs Bureau, said most of the affected consumers live in rural areas and many are elderly or low-income.

To reach this audience, the FCC is arranging speakers from its district offices to speak at senior centers or with volunteers who serve potentially affected groups. In addition, the commission is working with agencies such as the U.S. Postal Service and the Social Security Administration, as well as state and local government, to make information about the transition available locally.

On the bright side for TV manufacturers and retailers, the shift to digital broadcasting could boost already-strong TV sales, which are being driven by consumer demand for high-definition sets and programming. According to the Consumer Electronics Association, TV and monitor shipments are expected to reach \$29.2 billion in 2008, up 13 percent from 2007's estimated sales of \$26 billion (which was a 9.5 percent increase over 2006 sales of \$24.7 billion).

### **Coupons to Recoup Costs**

To help ease the transition for people who don't want to have to replace their analog television sets, the National Telecommunications & Information Administration is offering coupons worth \$40 good toward the cost of converter boxes that will allow analog TVs to receive digital signals.

Meredith A. Baker, NTIA's acting assistant secretary for communications and information, said more than 15,000 U.S. retail outlets have been certified to offer converter boxes, which will be available in 19 models with prices ranging from \$50 to \$70.

Tony Wilhelm, director of consumer education and public information for NTIA's television converter coupon program, said the agency was encouraged by the early response to the effort. Consumers were able to request coupons from NTIA at the start of the year, and as of Jan. 6, the agency had received 2.2 million coupon requests from more than one million U.S. households.

"Industries see an opportunity in educating their customers, and they're willing to help," said NTIA's Baker. "We're encouraged that we'll reach the people who need to know."

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