



INTERNATIONAL DYNAMICS PTY LTD
Distributor of Loewe products

**Supplementary Submission to the
Productivity Commission Broadcasting Inquiry**

**Digital television broadcasting
from the consumer point of view**

interdyn

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Introduction

This is our third submission to the Productivity Commission enquiry on Broadcasting. I am going over some points in more detail that I have already raised in our previous submissions, because I feel they require more consideration. I am also providing more details on the sources of my information. International Dynamics has been advised that we have the most comprehensive database in Australia on important consumer issues such as pricing.

International Dynamics' vested interest

Mandated HDTV would be the best option for my company, as long as the real facts were made clear to consumers. HDTV television prices would not be in a market area we handle, and sales too low to be a factor. HDTV would make our more expensive televisions look cheap in comparison.

I still strongly support a SDTV system, with optional HDTV broadcasts.

Definitions

Throughout this submission we will make references to Digital TV (DTV), High Definition TV (HDTV) and Standard Definition TV (SDTV).

References to DTV indicate digital television and data broadcasting (whether HDTV or SDTV) instead of the current analogue system.

References to HDTV in Australia are based upon the legislated Australian HDTV format of 1920 pixels x 1080 lines @ 50Hz.

References to SDTV in Australia are based upon the DVB-T platform standard of 720 pixels x 576 lines @ 50Hz.

1 Comparing television formats

A select group of Federal politicians were treated to a demonstration of HDTV pictures in Canberra earlier this year, on enormous screens the likes of which most Australians will never have seen in a home, let alone considered purchasing.

Philips Australia, when arguing that SDTV would be better for all Australians, also gave a demonstration in Canberra of picture quality and other potential SDTV features. Philips used a more normal sized television than seen at the HDTV roadshow. I'm not sure how many people who saw the HDTV show also attended the Philips demonstration, but it highlights a major oversight by the decision-makers of our digital broadcasting future.

There has been no detailed, independently-run, side-by-side objective comparison made between HDTV and SDTV televisions, with the same program material on each. How can we seriously consider adopting a controversial and expensive HDTV system when we haven't evaluated both options in a considered and competent manner?

There needs to be quality independently-run surveys to find out what the Australian public want and are prepared to pay for. After hearing Mr Tony Branigan of F.A.C.T.S. mention on radio that Singapore and Japan were to adopt HDTV, I rang the Television Corporation of Singapore. After enquiries a Mr Than told me that they won't consider adopting HDTV for another three years as their own surveying indicated that less than 1% of viewers would be interested!

Japan has developed a variant of the DVB-T system known as ISDB, but this "system is anticipated to launch in Japan no earlier than 2003."

(source: www.echo.lu/telematics/education/en/news/digitalnewsitem/chapter2.htm)

How many people would be prepared to buy the nonexistent \$5000 HDTV sets mentioned by F.A.C.T.S., even if they did exist? Let's find out, but not by using the surveying techniques of the Wirthlin Survey quoted by F.A.C.T.S.

2 Predictions

After 40 years experience in the Australian consumer electronics industry I have seen many much-promoted "better" new technologies come and go. (Refer to Section 5.1 of our submission of 29 November 1999)

2.1 Death of a "better" technology

We need to repeat to ourselves again and again the statement of the Australian Broadcasting Authority made in 1997:

"There are no reliable pointers as to what might drive consumer take up of digital broadcasting technology. Even major consumer product manufacturers, despite years of consumer research and many successful products, report they have yet to find the key to what guarantees success. As a consequence, many products never go beyond the test market stage. Even some that are given world-wide launch become commercial failures."

A mandated HDTV system risks dying for the same very simple and obvious reasons that other "better" technologies died. Unless there is sufficient acceptance fast enough, advertisers are extremely unlikely to pay for the more expensive advertising and programming, and manufacturers to build a range of unique models for such a tiny market. Why should prices drop significantly when sales don't justify it? I can give a more detailed analysis if requested.

Consumers don't have the patience marketers would like, and electronics manufacturers and advertisers may not be willing to wait out the years of expense and likely losses.

Our previous submission (Section 5.1) referred to many technologies that died. It was not theoretical. There is an assumption among supporters of mandated HDTV that consumer success is a given. A similar assumption was made by the satellite telephone company Iridium who filed for bankruptcy protection in August 1999, with likely losses of around A\$1.5 Billion.

Consumer success may require a leap of imagination, but in the background we need real investigation. The Federal Government should be listening to what consumers want, not what is convenient for various interest groups.

Mr Branigan of F.A.C.T.S. stated of the take-up rate of HDTV *"Whether it sells half a percent or three per cent or whatever of sets in the first three years is immaterial."* Obviously Mr Branigan's concern is not for the long-term success of HDTV, but perhaps only of F.A.C.T.S.' members. The take-up rate of HDTV is crucial to its success.

A principles that has been heeded by all wise generals, as well as successful business people:

"If it doesn't work, what is our exit strategy?"

What is the success we are trying to achieve? What is the range of acceptance we would regard as satisfactory after 1 year, 3 years or 5 years? And if the mandated HDTV system was adopted and failed to meet these figures, what would happen next?

2.2 Previous predictions

A director of the Deutsche Bank once suggested 3 rules for predicting the future:

1. *"Don't put your name to it"*
2. *"Predict so far ahead that even if they remember the prediction, they'll forget who said it"*
3. *"Don't predict the end of the world. There's no money in it".*

I have not followed these rules. In 1998 I made some predictions of my own regarding the proposed implementation of a mandated HDTV system:

- The Australian Digital TV system would not start on time.
- A good range of HDTV sets would not be available.
- The US HDTV system would be a flop.
- The public would consistently be given misleading, wrong information.
- Very few in the media would have any interest in the facts because in comparison to new technology, the facts are relatively boring. The media would with rare exceptions only be interested in simple exciting news, or battles between media moguls.
- There would be little HDTV programming available at start-up.
- The interests of regional Australia would not be heeded.
- The authorities deciding the Digital TV issue would not check into the consumer side of the matter closely.

Each one of the above predictions has either come true already, or has since been admitted as true by those who once said the opposite.

2.3 Millennial predictions

As we approach the new millennium, I have made more predictions for the next few years, based on a mandated HDTV system being implemented in Australia:

1. HDTV will be a flop here as in the USA, in that it will appeal to a tiny section of the market. Analogue televisions will remain the biggest-selling sets in Australia by far.
2. The HDTV price predictions of the Federation of Australian Commercial TV Stations will be recognised as wrong, and even more misleading than they are now.
3. There will be technical problems regarded as serious by those concerned.
4. True HDTV programming will make up only a small part of transmissions.
5. There will be very little choice of equipment meeting the "cinema quality picture with CD quality sound" criteria, even at very high prices.
6. HDTV proponents will have copious excuses and will blame its failure on someone else, unforeseen circumstances, or "new technology".
7. No televisions in normal Australian sizes (60cm–70cm) meeting the "cinema quality picture" standard (1920 pixels x 1080 lines) will be available.
8. There will not be any other countries implementing a mandated HDTV system like Australia has.
9. Some will ask why we didn't research Digital TV thoroughly to find out what Australians really wanted from their television.
10. People will be amazed that no properly-conducted objective and subjective evaluations of the visual differences between HDTV and SDTV were done.
11. People will wonder why Australia didn't wait to learn from the mistakes of others, instead of rushing in to make our own mistakes. With a very good PAL system, why were we in such a hurry?
12. If you ask one of the official HDTV advocates what consumer take-up is expected for HDTV over the next few years, you will not get a clear answer.
13. None of the HDTV advocates will be brave enough to tell you what success for HDTV meant. I think "success" for them meant getting the system adopted, not having consumers use it.

3 Rumours

On Thursday 9th December I was told that one of the commercial television networks would be showing a small HDTV set in Canberra, which would cost "under \$2000." I have no idea whether this report was accurate, and whether the price was the cost to the manufacturer, to the exporter, to the distributor, to the retailer or to the customer. The difference in price from manufacturer to the customer can be a factor of 3-4 times.

My request is that these prices together with product specifications be advised to the Productivity Commission, with the relevant calculations included in clear terms to avoid ambiguity. They can then be posted on the Productivity Commission's website. The same applies to overseas manufacturers who are quoted on pricing of set-top decoders, new decoding chips and so on. Why can't their information be provided to the Productivity Commission directly, so that all can share the knowledge via the website? With all the press coverage of these various figures there should be no problem with "commercial in confidence" requirements.

3.1 Pricing

If prices are to be quoted to the Productivity Commission they should be based on current prices, prices at the time of Digital TV start-up, or if in the future a clear explanation should also be supplied.

Whatever pricing is given should have a clear explanation of the effect on prices to the end-consumer (I have noted great reticence on this point from those announcing low HDTV set or decoder prices).

If anyone wants further explanation on any comments or calculations I make, please feel free to contact me directly. I'll give a clear answer.

If we do not get sufficient take-up in the beginning, hypothetical lower prices years down the track won't make the system a success.

Companies such as Philips or Sony would be pleased to announce price breakthroughs. Let's analyse another often-quoted HDTV set from the USA to show the "low" cost of HDTV for Australians:

The Chinese firm Konka have gained a lot of publicity in the USA this year since announcing low-cost HDTV products, although the availability of their products continues to be pushed back, and the prices keep going up. The prototype of their new model HD3298 received scathing criticisms in September 1999. Based on its current proposed US pricing, a direct Australian equivalent would cost consumers from \$8000-\$10,000. This model (without specifics) has been quoted as part of the price basis for our multi billion dollar decision for mandated HDTV in Australia. This Konka set has still not reached the US market.

3.2 Verification

Is the Digital TV technology to be chosen for Australia to be partly based on unverified statements of unknown firms not subjected to knowledgeable scrutiny?

Why are F.A.C.T.S. so unwilling to provide specific details of the prices and manufacturers they continue to quote? Those of us old enough to remember may call mandated HDTV the "Khemlani" TV system.

Why did the Federal Government-appointed Digital Television Consultative Group contain representatives from the free-to-air and pay TV industries, online, content and equipment manufacturing industries, consumer groups and advertisers, but no retail television industry representatives? I have no query about the groups involved, but note that there are none that have direct knowledge or experience in television marketing and selling, particularly in the higher-priced area. This seems similar to building a new international airport without consulting the airlines. (See Attachment 3.2.1)

Rather than obscure or unnamed experts, I have previously suggested that the media contact the following overseas independent experts and organisations amongst others for accurate information on Digital TV and mandated HDTV issues:

- Mark Schubert, Strategy Analytics, USA, www.strategyanalytics.com
(See Attachment 3.2.2)
- Mark Aitken, Sinclair Broadcasting, USA, www.web-star.com
(See Attachment 3.2.3)
- Mark Schubin (ATSC working group member), USA, www.digitaltelevision.com
- DVB (Digital Video Broadcasting), official DVB website, www.dvb.org
- CEMA (Consumer Electronics Manufacturers Association), USA, www.dtvweb.org
(See Attachment 3.2.4)
- Dixons (TV retailer), UK, www.dixons.co.uk
(See Attachment 3.2.5)

I can find no experts who support mandated HDTV. If any exist, which I very much doubt, can they be named?

3.3 Muddying the waters

Most ordinary Australians with whom I have discussed Digital TV think that Digital TV and HDTV are synonymous. There is a mistaken perception that all digital televisions will offer cinema quality pictures with CD quality sound.

The lack of comprehensive and objective consumer information on Digital TV made available to the public from the federal government or media organisations has created tremendous confusion. An example, which caused many worried or

panicked calls to us from all over Australia was the GTV-9 promo for its "60 Minutes" program. The information it contained was sensationalist and untrue. The subsequent one-sided "60 Minutes" Digital TV story caused more calls.

F.A.C.T.S., the major lobbying group for HDTV in Australia, has been described by one of its own members (Kerry Stokes of the Seven Network) as "*no longer representative of the industry in regard to the planned introduction of digital television*", and that they had been "*misleading and inaccurate*" in the Digital TV issue. Dazzling TV commercials on HDTV do not inform viewers that the Digital TV legislation is in fact under review, and certainly give no indication of the true pricing we can expect for HDTV sets.

All the major media organisations in Australia have a potential or current interest in the Digital TV issue, which to an extent will determine the slant of media coverage on this issue. Media mogul issues remain the mainstay of press and television coverage. Investigation by the media about pricing and other "non-mogul" interests have been extraordinarily limited. On occasions when I contacted journalists to point out egregious errors ("\$500 Digital TVs") there was generally no interest or correction. To investigate Digital TV issues from abroad properly, all that is necessary is a telephone and a fax machine. The Internet speeds this up, but there is certainly no need to fly to Europe or the USA, as some have done.

If we look to the US experience, the best example we have on the likely success or failure of an HDTV system, how can we ignore the high pricing and low uptake figures that Australian HDTV proponents never mention?

3.4 Mobile phones

HDTV proponents who argue that prices will fall sharply often bring up mobile phones as an example. Mobiles are now so cheap they are even sometimes given away. The mobile phone market is very different to the television market however, for the following reasons:

- Mobile phones performed a unique service. There was no alternative.
- Mobile phone sales world-wide are estimated at around 300,000,000 units. "Cinema quality" HDTV sets are counted in their thousands.
- Mobile phones are "given" away as part of long-term contracts. Will TV stations give away HDTV sets so viewers watch them exclusively?

We must always remember that prices don't drop without good reasons.

4 More on consumer issues

Irrespective of the final Digital TV system selected the public need straightforward realistic information on what to expect, which they have not received so far. No wonder they are so confused. Normal people do not read material like a lawyer would, and should not have to doubt all the information seen on television or on government websites. Some examples of misleading or inaccurate information apart from F.A.C.T.S., TV stations or the media follow:

FAQ – aba.gov.au (Australian Broadcasting Authority website)

- *“cinema quality programs”*
- *“conventionally sized sets are likely to approach the prices of current sets”*
(Most people reading this will take it to mean a \$699 TV will cost under \$1000 when it Digital TV starts on 1/1/2001, and will get cinema quality with surround sound.)

Media Release - A.C.C.C. (Australian Competition and Consumer Commission) 17 December 1998

- *“... Australian manufacturers have not yet started building prototype sets”*
(Who are these Australian manufacturers?)
- *“... about 80 per cent of Australians will potentially have access to digital television transmission on 1 January 2001”* (This is now incorrect, so why hasn't it been changed? I can't locate where the ACCC advise the current situation in a media release.

On television and radio government spokespeople are much more enthusiastic. I have heard statements that made me cringe.

4.1 What should we do now?

- Step 1) Tell the public what it is going to cost them when it starts, and point out the advantages and possible problems without exaggeration or hyperbole. If there are any changes to plans, tell them. Have a government brochure on the subject.
- Step 2) Do a comprehensive survey to assess what Australians want from television.
- Step 3) Design a Digital TV system that fits in with these requirements.

Television is important. Why are our decision-makers so careless about something that affects nearly all Australians? Over 2,000,000 Australians have purchased televisions since Digital TV became an issue. A significant number have made inappropriate decisions for their needs based on the information provided. Let's take care of the interests of the next 2,000,000.