

**Summary of Testimony, Michael Vitelli, Senior Vice President, Best Buy Co., Inc.
Status of the Digital Television Transition, March 28, 2007**

Best Buy is a leading member of the Consumer Electronics Retailers Coalition (“CERC”). We look forward to working with this Subcommittee, its leadership, and any interested Member, to help make February 17 and 18, 2009, days of celebration.

Public Education. 77% of all DTV shoppers visit Best Buy before they buy a TV. The average shopper visits Best Buy *four or five times* before buying a TV, and most do prior on-line research. The new option of a Coupon Eligible Converter Box (“CECB”) will be attractive and helpful for many customers who have TVs that rely on antennas for TV signals. Buying a TV already often requires a complex dialog with our customers on a number of subjects, only some of which are related to the DTV transition. Through this dialog we learn a particular customer’s needs and wants. For many consumers, a CECB will be a necessary or attractive option. We agree with Secretary Kneuer that these subsidized products should be viewed as one of many options of which consumers need to be aware.

CERC worked with the FCC and CEA to develop, publicize and distribute a “DTV Tip Sheet” with core information about digital television products and services. Since June of 2005, CERC has published and continually updated a consumer guide, now entitled “**What You Need To Know About The February 17, 2009 ‘DTV Transition’ – Questions & Answers.**” CERC also co-founded the DTV Transition Coalition. The Coalition’s web site, www.dtvtransition.org, serves as a clearinghouse for information and participation. We are well aware that the Internet is an important tool, *but cannot be the only tool*, to reach those who are most likely to be interested in, and who need to be aware of, the CECB program.

Public Education And Converter Boxes. We see the objective of the CECB program as adding to the number of affordable choices consumers will have, and providing a most affordable choice for many households. Consumers must first understand that the transition is primarily about broadcast TV, via antenna, before deciding how it will affect their decisions. Similarly, they need to know *why* the transition is occurring, and that HDTV is an opportunity, not a mandate.

NTIA’s “CECB” Program. CERC commented to NTIA that implementing a coupon subsidy program will likely require novel and potentially risky changes to retailers’ electronic point of sale and payment systems – particularly if the system chosen by NTIA’s program vendor is to scale to include specialist, general, large, small, and online retailers while resisting waste, fraud, and abuse. While NTIA’s regulations have shown keen attention to retailers’ information and concerns, NTIA’s choice of a program operator, and this vendor’s performance, will also be critical. No business or government entity can risk failure of an essential electronic system, so careful evaluation and testing, by each affected retailer, of any new electronic database, point of sale, and inventory software and system is likely to be necessary. At present it would seem risky to consumers as well as businesses for such implementation and testing to be tried during the 2007 holiday sales season. However, CERC agrees with NTIA’s plan to distribute coupons as soon in 2008 as sufficient CECBs are in distribution, and sufficient numbers of retailers have been qualified to come “on line” with the new electronic system.

Testimony of
Michael Vitelli
Senior Vice President and General Manager
Home Solutions Operating Group
Best Buy Co., Inc.

Before the
Subcommittee on Telecommunications and the Internet
House Energy and Commerce Committee

Status of the Digital Television Transition

March 28, 2007

I am pleased to be here today on behalf of Best Buy and the Consumer Electronics Retailers Coalition (“CERC”). Best Buy is the country’s leading consumer electronics retailer with 832 stores in 49 states and approximately 130,000 employees. The company started in 1966 with a single store in St. Paul, Minnesota and we continue to operate our headquarters in the Twin Cities. In addition to our product and service offerings, Best Buy is also known for our ongoing commitment to our communities, providing volunteer support, financial resources and leadership on many issues, but especially on the use of innovative technology to improve the learning opportunities for kids.

Best Buy is a leading member of the Consumer Electronics Retailers Coalition (“CERC”), which in addition to ourselves includes consumer electronics specialist retailers Circuit City and RadioShack, and general retailers Amazon.com, Sears, Target and Wal-Mart, as well as the three major retail associations – the North American Retail Dealers Association (NARDA), the National Retail Federation (NRF), and the Retail Industry Leaders Association (RILA).

Consumer electronics retailers have been involved in the transition to digital techniques since 1985, when we helped introduce the digital audio Compact Disc. More than two decades later, we are nearing the completion of this transition. In the last Congress, CERC members RadioShack and Circuit City testified before this Subcommittee on separate occasions. Each time we said: “The single most effective thing you can do to complete this transition is to set a clear, definite, unconditional date for the cessation of analog broadcasts.” This Committee took the initiative in enacting the legislation that did this. Since then, CERC and its members have worked proactively with the FCC and the NTIA. CERC has been actively involved in sales associate and consumer education for many years. In anticipation of a need to build a broad-based public and private sector educational outreach on the DTV transition, CERC joined with the Association for Public Television Stations (APTS), the National Association of Broadcasters (NAB), and the Consumer Electronics Association (CEA) in founding the DTV Transition Coalition to assure that February 17, 2009 will be a day for celebration rather than consternation.¹

We look forward, now, to working with this Subcommittee, its leadership, and any interested Member, to help make this transition an unqualified success for our customers and your constituents.

Public Education

Our own Best Buy research shows that 77% of all digital television (DTV) shoppers visit Best Buy before they buy a TV. They might not all buy at Best Buy, but when they visit Best Buy we’ve got a chance to help people to understand the issues that

¹ www.DTVtransition.org

surround the DTV transition. Television shoppers are increasingly studious and deliberate -- the average shopper visits Best Buy (in addition to any other store they may check out) *four or five times* before buying a TV. Almost 80% of our shoppers have researched their options online² before they buy a TV from someone. The new option of a Coupon Eligible Converter Box (“CECB”) will be attractive and helpful for many customers who have TVs that rely on antennas for TV signals. Many customers will not need any converter box today and might not choose this solution, but each customer helps us understand how to discuss the DTV transition with any and all of our other customers.

As members of CERC discussed with this Subcommittee in the last Congress, the purchase of a TV already often requires a complex dialog with our customers. The subjects now include:

- **Transmission and Display formats** – High Definition (now available in several flavors); Enhanced Definition; Standard Definition.
- **Program and screen formats** – Widescreen aspect ratio (16x9) or “traditional” aspect ratio (4x3).
- **Signal acquisition** – Antenna; cable; satellite; and now “wireless,” and “broadband” variations.
- **Tuning, authorization, and payment** – In the receiver; in a “set-top box” or PVR or other device; or through a “CableCARD”-enabled set that allows purchase of premium channels without a set-top box.
- **Types of displays** – “Traditional” and “slim” cathode ray tube (direct view and rear-projection); LCD panel; plasma panel; LCD rear-projection; DLP rear-projection; LCOS rear-projection; LCD and DLP front projection.
- **Types of storage devices** – VCRs; DVRs (removable media); PVRs (non-removable media) and variations (PCs, game players, hand-held devices, displays with integrated or removable storage).

² Many, of course, have visited www.Bestbuy.com, but they also check out our competitors and independent sources such as http://reviews.cnet.com/Televisions/2001-6475_7-0.html?tag=cnetfd.dir.

- **Types of interfaces between devices** – composite analog; component analog (SD); component analog (HD); DVI/HDMI; IEEE1394; USB; wireless variations; and associated forms of copy protection which triggers only for certain programming.

Our approach is, through this dialog and by encouraging consumer research – via the Internet, our website and other resources – to learn a particular customer’s needs and wants, room size and space, viewing and recording practices, potential for a home network, and budget. The sales associate then identifies the combination of display formats and features, signal acquisition choices, and home network options that give the consumer what he or she needs to get the best home entertainment experience. Today, unless the consumer has already firmly decided upon a specific purchase – and with the aid of Internet research, many have decided – retailers can not serve the consumer by offering products on an isolated basis. We must determine how all of the devices will fit together. Our customers are doing this also – this helps explain why they do so much shopping and research before settling on a purchase.

Public Education About The Transition

It was Albert Einstein who said, “You do not really understand something unless you can explain it to your grandmother.” We and our retail competitors have been obliged continually to update our consumer information, product displays, advertising, and websites, to help people understand their choices. As an industry, we work through CERC on a broader scale. Several years ago, CERC worked with the FCC and CEA to develop, publicize and distribute a “DTV Tip Sheet” with core information about digital television products and services. Best Buy, Circuit City, and RadioShack distributed hundreds of thousands of copies to our stores, physically and electronically, and it was

published twice in NARDA's retail industry magazine. It remains on the CERC website today.

In June of 2005, CERC published a 3-page consumer guide, **“What You Need To Know About The ‘DTV Transition’ – A Dozen Questions & Answers.”**³ After the “hard date” legislation passed, CERC updated the Guide and changed the title to, **“What You Need To Know About The February 17, 2009 ‘DTV Transition’ – Questions & Answers.”**⁴ Now CERC is revising it again in light of the NTIA converter box regulations, and it will be revised again when NTIA chooses a vendor.

Last week before this Subcommittee, Asst. Secretary Kneuer stressed NTIA's intention to “leverage” its own public education resources by working with the private sector. In anticipation of this need, CERC joined with APTS, NAB, and CEA in founding the DTV Transition Coalition. The Steering Committee of the Coalition also includes the National Cable and Telecommunications Association (NCTA) and the Leadership Conference on Civil Rights (LCCR). The full Coalition's membership covers a wide spectrum of broadcasters, manufacturers, retailers and consumer groups, as well as participation by FCC and NTIA staff, to assure that no American household is without the information it needs to handle the transition successfully. The Coalition's web site, www.dtvtransition.org, will serve as a clearinghouse for information and participation. It

³ In CERC's press release issued with the Guide we said: “[W]e thought we should assemble for consumers what is now known about the prospects for analog TV broadcasts to be shut off, and what this may mean for them. We've tried to put together answers to the most basic questions, but not to mislead consumers by omitting future options or considerations. At the moment there's no way to do this in less than three pages of print. We'd prefer to have a shorter piece with fewer variables, but we don't want to tell customers anything that's inaccurate or incomplete.” CERC said it has no objection to other entities reproducing or distributing its Guide, and invited any reader to propose revisions to enhance accuracy or to make it more concise. Both of these things have since occurred and have resulted in updates and wider distribution.

⁴ The Guide is available on the front page of the CERC web site, www.ceretailers.org; it is provided for the record as an Appendix to this submission.

links to CERC's Guide, and other useful information from various sources. I want to emphasize, however, that Best Buy, the other members of CERC, and the Transition Coalition are well aware of the fact pointed out by several Members of this Subcommittee last week, and acknowledged by Secretary Kneuer – the Internet is an important tool, *but cannot be the only tool*, to reach those who are most likely to be interested in, and who need to be aware of, the CECB program.

Public Education And Converter Boxes

Though many of Best Buy's customers will complete their transition by means other than coupon-eligible converter boxes, we know that the success of the transition will be judged by the experience of those who *do* need or want a converter box. As survivors in one of the planet's most competitive markets, we don't see the objective of the CECB program as distributing as much government money as possible. Rather, we see its objective as adding to the number of affordable choices consumers will have, and providing a most affordable choice for many households.

As the old saying⁵ goes, the problem with most people isn't what they don't know, it's that "they know so much that ain't so." Most of our customers are cable or satellite subscribers. Their immediate reaction when they hear about the Digital Transition is: "*How will this affect my cable TV?*" So initially, we need to help these people to understand that this transition is *not* primarily about their present cable and satellite services. If these services are fully meeting their needs, they are unlikely to need a CECB product.⁶ The fewer people who run out and get a subsidized box that they

⁵ First credited to 19th century humorist Josh Billings.

⁶ As our Guide explains, however, there may be some additional broadcast services of interest that they would need an antenna and a DTV receiver to capture.

don't need, and aren't going to use, the more coupons there will be for those who truly *do* need and want to acquire a converter box.

Second, many people are assuming that this transition is *only* about moving from standard definition television to high definition television (HDTV). So their first reaction may be negative – that the government is forcing them to give up something that they find satisfactory. This also “ain't so.” Therefore, Best Buy, CERC and the DTV Transition Coalition are working to help people understand *why* the transition is occurring, and that its objective is to enhance, not restrict, consumer choice. (Of course, we at Best Buy believe that HDTV television receivers have become a terrific value, and we encourage our customers to consider this option. As their prices get closer and closer to those of conventional displays, customers are choosing HDTV receivers at an unprecedented rate.)

No single industry can make this message credible to a public that is used to being skeptical. Each of us here today has an important role. Best Buy and the other members of CERC are working with the members of the DTV Transition Coalition to assure that our messages are accurate, consistent, and understandable.

NTIA's "CECB" Program

On behalf of consumer electronics specialty and general retailers, CERC has been aggressive in communicating its views to the NTIA, on whose rules and choice of a vendor the success of the “CECB” program will depend. In its Comments⁷ on the initial NTIA Notice of Proposed Rulemaking, CERC advised –

⁷ CERC's initial Comments and others received by NTIA can be found at -- http://www.ntia.doc.gov/otiahome/dtv/comments/dtvcomments_092906.html.

Despite the comprehensive commercial experience of CERC's members with every current means of merchandizing and selling consumer electronics, neither they nor anyone else can claim any experience, on either the product or fulfillment sides, with the specific product inventory and Point of Sale requirements that appear to be posed by a program such as the one outlined by the Congress and now being planned by the NTIA. ***

In these Comments, CERC hopes to apply its members' experience and expertise so as to assist NTIA in formulating a program with long-term public benefits and only short-term costs to those who participate. To achieve this result, we advise the NTIA to make maximum use of the electronic commercial channels and techniques that today are open to virtually all retailers who stock and sell consumer electronics products through storefronts or on-line. In addition to maximizing efficiency (hence, we would hope, participation⁸), an approach that integrates these tools will also serve as a reasonable and non-discriminatory qualification metric for establishing the qualifications to participate of those merchants who are interested.

After NTIA issued its regulations, CERC published a press release expressing its appreciation to NTIA for giving constructive attention to our concerns and recommendations. We said –

NTIA's regulations show keen attention to concerns and comments expressed by CERC, its members, and others who want the DTV Transition to succeed. The next step is for NTIA to choose a program vendor, who will make additional choices of crucial concern to retailers who would like to participate. CERC looks forward to continuing to work with NTIA, the FCC, and other members of the DTV Transition Coalition to stay on track toward a transition that serves the public interest as the Congress intended.

Our focus is now on the selection of a program vendor because, as CERC noted in its Comments, retail implementation of the CEBC program will require that a national database and network be established to accept electronically coded cards as partial payment, exclusively for a single product, out of thousands or hundreds of thousands of

⁸ Elsewhere in the Comments, CERC noted that as an association of competitors it is not in a position to address whether any commercial entity will actually enter a market for any given product, including CEBCs.

products that a retailer may carry. The system must electronically match the information about the coupon and its expiration date with information accurately identifying the qualifying CECB unit sold, and set in process an electronic payment to the retailer according to customary business practice. It must be viable and secure for on-line as well as “brick and mortar” retailers, and must be resistant to waste, fraud, and abuse. The electronic systems now in use by consumer electronics retailers and national electronic payment handlers have many, but not all, of these attributes. Hence, for any specialist consumer electronics retailer to implement this program, it appears that some changes will have to be made to its own hardware or software Point of Sale (“POS”) electronic systems (or both), which nowadays may be broad in scale and highly sophisticated and complex.

For large and small retailers alike, aside from the expense, implementing any change in your POS or payment system is daunting. A single “bug” can bring the entire system down. In the case of a large retailer like us, this can mean severe inconvenience and delay for our customers. In the case of a small or regional retailer, such as many of NARDA’s members, it can literally put them out of business. Any delay in receiving payments, beyond normal commercial practice, can do so as well. We’ve communicated these concerns to NTIA, and NTIA recognized them explicitly in their regulations and their “RFP” to potential system vendors. The question now is whether NTIA’s vendor will have a solution, and whether the solution, if effective and efficient, will “scale” so as to invite participation from a suitably broad scope of stores and on-line retailers, as Congress and the NTIA intend.

CERC believes NTIA has taken the correct approach in seeking a single program vendor to be held responsible for planning and implementation of the entire program, and in intending to make its selection based on quality rather than, necessarily, price. CERC has heard from a number of potential vendors who have expressed understanding of the challenge, and optimism that they know how to meet it. Therefore, we are optimistic that a broad scope of retailers will be offered a solution that does not overly tax their electronic systems or place them at risk, and can be implemented accurately and reliably by their sales associates and other personnel. Nevertheless, I am sure the Subcommittee will understand that any entity that depends on an electronic system – whether it is for ringing up sales, tallying votes, or some other constructive purpose – will wish to consider, examine, and test very, very thoroughly any potential change to that system.

I think the Subcommittee will also appreciate that, for the welfare of your constituents as well as their local economies, the time for retailers to make changes to their systems generally ought *not* to be the year-end holiday selling season. For us in the consumer electronics business, in 2006 the “Christmas rush” started well before Thanksgiving; our planning and preparations for it started well before that. Therefore, CERC also told NTIA it should assume that any system involving POS or other system changes, if ready in the Fall of 2007, would be unlikely to be implemented until the first quarter of 2008. NTIA has recognized this in its regulations and its RFP, and has given retailers an adequate time window, starting in mid-2007, to decide whether to seek qualification in the CECB program. However, as we have stressed throughout, CERC is an association of fierce competitors. If any retailer is able to be “up and running” early in 2008, more power to them. NTIA has said it is leaving itself, and its vendor, sufficient

flexibility to begin sending out coupons in January '08 if there are sufficient numbers of CECBs in distribution and sufficient retailers qualified to accept coupons for them. We agree with this intention as well.

Education About The CECB Program

Secretary Kneuer has stressed, correctly from our point of view, that acquisition of a subsidized converter box is *one* of a household's options in responding to the digital transition. We and our competitors are in business to offer consumers as many options as possible, and to help them understand and choose what seems best. At this stage, let me just make a few observations that I know other members of CERC share:

- For consumers who already have TVs that receive signals from an antenna but lack digital tuners, adding a "CECB" is an attractive option. As has been demonstrated many times, digital reception generally provides a superior standard definition picture, as well as potentially dozens of additional local broadcast channels that might not be carried by cable or satellite operators.
- Consumers also have the option of upgrading their systems by purchasing an HDTV or (other) DTV receiver, and relegating their existing "analog" sets to use with non-antenna sources such as cable (which we expect will continue to provide analog signal feeds, either directly or via converters designed for their own systems), satellite, DVD players, and game consoles. As HDTV and standard definition DTV receivers become better and better values, many customers are making this choice anyway, and we expect them to continue to do so. *These choices also represent successes in the transition, and ones that do not drain any funds from the subsidy pool.*
- Therefore, successful education about the DTV transition will and must tout the benefits of the CECB program (whether or not the particular retailer participates), but must also put this program in the larger context –
 - *why* it is occurring – to enhance our national emergency response capabilities, *as well* as to offer consumers higher quality and more choices by replacing a successful but technologically ancient broadcasting system; and
 - *what* is being offered – this transition is all about offering new choices, not being arbitrary about old ones.

At last week's hearing, several Members of this Subcommittee asked Secretary Kneuer to plan to work with them to help their constituents understand and anticipate this change. On behalf of CERC and its other members, as well as Best Buy, I expect and hope that the same offer will be made to us. We want to work with you, as well as with the FCC, the NTIA, and the other members of the DTV Transition Coalition, to make February 17 and 18, 2009, days that pass only with appropriate recognition for all we will have accomplished by working together.

On behalf of Best Buy and CERC and its members, thank you again for having invited me to meet with you today.

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