When Will HDTV Take Root in Europe?

The arrival of high-def DVD recorders and programming may herald a new era for TV in Europe as consumers get to see what the buzz is about.

First it was going to be the 2004 Summer Olympics in Athens. Then, hopes shifted to this summer's World Cup soccer championship. Over and over, broadcasters, producers, and TV makers have banked on a blockbuster sports event to kickstart European interest in high-definition TV, which offers sharply improved picture and sound quality. But so far, they have been disappointed.

Despite years of marketing efforts, only about 800,000 European households now receive HD programming, and only about 2 million homes own HD-ready TVs, compared with 11 million in Japan and 19 million in the U.S., according to German researcher GfK.

Now, backers of the state-of-the-art TV technology are shifting their hopes for a European HDTV breakthrough to Christmas, 2006. This time it may not be wishful thinking. The reason: In October, the first high-def DVD recorders will hit the market in Europe—and for many consumers, the crystal-clear picture quality...
will provide their first real demonstration of HD's advantage.

ON THE AIR. Manufacturers such as Sharp, Samsung, and Philips (PHG) think the halo effect will spur TV sales. "I expect the big boom in Europe will be at Christmas," says Hans Kleis, the CEO of Sharp Electronics Europe. It also should help that more plentiful high-def set-top boxes from makers such as Philips, Alcatel (ALA), Sagem, and Thomson (TMS) will hit the market starting in October.

Producers and broadcasters also are finally getting into the act. Europe had no HD programming until 2004, when Belgium-based pan-European satellite channel Europe1080 began sending out five hours a day of music, sports, and films. France's CanalSat (V) and Germany's Premiere only began offering HD broadcasts at the end of 2005, while Britain's BSkyB (NWS) didn't switch on its service until June of this year.

Now, BSkyB offers eight channels in HD, including BBC, SkySports, Arts World, and National Geographic. Germany and France have fewer HD channels, but more are in the offing. All told, by 2011, predicts Benoit Dennis, an analyst with researcher Frost & Sullivan, there could be up to 70 HDTV broadcast channels in Europe.

WHO NEEDS IT? To spur the intertwined uptake of HD gear and programming, TV makers and broadcasters are spending heavily on marketing. Samsung shelled out more than $7.4 million on a World Cup campaign to promote TVs in general—and in particular, flat-screen, large-screen, and HD-ready models. "The big push is still ongoing," says Andy Griffiths, director of consumer electronics for Samsung U.K. "This is the year for HDTV."

Why has it taken until now? In part, it was a chicken-and-egg problem: A lack of high-definition TV programs dampened demand for HD-quality receivers and set-top boxes, but the lack of installed HD sets lowered the incentive to produce more programs. Indeed, most Europeans still have never seen high-def, which has been confined largely to premium sporting events. This has fueled an "I-don't-want-this factor," says consumer electronics analyst Paul Jackson with Forrester Research in Amsterdam.

Europe is also a highly fragmented, multilingual TV market, so producers don't enjoy the economies of scale they do in the U.S. and Japan. And the fierce competition between cable and satellite that spurred aggressive rollout of HD programming in the U.S. is largely absent on the Continent.

"FUTURE PROOF". On top of that, there's enormous confusion in the market. In many countries, regulators and consumers are more focused on the EU-mandated switch from analog to digital over-the-air ("terrestrial") TV services, such as Freeview in Britain and TNT in France (see BusinessWeek.com, 4/11/05, "The TV Revolution Sweeping Europe").

These services broadcast in conventional resolution, not HD. Likewise, the shift from cathode-ray tube TVs to flat-panel LCD and plasma displays is overshadowing the transition to high-def models.

The good news, though, is that a growing number of TV shoppers are "future-proofing" their purchases by buying "HD-ready" models, even if they don't currently receive HD programming. Nearly half of all flat-panel TVs now sold in Europe are HD-ready, which means they can display conventional broadcasts as well as high-def signals decoded through a set-top box.

EQUIPPED TO GO. Samsung says its ratio is even higher—nearly three-quarters of its flat-panel sales are HD-ready. And Sharp says that in the future it will bring only HD-ready TVs to market. GfK predicts that by 2010, 30% of European households will own HD-ready TVs, a big jump from today, but still less than the expected 59% penetration in the U.S. and 66% in Japan by the same time.
A growing number of programmers also are investing in HD. The British Broadcasting Corporation (BBC)—one of the only European public broadcasters to embrace HDTV—has started a year-long trial of high definition, and expects to film all its programs in HD by 2012. Other companies are investing in more HD cameras and sound equipment.

For many broadcasters though, HD still remains unproven. Nate Elliot, an analyst with London-based consumer electronics consultancy Jupiter Research contends that "not one European content provider has seen a huge customer uptake" of HD services. "The numbers tend to be in the tens of thousands, not hundreds of thousands."

**KEY TO SUCCESS.** That could start to change as growing sales of HD-ready sets and increased programming choices feed each other. Subscription-based providers such as Premiere and BSkyB are already enjoying new revenue streams from HD, which customers pay a premium to receive. Their costs are also starting to fall, as more customers buy set-top boxes, rather than receiving subsidized units from broadcasters.

Still, the real key to HDTV's future lies with programming. The BBC is spreading the cost of creating HDTV material through joint ventures, such as a partnership with HBO to produce the series *Rome*. And HDTV backers are once again pinning their hopes on sporting events, saying that the 2008 Summer Olympics in Beijing and 2008 European Soccer Championship should give the market a big boost.

Given the disappointing sales results from the 2006 World Cup, that could be a field of dreams strategy. But if current trends hold, chances are a whole lot better that by the summer of 2008, HDTV will finally have taken root in Europe.

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