

The policy alternatives of digitizing cable TV

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Policy Brief

Problem

As the triple play increasingly becomes popular nowadays, telecommunication firms have shifted to IP networking so as to accommodate this demand. However, their counterpart, the media industry, seems dwindling behind the wave of digitization. For instance, less than a quarter of the pay-TV subscribers receive their services digitally in the Asia Pacific region. A question follows that what are the factors producing digital pay-TV services and how to promote the digitization.

Agenda setting

Unlike other pay-TV services, cable TV has already an established base of analog users. The question as of how is the users' willingness to adopt digital cable TV becomes determinedly crucial when studying digital transformation of pay-TV services. We observe the 16 Asia-Pacific countries and find that Taiwan and Korea suffer from sluggish digital transformation although they both enjoy exceedingly high penetration rate of analog cable TV services. To contrast, Thailand has fully migrated to digital transmission even if its cable TV penetration only reaches 3 percent. It seems that digital transformation of cable TV is path dependent on its analog status quo.

On the other hand, we also observe that the cable TV in Hong Kong is racing to digital integrated services when the number of the direct broadcasting satellite (DBS) subscribers there is surging. Therefore, we examine the effects that the accessibilities of analog cable TV and substitute services (DBS and IPTV) have on cable TV's digital transformation. In addition, pay-TV services are highly regulated in the most Asia-Pacific countries. We would like also to assume a historical correlation between the time periods a country develops cable TV service and the extent it is digitized.

Hypotheses & Evaluation

We assume the extent to which cable TV is digitized depends on

This paper pinpoints the underpinnings of digitizing the cable TV network by a longitudinal econometric analysis on the 16 countries in the Asia Pacific region. The three strategies are: 1). to digitize the cable service as soon as it is not yet universally accessible; 2). to develop the substitute services such as DBS or IPTV; 3). to offer the digital service at a

cheaper rate to compensate the switching costs borne to customers in digital migration.

The percentage of the cable service digitized will drop by 0.8 percent as the cable service becomes more accessible by 1 percent. That is, the digitized ration of cable service will increase by about 0.6 percent when the DBS penetration rate rises by 1 percent.

In other words, the cable service will be less digitized by 0.2 percent as the switching costs borne to the subscribers increase by one more US dollar. It seemingly indicates that promulgation of rate regulation and restriction of tiered services will not influence the path of cable TV digitization.

Policy suggestions

This paper studies the Asian four tigers' cases and corroborates the above econometric results.

- 1). To develop the substitute services
- 2). Delayed cable TV and switch to state-of-art technologies (leap-frog effect)
- 3). Deregulate the tariffs (subsidize) to cut

It concludes that, for the countries whose cable service is highly penetrable and whose substitute service hardly developed, government should liberalize rate regulation in order to allow for the operator flexibility in charging the cable service as well as the digitized version. In this sense, the operator is able to subsidize the customers to switch to the digitized service.