

Statement of
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Before the
Subcommittee on Communications, Technology and the Internet
House Energy and Commerce Committee

Status of the Digital Television Transition

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Chairman Boucher and Ranking Member Stearns, thank you for inviting me to appear before your Subcommittee on behalf of Wal-Mart Stores, Inc. and the Consumer Electronics Retailers Coalition (CERC). CERC is an organization of our nation's leading general and specialist consumer electronics retailers. Wal-Mart is longstanding member of CERC.

Wal-Mart is based in Bentonville, Arkansas and employs approximately 1.4 million Associates from all 50 states and approximately 2 million Associates worldwide. Our company is committed to saving people money so they can live better, and each week over 100 million customers visit Wal-Mart stores with the expectation of saving money for their life's needs. In the areas where Wal-Mart operates stores, clubs, and distribution centers, the company has worked proactively as a partner in the community on a number of consumer issues including the transition to digital television.

I have worked in and managed several product areas at Wal-Mart. I joined Wal-Mart initially as a buyer, became a Divisional Merchandise Manager, took on responsibilities for toys, electronics, video games, computers, and movies, and currently am General Manager responsible for all entertainment products.

I would like to speak today first as a member of the retail industry, discussing how CERC has negotiated the transition and collaborated with NTIA and the Federal Communications Commission to identify the role of, and challenges to, retailers. I then would

like to discuss Wal-Mart's own experiences in addressing the needs of our customers throughout the DTV transition and as we move ahead toward a complete transition in June.

Retailers have played an important and positive role in the DTV transition. Well before the 2006 transition legislation, CERC was working with the Federal Communications Commission (FCC) on consumer education and outreach, and partnered with the Commission and with Consumer Electronics Association (CEA) on branding and distributing the first DTV "Tip Sheet." After the legislation passed that established that converter boxes would be made available via retailers, CERC began meeting with National Telecommunications and Information Administration (NTIA) to consider ways to get converter boxes into the hands of as many people as would need them. As the converter box coupon program developed, retailers began working with potential contractors to help develop a program that would work at retail and be as easy as possible for the consumer. Ultimately, this necessitated that retailers, including Wal-Mart, invest in revising their point of sale systems for coupon and payment system compatibility. In all the discussion of the DTV Transition, not much attention has been paid to the fact that, once all partners worked out the details of the coupon redemption process at retail, it has thereafter worked quickly and conveniently for consumers. Retailers have now processed around 26 million converter coupons with relatively few complications and interruptions.

CERC was pleased to be one of the four founding members of the Steering Committee of the DTV Transition Coalition. CERC also published the first Consumer Guide To The DTV Transition, and has updated this guide (most recent version attached to my statement) to reflect every turn and twist in the road, including the passage of the DTV Delay Act, and the ensuing FCC regulations and NTIA adaptations. The various changes to the program have posed challenges for retailers to provide helpful information to customers on a national basis, and in inventory management and ordering.

Amidst all the challenges, there is very strong sentiment within CERC in general, that much of the credit for the successful implementation of the converter box program goes to the job done by the leadership and professionals at the NTIA, past and present. No matter how

many obstacles they faced, I understand that they consistently worked to ensure the program was feasible for retailers to implement.

The NTIA has reported to the Congress and to the FCC that on the key dates – the Wilmington transition, the Hawaii transition, on February 17, and in local transition – the retail industry stocked enough converters to generally meet the reasonably anticipated customer demands. The FCC, in its DTV Education Order, tasked its field personnel with visiting retail stores, interviewing the managers, and reporting to the NTIA how retailers were meeting demand for converter boxes. Here is what the NITA reported in its February, 2009 DTV newsletter:

Retailers participating in the Coupon Program are well-informed about the Program and its requirements, based on results from retailer interviews conducted by the FCC. Retailers rated highly in monthly surveys conducted over the past few months. Results showed correct responses at 95% and up on questions that covered Program knowledge and training, including coupon acceptance and redemption practices and whether high definition TVs are needed for the digital transition

Retail Challenges Ahead. As you will have heard today, the FCC has held two Open Meetings devoted exclusively to the DTV Transition. Chris McLean, CERC's Executive Director, was a presenter at the February Open Meeting. Shortly after Michael Copps became Acting Chairman, the FCC staff invited CERC and its members to a constructive and collegial meeting to review retailers' experiences and perceptions and to ask our advice in meeting the challenges that were being observed in the field. CERC has found this and other initiatives taken by the FCC to be extremely useful and informative, and the retail industry trusts that its information and perceptions have been helpful for them. CERC, its members, and its private sector colleagues are being treated as true partners. The FCC worked closely and effectively with both CERC and its individual members on the Wilmington and Hawaii transitions, and retailers' efforts in Wilmington were generously praised by former Chairman Kevin Martin.

Wal-Mart's Experience with the Digital Transition

Wal-Mart's own experiences regarding the transition largely mirror those faced by other CERC members. I can join other CERC member company witnesses who have appeared before you in saying that planning for and reacting to the DTV Transition has been a unique professional challenge, for which there has been no guiding precedent.

Experience on 2/17. Prior to the original February 17th transition date, Wal-Mart saw converter box demand increase in the days leading up to each local transition for markets moving to digital early. CERC encouraged the NTIA to clear its Coupon Waiting List as expeditiously as it could, so that retailers could see the results in their stores and judge their future inventory needs accordingly. Like other retailers, Wal-Mart has noticed an upswing in demand as these coupons have arrived in homes. While the increase has been appreciable, the trend has generally met our expectations. Similarly we saw an increase in antenna sales and a mild increase in our return rate on antennas, as consumers in affected areas tried out their new channel lineup. I should add that even in special areas in which we have had temporary gaps in converter box supply, we have not been receiving many consumer complaints. Our customers seem satisfied that if we don't have what they need on a given day we will have it soon, and they understand that fluctuating inventory levels has been somewhat of a fluid situation.

Selling Converters. Wal-Mart is a leading seller of Coupon-Eligible Converters. Over 90 percent of our converter sales have been made with the assistance of coupons. To date we've carried eight different converter models, all of which have been sold at \$49.87 – a competitive price among retailers.

Once we saw that the Coupon Waiting List would be cleared, we started air-freighting in converters – without raising our price – to try to keep shelves stocked as larger shipments start to arrive. I fully expect that as the weeks progress we will be very well-situated to serve anticipated demand of our customers who need converter boxes through the end of June. In order to assure store supply we have made weekly projections of each store's needs, based on the demand that the store saw in the previous week. Wal-Mart is generally able to re-stock very quickly, so when we've encountered unanticipated gaps in supply in some spot areas,

we've worked hard to remedy out of stock issues promptly and move supply to where it is needed most. In this manner we've been able to manage supply issues through the life of the program, and have minor delays only when external occurrences upset the supply or demand cycles. The main occasions on which retailer supply has had to catch up with demand have been when external events affected the program – last June and July, when our suppliers were changing over to “analog pass-through” boxes; and in the last week or so, as we've waited to receive the very large orders we placed for the remainder of the program.

Selling Antennas. Like our colleagues in government and industry, we have been surprised by the demand for antennas. We have not wanted to encourage our customers to buy an antenna they did not need. Rather, customers should try the antenna they already have. (If they do not already have an antenna, our experience tells us they are likely not receiving an over the air signal.) We find that the antennas that offer the most immediate customer satisfaction are the ones at the opposing ends of the price range – the least expensive, set-top, antennas, and the most expensive, roof-top antennas. The former will work fine for many or most customers, and save them needless expense. The latter are very effective in pulling in distant stations over a variety of frequencies, and customers who buy them are generally aware of their need.

Based on our experience in the transition and our refined understanding of consumer demand, Wal-Mart is making additional antenna purchases for the balance of this year, in both the set-top and outdoor categories. We think we will be able to serve our customers well, as their remaining local stations move to their final assigned digital frequencies and power levels. Even so, while our converters have a very low rate of return – lower than our average consumer electronics product – our return rate on antennas has been slightly higher, as our customers try to find the models that best suit their own locations and personal preferences. We understand very generally that other electronics retailers are seeing similar return rates on antennas. We try to offer a selection that will meet the majority of different needs.

Wal-Mart and Consumer Education. We understand the main focus of this hearing to be our experiences on and after February 17, and our readiness for future challenges, so I

will only summarize our past training, education and outreach efforts. Our stores have featured the converter boxes through special displays, a 30-second video running throughout the electronics section, and a “countdown clock” to February 17th. Wal-Mart also dedicated print advertising space to the converter box. Pictures of these displays, which we featured earlier this year during high traffic periods when such floor and advertising space was very valuable for us, are attached to my statement. In advertising terms alone, we value in the millions of dollars the time that Wal-Mart’s in-store video network devoted to educating our customers about the DTV transition. Wal-Mart, like other CERC members, has participated in community-based efforts to reach under-served populations, and participated in FCC-sponsored field activities. The successful DTV Roadshow education campaign made many stops at Wal-Mart stores across the country.

When educating consumers, Wal-Mart and other retailers face a challenging situation in the months ahead. Prior to the February 17 deadline, Wal-Mart approached consumer education on a national basis in our stores. A national approach is not feasible at this juncture. Some broadcasters converted to only digital transmission in February. More than 200 stations will cease analog broadcasting before June 12. According to the FCC’s spreadsheet, this string of conversions will continue, one-by-one, through June 9 with the balance of the television stations transitioning on June 12. To further complicate the education process, at least one analog station in most of these markets will still be broadcasting in analog, until June 12. During this dynamic transition period, communicating clear, concise market-specific advice to consumers is a particular challenge.

While Wal-Mart is considering options and will be communicating closely with CERC during this period. Because of the dynamic nature of this last phase of the transition, Wal-Mart is currently working on new solutions for the road ahead. For example, we are looking into a new in-store electronic message for our TV wall and point-of-sale, as well as product information plaques. These messages would direct consumers to websites and telephone numbers to obtain the most accurate and up to date information relevant to their individual requirements.

Outlook for April 16, Interim Dates, and June 12. Wal-Mart continues to be aggressive in trying to meet our customers' anticipated demands in ordering new converters. We are confident that as our pipeline fills in the coming weeks we will be in good shape to meet expected demand at least through the end of June. Of course, every innovation in this program is without precedent, so our modeling must always include more guesswork than we are comfortable with. Wal-Mart, like other CERC members, is pleased with the open dialogue that we have had with the government thus far in adapting to phases of the transition. Granular information about coupons and regular updates about changes to the program have been helpful in tailoring our service to our customers.

In the FCC Open Meetings and elsewhere, Wal-Mart, like everyone else, has learned a great deal about interim and final transmission bands and frequencies, signal propagation, and scanning and rescanning on converters, DTV receivers, and other products with broadcast digital tuners. While we will focus on meeting the needs of our customers in the store, we encourage all stakeholders to focus on educating viewers on what to do after returning home. We are pleased, for example, with efforts that encourage viewers to re-scan converter boxes frequently to capture additional channels. Wal-Mart supports CERC's statement about being ready to work alongside our partners in Washington and in communities across the country over the next few months to address new challenges on this final path to the digital transition. After overcoming some bumps in the road, the process has worked well so far, and we will keep at it.

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Conclusion. Wal-Mart is pleased to represent CERC in this, Chairman Boucher, your first DTV hearing as chairman. We are fortunate to enjoy constructive relationships with all of our private and public sector colleagues in this effort, and we look forward to continuing work on this basis with your subcommittee and staff. We also look forward to working with members of the committee on other programs related to our industry such as energy labeling and recycling. On behalf of Wal-Mart, and as a member of CERC, I appreciate the opportunity to testify today. I am happy to answer any questions that you may have.