

Testimony of Laurance Harris
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Good morning. My name is Larry Harris. I am Vice President of Merchandising at RadioShack Corporation. With the DTV transition date just over one year away, I appreciate the opportunity to appear today at this important hearing to discuss the essential role that RadioShack and the retail industry are playing in the National Telecommunications and Information Administration's (NTIA) converter box program. I am here this morning to speak on behalf of both RadioShack and the Consumer Electronics Retailers Coalition (CERC), which in addition to RadioShack, includes as its members, Amazon.com, Best Buy, Circuit City, Sears, Target, and WalMart, as well as three major retail associations – the North American Retail Dealers Association (NARDA), the National Retail Federation (NRF) and the Retail Industry Leaders Association (RILA).

Background on RadioShack and Retail Involvement in the Transition to Date

RadioShack sells a wide variety of consumer electronics products and is one of the largest retailers of consumer electronics equipment in the United States, with 4,400 owned and

operated stores and an additional 1,500 dealer stores throughout the country. RadioShack is a primary resource to consumers for devices and accessories that assist in household connectivity and networking. Even with significant experience in the consumer electronics retail business, the transition to digital transition presents unique challenges to RadioShack, other retailers and to the consumer.

RadioShack and the other members of CERC have understood for years the unique role retailers play in the transition to digital television. This role, of course, includes having the right products available at the right time for consumers. But equally important is the critical role retailers play in educating and assisting consumers in making purchasing decisions that best satisfy their needs. We have worked diligently over the last few years to help make this transition as smooth as possible for all consumers. At this time, there are approximately 250 certified retailers in the converter box coupon program. Each of the retailers participating in the coupon program is working closely with NTIA and its vendors, IBM and CLC, on the program's implementation. RadioShack is pleased to announce that it will have converter boxes available in all of its corporate stores by February 22nd, to coincide with the initial distribution and receipt of coupons. In addition, all stores will be able to accept coupons beginning on February 19th, through our Direct-to-You program which I will discuss later. Several other CERC members have similarly announced their intentions to have stock in stores by the time coupons are received by consumers.

The converter box program as created by Congress presents unique challenges to retailers, but we believe that RadioShack and CERC's other brick-and-mortar members are prepared for the start of the program. And like the other industry groups involved - the broadcast, cable and manufacturing companies - the retail industry is investing millions of its

own dollars and, equally important, significant human resources to facilitate a smooth transition. This public-private sector balance is purposeful and is proving to be an effective means by which to make the digital transition.

During the rest of my testimony, I outline specific steps taken and planned by RadioShack and other retailers regarding the implementation of the coupon program, including the implementation of new point-of-sale (POS) functionality, inventory plans, pricing issues and consumer education. In addition to discussing these steps, I also highlight some specific challenges presented as we embark on the distribution of converter boxes.

Modification of POS Systems

Each retailer participating in the converter box coupon program must in some manner adapt its core POS functionality if it elects to electronically authorize the government issued coupon. Retailers appreciate the steps taken by NTIA to ensure use of electronic coupons that authorize in a manner similar to plastic pre-paid private label cards. NTIA's contractor, IBM, and its sub-contractor CLC have also provided options that address the requirements of the automated systems used by larger retailers, as well as systems solutions to accommodate smaller retailers. Still, even with the flexibility provided, each retailer has its own unique POS systems and implementing the ability to process government issued coupons has presented each retailer with its own challenges. The cost of changing POS systems to support NTIA requirements in this manner is being incurred by each retailer – the government has not provided funding for any part of this process. In addition, CERC members are proud that several of us were able to initiate project work on these system changes during the 4th quarter of the year, our busiest sales period.

Prior to roll-out of the systems later this month, a number of participating retailers are currently participating in NTIA's pilot programs in Kansas and D.C..

Distribution and Maintenance of Converter Box Inventory

The creation of a hard date for the DTV transition has provided certainty for retailers as to when they needed to be ready to offer consumers any necessary equipment. However, even with the hard date, some uncertainty remains as to how many households will need or want a converter box and at what point those households will request and redeem the coupons. Indeed, no one anticipated that requests for coupons would exceed 4.4 million within the first month of the program!

In reality, we anticipate that a portion of the coupons requested will not be redeemed as some consumers decide that they do not need a converter box. For example, according to the Consumer Electronics Association (CEA), 50 percent of U.S. households currently have a digital television and it forecasts that another 32 million digital televisions will be sold in 2008. Many consumers making a digital television purchase may do so after they requested a coupon. We also know that many households will decide to connect their televisions, or any sets that weren't connected already, to cable or satellite which will also reduce demand for converter boxes. There are also indications from NTIA data that many consumers who have applied for coupons may be cable or satellite customers, meaning that they may not actually need a converter box. Part of our role in educating consumers will be to make sure that subsidized converters are obtained by consumers who actually have a use for them.

Regardless of these uncertainties, RadioShack and the other participating CERC members are creating distribution systems that collectively will handle the distribution of

millions of converter boxes over the next 18 months. Each retailer's plan is of course different and is tailored to its own business model and the customer base, but collectively the retail industry is confident that the demand for converter boxes will be met.

With 4,400 owned and operated stores and another 1,500 dealer stores throughout the 50 states, D.C. and Puerto Rico, RadioShack will play an essential role in the distribution of converter boxes. To that end, we and other retailers are working closely with NTIA, IBM and CLC to help ensure that we have inventory in the right place at the right time. We are pleased that NTIA is working with retailers to provide us timely information regarding where consumer demand for coupons exists. We encourage NTIA to provide this information in as granular detail as possible and with the rates of returns for these same areas once the coupons are distributed. This information is critical in helping ensure all retailers are able to use their distribution systems to target inventory where it is needed. As the only major consumer electronics retailer with thousands of both its own stores and dealer stores, this is perhaps uniquely challenging for RadioShack. Despite the challenge, we are committed to having each of our stores prepared to respond to consumer interest. Under the regulations and our existing contractual arrangements, our dealer stores must each seek their own certification from NTIA for participation. However, RadioShack understands the importance of having these stores, most of which are small businesses in rural settings, involved in the transition. Therefore, in addition to preparing our own stores, we have worked closely with NTIA to promote dealer participation and to educate dealers about the program and the digital transition generally.

With the initial demand of 4.4 million coupons, I am sure the Subcommittee is interested in knowing whether retailers will be prepared over the next few months to respond to this initial demand. We believe that through the combined efforts of all participating retailers and with full

cooperation from NTIA and CLC, the answer will be yes. As I mentioned, RadioShack intends to have stock in all of its stores by February 22. With 4,400 stores, we cannot guarantee that each store will have stock at all times due to the ebb and flow of customer demand. However, in the event that a RadioShack-owned store's inventory is temporarily depleted, our sales associates are being trained to offer to order the product for the customer from stock located in our Fort Worth Distribution Center. The converter box will then be shipped to the customer's home at no additional charge through our Direct-to-You (D2U) program. This D2U program will be available for coupon-eligible converter box purchases in all of our stores beginning February 19th and RadioShack plans to hold some stock in our Fort Worth Distribution Center for the length of the program for D2U purposes. Other retailers will also provide solutions when store locations are out of stock or for those coupon-holders who are infirm or otherwise unable to come to a store. For example, retailers, like EchoStar here with us today, will be able to offer the converter boxes for sale online. Other retailers will have 1-800 numbers to respond to these requests.

Issues Affecting Price of the Converter Box

I know that this Subcommittee is hopeful that the consumer's contribution to the purchase of the converter box will be as low as possible. RadioShack understands this concern and recognizes the need for an affordable solution to all consumers. I would like to spend a few minutes addressing issues affecting the price of the converter box to the consumer. This is an area in which, of course, each retailer has worked through its own issues and considerations. My comments here reflect RadioShack's experience regarding price considerations.

Although the coupon-eligible converter box has simple features and its sole function is to convert a digital television signal to analog format, keeping the price low still presents

challenges. First, as mentioned above, the level of demand is unclear so that it is difficult to take full advantage of quantity-dependent pricing from manufacturers. Second, its shelf life – 18 months – is uniquely short. For these reasons, manufacturers are not able to amortize the upfront price of production over a long period of time. Normally, the price of a consumer electronics product would drop steadily over its market life of potentially several years; the coupon-eligible converter box product will not benefit from this effect.

In addition, any single technology rich consumer electronics product may be covered by literally hundreds or even thousands of patents, and the converter box is no different. Whether it is the manufacturer or retailer who actually pays the patent license royalties for such essential patents, this dynamic may also add cost to the box.

Each retailer (and manufacturer) also has had to make difficult choices about which permissible optional features, if any, to include in the box. The added cost that results must be balanced against the likelihood that such features will be required by a broad number of consumers. For example, manufacturers and retailers each confront this issue with regard to the inclusion of signal pass-through technology which would benefit those households who receive low-power television signals or wish to receive analog signals across international borders. NTIA made an appropriate decision to permit the signal pass-through feature as an optional, but not mandated feature. A reason for this decision related to concerns over the loss of signal strength in the converter box that might occur and affect the reception of the digital signal. Based on this and other information RadioShack had when making our initial orders, we prioritized the cost, quality and features that the vast majority of our customers would need and did not include the pass-through feature in those orders.

Given manufacturing and distribution lead times, we believe that any decision at this late date to mandate such a requirement would jeopardize the coupon program and is unnecessary. There will be solutions to this problem in the marketplace. There are currently three approved converter boxes that include the pass through technology, including EchoStar's. While the products that RadioShack plans to sell at this time do not include pass-through technology, we are exploring solutions for LPTV viewers. At a minimum, RadioShack and others intend to offer LPTV consumers a discount on the external devices (such as an A/B switch and splitter) necessary to provide an external pass-through to connect their converter box and television. As one of the largest national retailers and manufacturer of antennas, we will also carry a variety of outdoor antennas. And, of course, the viewer could also purchase a dual tuner television if this makes economic sense.

In its role as a retailer, RadioShack intends to help its LPTV customers with the transition and we will explore all possible solutions. However, it is critical that the Community Broadcasters educate their LPTV viewers on the problem and inform them of their options. In addition, RadioShack encourages the Community Broadcasters to provide retailers with specific information about the number of households affected and their locations. Such information will be particularly helpful in ensuring the delivery of appropriate solutions to the degree they are needed.

Before leaving the issue of cost, I would like to raise an issue that only recently came to retailers' attention, but that has a significant effect on the price of the box. In December 2007 as orders were being placed for converter boxes, retailers learned that U.S. Customs has imposed a five percent import tax on converter boxes. Retailers fear that this duty on a product that the government has subsidized through the coupon program for the purposes of helping U.S.

households will serve to impede distribution and may needlessly burden consumers. We hope that this Committee will join us in seeking a legislative waiver of this import duty, as surely the Congress could not have intended this result.

Consumer Education

Perhaps most important to the success of the transition is the role that the private sector is playing to educate consumers about the digital transition. CERC applauds the efforts of NAB, NCTA, CEA, the consumer groups and our government partners for their efforts to alert consumers. We know that these efforts are working. CEA just announced last week that consumer awareness of the transition to digital television grew 80 percent since 2006.

But, we recognize that retailers have perhaps the most direct private sector role in consumer education. We are the end game – we are the place where consumers will go to ask questions to learn more about the transition and its effect on their household. Like each of the private sector industries involved, retailers are investing significant funds to communicate information about the transition through print and other media. However, retailers are also making significant investments in human capital - training hundreds of thousands of sales people to assist consumers. For a transition that is short term and product that is not relevant to everyone in the same manner, this is a challenging task. Let me provide some perspective on what RadioShack and other CERC members are doing regarding our media communications efforts and our sales associates' training.

Consumer Education through Advertising, the Internet and Signage

RadioShack, and other CERC members, are implementing detailed public education plans to notify consumers of the digital transition generally and to inform them of the possible need to purchase a converter box. RadioShack's plan includes the following activities during just the first quarter of this year:

- We are updating RadioShack's website by February 17th to include dedicated space at www.radioshack.com/dtv to explain the transition, the coupon program and to answer frequently asked questions (including information for LPTV viewers). It will also include links to the relevant government websites and CERC/CEA/FCC's DTV tip sheet. This site highlights the information we have provided on RadioShack.com for many months already.
- We are including notifications about both the transition and the coupon program in tens of millions RadioShack's direct mail flyers and newspaper inserts throughout the year.
- By February 19th, all stores will print notifications on every receipt printed in a RadioShack store on *any* purchase alerting customers about the digital transition, the availability of converter boxes at RadioShack and both websites www.radioshack.com/dtv and www.dtv2009.gov.
- We are placing window signage in each store in March announcing the availability of coupon eligible converter boxes once stock is in place. There will be window signs on the transition, at times, throughout the program. We will also have bilingual educational brochures in our stores.
- The packaging on most of our converter boxes will indicate that they are coupon eligible; and,

- We will be placing advertising in national print media to notify consumers, as well as radio advertising on both English and Spanish language stations.
- We will use various public relations tactics to ensure the conversion is effectively communicated to news media and customers alike. This includes the use of audio and video podcasts, news releases and staged store events throughout the year announcing news and milestones relating to our participation in the transition process. RadioShack is also the focal point for many local market media outlets looking to explain technical issues to their viewers and readers, and the digital transition process is a perfect example. We will continue to actively promote and facilitate news media requests to visit local stores and interview our knowledgeable sales staff.

Similar efforts by several other CERC members have been outlined in recent filings with the Federal Communications Commission (FCC). In addition, CERC has updated its Consumer Guide on its website and the Converter Box Coupon Program's site includes a prominent link to CERC's site as well.

Training of Sales Associates

RadioShack and all CERC members recognize the critical importance of having trained sales associates who can answer specific questions regarding the digital transition and the coupon program. While media efforts will call consumers to action, our sales associates may be the only face-to-face opportunity that a consumer will have to ask specific questions and to solve their particular needs relating to the transition. Training our sales associates on the specifics of the transition and the converter box program is a Herculean task. Each retailer is making

significant efforts to accomplish this task effectively – these efforts are underway at RadioShack and will continue throughout the next 12-18 months.

RadioShack headquarters trains and communicates with its store managers and employees through several different means. Let me provide you some specifics. First, RadioShack provides online training for all employees on many different product lines and technologies. We have a number of training sites dedicated to the digital transition, digital television products, and the coupon eligible converter box. At the end of the online training course for the converter box, our employees are required to take a test. We monitor the test completion rate for each store and each store employee must pass with a 90 percent or higher in order to be considered a completion. Second, in addition to our online training program, RadioShack conducts RadioShack TV broadcasts with its store managers and sales associates. We have already completed a number of segments on the transition and coupon program with our store managers and have additional segments scheduled for both store managers and sales associates to coincide with the appearance of coupons in the marketplace.

Third, RadioShack distributes articles on issues of importance directly to its stores on a daily and/or weekly basis. This includes our daily store bulletin, RadioShack Today, as well as our store intranet site that stores use daily to access news, information and required tasks. Again, we have already provided significant information to our stores through these communications channels and will continue to do so throughout the transition.

All of these forms of communication emphasize to the store managers and sales associates the complexities of the transition and the coupon program. We emphasize to our employees the need to ask customers the right questions in order to make sure the consumer makes the best purchase decision for their particular television viewing needs. I would also like

to mention that RadioShack also provides all of its training and educational materials to its dealer stores. Each dealer then makes its own determination as to how they are used.

As we embark on the introduction of coupons and converter box sales, we want the Committee to understand the extraordinary level of the retailers' undertaking. RadioShack alone has 4,400 stores and more than 30,000 retail employees and support staff who must be trained. This is in addition to our independent dealer base with thousands of their own employees who they must separately train as well. In addition, no retailers' employee base is static. This means that RadioShack and other retailers must have a continuous loop of training for all new employees throughout the coupon program period and provide refresher courses for current employees. RadioShack is confident that we have the necessary systems in place. We will monitor our efforts, and continue to proactively educate our retail employee base.

Conclusion:

For several years, RadioShack has committed significant energy to the digital transition. This year and into next, RadioShack's commitment will remain strong and we look forward to playing our part in the effort to make the transition as smooth as possible for all consumers. Thank you again for the opportunity to testify and I look forward to answering your questions.