

**Testimony of John Ripperton**  
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**Before the**  
**House Committee on Energy & Commerce**  
**Subcommittee on Telecommunications and the Internet**  
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Good Morning. My name is John Ripperton. I am the Senior Vice President for Supply Chain Management at RadioShack. With just eight months until February 17, 2009, we're grateful for a chance to update the Subcommittee again on the involvement of RadioShack and other retailers in the transition to digital television and in particular, the implementation of the National Telecommunications and Information Administration's (NTIA) converter box coupon program. I am appearing this morning on behalf of RadioShack. Radioshack is also a member of the Consumer Electronics Retailers Coalition (CERC), which in addition to RadioShack, includes as its members, Amazon.com, Best Buy, Circuit City, Hephner TV, K-Mart, 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 since February

RadioShack is a major consumer electronics retailer with 4,400 corporate-owned stores and another 1,500 dealer stores located throughout all fifty states, the District of Columbia and Puerto Rico. With so many stores, we consider ourselves to be community and neighborhood

retailers – this quality is a significant attribute in aiding in the digital transition. RadioShack is a primary resource to consumers for devices and accessories that provide household connectivity and networking, and this marketplace role is also proving to be invaluable to the consumer during the digital transition.

As you know, RadioShack has remained steadfast in its commitment to the transition and the converter box coupon program since its inception. We were early proponents of setting a hard date for the digital transition. RadioShack has testified before this Committee on three prior occasions, and we have advised on how to create a program that will reach out to consumers who might not otherwise be able to transition smoothly. Because of its response to the many issues and hurdles presented, RadioShack is proud of its continued commitment and is enthusiastic about the transition and the converter box program. We've been selling converter boxes since the coupons became available in February, and we are hearing very positive feedback from our customers. The converter box provides over-the-air households with an outstanding digital experience in picture quality and for many households it allows for an increase in the number of stations available.

RadioShack is not alone in its efforts and commitment. When we testified before the Subcommittee in February, there were approximately 250 certified retailers in the converter box program. That number has presently increased to approximately 1,735 participating retailers, with 19,178 locations throughout the country. As I mentioned, RadioShack has 4,400 corporate locations.

Since the hearing in February, there have been many significant developments important to the transition.

- The NTIA sent coupons out to households and together, retailers, including RadioShack, were ready to meet the initial demand;

- Retailers and the NTIA's contractor, CLC, began the successful use of our modified point-of-sales (POS) systems for coupon sale transactions;
- The Federal Communications Committee (FCC) released and implemented its consumer education order; and
- The FCC announced that Wilmington, North Carolina will be the site of a pilot program under which the transition will be completed there by September 8<sup>th</sup> of this year.

In addition, many challenges remain. I'll mention three: First, RadioShack believes that the demand for converter boxes is higher at this time than was anticipated. As consumers are being educated and seeing the amazing quality of digital television, even at the level of standard definition, their interest in the converter boxes and coupons is increasing. Second, retailers continue to address concerns raised for those households that watch low power television ("LPTV") stations that will not convert to digital next year. And finally, the five percent tariff that the Administration requires manufacturers and retailers to pay to import the converter boxes adds undue cost, works against the federal policy underlying the program, and threatens retailer ability to satisfy demand.

Even with these developments and challenges, I am happy to report that RadioShack's experience to date has been extremely positive. I am going to focus the remainder of my testimony on four areas. These include an update on the significant inventory issues presented for the remainder of the coupon program, problems that result from having a tariff imposed on this product, steps being taken specific to Wilmington's early transition, and our continued consumer education efforts.

## Current Inventory Challenges

As of June 4, the NTIA's website indicates approximately 14.6 million coupons have been mailed, 2.7 million have been redeemed and 490 thousand coupons have expired – 11.4 million coupons remain active in the marketplace. The NTIA statistics also indicate that an average of 104 thousand requests for coupons are placed daily, and that these total numbers to-date represent about two-thirds of the coupons that may be issued with the funds existing under current law. These statistics demonstrate the extraordinary interest consumers are showing in digital television and the demand on the coupon program. However, these statistics also indicate that there may be significant demand placed on inventory during the next few months, as consumers use their coupons before they expire.

Retailers also continue to be faced with product adjustments to accommodate the many LPTV broadcasters that will not participate in the transition to digital broadcasting next February. In light of the concerns raised regarding this issue, manufacturers and retailers have been working with the NTIA on the approval of boxes with analog pass-through capability. To date, the NTIA has approved 23 such models. Last week, RadioShack announced that it is now among the first national retailers to have analog pass-through boxes arriving in stores. The boxes are also now available through our Direct-to-You program. These boxes will shortly thereafter replace our non-pass-through box inventory as it sells through. In other words, by mid-June, RadioShack will likely only be selling analog pass-through boxes.

The pent-up demand for converter boxes, combined with the unanticipated interest in providing analog pass-through boxes, may present challenges for retailers this summer. Let me discuss a few steps that should help ensure that the smooth operation of the coupon program continues as well as potentially mitigating inventory shortages around the country.

First, it is essential that retailers receive as granular information as is possible from the NTIA and its contractors about the status of coupon distribution and redemption. Since your February hearing, the NTIA has been extremely helpful in providing coupon distribution data by five-digit zip code on a weekly basis. With the first set of coupons now expiring, it is extremely important that the NTIA provide retailers data about redemption and coupon expiration at the same level of granularity. This is particularly important right now so that retailers can appropriately target shipment of their inventory to the areas that have the most active coupons. We are working with the NTIA and CLC on this issue and we believe that we will begin receiving the necessary redemption and expiration data very soon.

Second, RadioShack and other retailers are currently doing all they can to provide converter boxes to customers, even when a particular store's inventory is low. RadioShack has a program called Direct-to-You. This program allows sales associates in any of our corporate stores to place orders for converter boxes from a central fulfillment center in the event the store is out of stock. RadioShack has been careful to maintain inventory in this site (although even this option can experience inventory challenges) for this purpose and when an order is placed, the customer will receive the converter box at their choice of either their home or their supporting store, free of any delivery charge. As we announced in February, the company also created a dedicated toll-free number for the Direct-to-You program (1-877-RS-DTV4U) so that persons who are disabled or infirm can place an order directly over the phone from their homes, again without having to pay any delivery fee. Other retailers have similar toll free numbers. We know that our Direct-to-You program is clearly serving its role in filling many inventory gaps, as well as providing access to those who might not reach our stores.

As I have said, RadioShack believes that the extensive consumer education over the last few months and growing interest and awareness of the benefits to digital television will result in increased redemption rates for coupons. However, I would be remiss if I did not mention our concern about consumers who request coupons, but fail to use their coupons before expiration, either because of early marketplace confusion or because of possible inventory challenges.

Extending the 90 day expiration period or reissuing new coupons upon the request of those households whose coupons have expired would provide relief but we also understand that these options present many challenges of their own, particularly at this time in the program. RadioShack's solution will be to continue our aggressive support of our Direct-To-You option that we have discussed in our previous testimony if we encounter inventory issues within our stores.

#### Unforeseen Tariff on Imported Converter Boxes

When RadioShack testified in February, we discussed a number of issues that affect the cost of the converter boxes. We mentioned in particular an unforeseen cost that results from a five percent tariff that U.S. Customs has imposed on the importation of coupon-eligible converter boxes. Retailers believe that it is inappropriate for the government to subsidize the purchase of these converter boxes and then tax their importation. Since February, we and other retailers have been working with Members of Congress on legislation to waive this tariff and recently Representatives Ron Kind and Kevin Brady introduced a bill, H.R. 5635. The impact of this importation tax will become increasingly problematic as retailers and manufacturers may need to pay premium freight costs to meet consumer demand for the converter boxes. I hope that

Members of this Committee will consider becoming cosponsors of this legislation and work for its passage as quickly as possible.

RadioShack and Other Retailers are Preparing for the Early Transition in Wilmington, North Carolina

Although we had not planned for an early transition pilot, RadioShack and other large retailers are preparing to accommodate the September 8<sup>th</sup> transition date in the Wilmington market. RadioShack has 38 corporate owned stores and four dealer stores participating in the 5 counties where the FCC is focused. We have an additional 27 dealer stores within a 150 mile radius of Wilmington. We are working to make sure that all of our corporate and dealer stores in this area maintain inventory. We are also very focused on ensuring that analog pass-through boxes are available in the Wilmington area in a timely manner to minimize any confusion for any viewers of LPTV power stations. As I mentioned above, those boxes will be available in RadioShack stores this week. In order to respond to demand and to control inventory, it will be particularly helpful and important to know how the NTIA is managing coupon requests from Wilmington households, and to know the specific coupon distribution and redemption rates in this market between now and September.

As I will outline below, large retailers tend to advertise and educate customers on a national basis, and we have had to adjust our consumer education plans to accommodate the early transition date in Wilmington. RadioShack has redone all of its in-store signage and materials in the Wilmington area to inform its customers of the September 8<sup>th</sup> deadline and other CERC members are similarly revising their local signage. In addition, RadioShack participated with other retailers in the FCC's town hall meeting in May and on May 31<sup>st</sup>, hosted FCC staff in

one of our Wilmington stores to provide customers additional information about the transition. Best Buy and Circuit City held similar sessions at their Wilmington stores as well.

RadioShack and the other CERC members believe we will be prepared to provide converter boxes and information to our customers in advance of the September 8<sup>th</sup> transition.

#### Status Update on Consumer Education Efforts

RadioShack continues to believe that consumer education is the most important component of the digital transition. At the hearing in February, RadioShack provided a comprehensive outline of its consumer education activities and those of other CERC members. Since February, those activities have continued and expanded. For our part, RadioShack and other CERC members are continuing to implement detailed education plans. Our plans focus on consumer education in our stores, on our websites and in media. We are also each actively involved in ensuring that our sales force is appropriately trained to answer customers' questions about the transition, to inform each customer of their options, and to assist them in any purchase they may need to make. I provide the following outline of RadioShack's continued efforts.

##### *Consumer Education through Media, the Internet and Signage*

RadioShack has implemented 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, all of which are ongoing:

- RadioShack updated its website to include dedicated space at [www.radioshack.com/dtv](http://www.radioshack.com/dtv) to explain the transition and the coupon program and to answer frequently-asked questions (including information for LPTV viewers). The site also includes links to the relevant government websites and CERC/CEA/FCC's DTV tip sheet.

- RadioShack is providing notifications about both the transition and the coupon program through millions of RadioShack’s direct mail flyers and newspaper inserts throughout the year.
- RadioShack stores have educational brochures on the solutions available for the transition in both English and Spanish.
- Since February 19<sup>th</sup>, ***every receipt printed*** in a RadioShack store includes an alert to customers about the digital transition, the availability of converter boxes at RadioShack and both websites [www.radioshack.com/dtv](http://www.radioshack.com/dtv) and [www.dtv2009.gov](http://www.dtv2009.gov).
- RadioShack placed window signage in each store in March announcing the availability of coupon eligible converter boxes. There will be signs placed in store windows regarding the transition at various key times throughout the program.
- RadioShack stores have point of purchase signage co-located with the coupon eligible converter boxes notifying customers of the transition and availability of coupon eligible converter boxes.
- The packaging on most of our converter boxes indicates that they are coupon eligible.
- Our analog pass-through boxes have bilingual installation instructions on both the packaging and manuals.
- RadioShack creates its press materials in both English and Spanish, including press releases, audio podcasts and how-to documents.
- At the end of April, RadioShack placed additional media to inform consumers about the transition in radio, online and additional print.
- RadioShack continues to investigate other media opportunities to reach vulnerable communities, such as the elderly, Hispanic and rural.

### *Training of Sales Associates*

RadioShack believes that our sales associates are an extremely important part of the consumer education process. Thus, RadioShack continues to make significant efforts to train its sales associates to deal with the digital transition and the coupon program. These efforts include educating sales associates about the details of the digital transition – the “why, when and how” the transition is occurring; processes relating to converter box coupon sales; consumer questions about what products are needed or optional depending on individual circumstances; information

regarding the special circumstances of over-the-air viewers of low-power television; and proper installation information.

RadioShack headquarters trains and communicates with its store managers and employees through several different means.

- First, RadioShack is continuing to provide its online training for all current and new employees on many different product lines and technologies. It has 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, employees are required to take a test. RadioShack monitors the test completion rate for each store and each store employee must pass.
- Second, in addition to our online training program, RadioShack conducts RadioShack TV broadcasts with its store managers and sales associates. Since February, RadioShack has completed multiple segments on the transition and coupon program with our store managers.
- Third, RadioShack distributes DTV information updates directly to its stores on a daily and/or weekly basis. Since February, RadioShack has used its publication, “RadioShack Today,” to provide significant updates to our stores.

All of these forms of communication 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. 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.

#### *Community Outreach*

RadioShack is also participating in a number of community outreach efforts. The company is using public relations outlets and other methods to ensure the conversion is effectively communicated to news media and customers alike. RadioShack has held dozens of media interviews and demonstrations in stores throughout the country this year to educate communities on the transition. In addition, RadioShack held two joint press conferences at our

headquarters store, Store One, one with the NTIA March 31 and the other with Commerce Secretary Gutierrez. And, as I already noted, participated with the FCC in two events in Wilmington, North Carolina. We are currently working with the FCC to schedule additional outreach events this summer in the Northwest, and then throughout the country. We are aware that several other CERC members are planning similar outreach activities.

Finally, RadioShack is pleased to announce today that it has entered into a relationship with the American Libraries Association to conduct joint community outreach sessions at libraries throughout the country between now and next February. We are also providing our store managers with the tools to enable them to conduct additional educational outreach efforts in their local communities.

#### *Additional Government Oversight*

Since February, the FCC has also imposed new government requirements and retailers have responded to those accordingly. The FCC issued a consumer education order initially on March 3rd and recently revised it to address concerns CERC and CEA raised relating to its scope and applicability to retailers. In summary, the final Order requires that television receivers and certain related devices manufactured between May 30<sup>th</sup> of this year and March 31<sup>st</sup> of next year include notices in or on the packaging regarding the effect of the transition on those products. To the extent that retailers may be responsible parties for the importation of these products, CERC members are mindful of our commitment to ensure compliance with this requirement. The order also requires each member of the DTV Coalition, which includes CERC and RadioShack, to file quarterly updates with the FCC reporting their individual consumer education activities. Finally, the Order announced that the FCC Enforcement Bureau will regularly visit retail stores to assess employee training and consumer education efforts with

respect to the coupon program and report on these to the NTIA. These visits are in addition to oversight and visits by the FCC's Consumer and Governmental Affairs Bureau, the NTIA and the media.

RadioShack is proud of its consumer education efforts and I would like to emphasize the continued extraordinary effort by all retailers in this regard. The retailer employee base is not static. RadioShack continuously trains its workforce of more than 30,000 retail employees and staff. These training efforts are being done with the added pressure of knowing that many government agencies, Congress, consumer groups and the media are watching to be sure we get it right. Our primary goal is to satisfy individual customer needs and to that end, we continue to put our best efforts forward.

#### Conclusion

On behalf of RadioShack, as a member of CERC, I appreciate the opportunity to testify on our continued role in the transition to digital television. I am happy to answer any questions that you may have.