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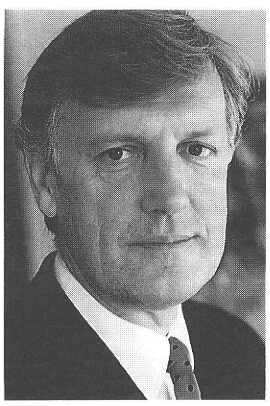
Developing the Dialogue

John Mogg, Director General, DG XV



John Mogg

I would like to thank the great number of you who contacted either DGXV or the offices of the editor with constructive and supportive comments on the launch of the first issue of this newsletter. All these reactions will be taken into account in an attempt to reflect your interests and needs.

To help to ensure the quality of the information is maintained, an editorial board has been set up. It comprises many highly qualified professionals with a variety of backgrounds and experience in the field of commercial communications. You will find them listed on page two of this issue. I am confident that this board will be invaluable in the development of *Commercial Communications.*

I welcome the contributions and suggestions which have been made by readers. The response we have had has been extremely supportive. It encourages me to believe that you welcome the opportunity to receive information about the Commission's policy-making in this area.

Many of the topics which provide the context for policy development in the field of commercial communications will be highlighted in the pages of this newsletter. In particular, elsewhere in this issue I will give you an overview of the areas which many pinpointed as being of greatest concern and interest to you. This information was derived from the surveys conducted for DGXV earlier in the year. I hope this second issue will stimulate further interest and debate.

IN THIS ISSUE

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Editorial Comment

We should like to apologise to readers for the delay to this second issue of *Commercial Communications*. It was probably inevitable that we would encounter some difficulties in launching the publication in three languages from the very start. We hope that most of the difficulties have now been resolved and that we can publish on a more regular basis.

The response we have had to the first issue has been extremely encouraging. There are clearly many ways in which a publication such as this can contribute to your understanding of commercial communications within Europe and we shall attempt to develop an editorial product which reflects your principle concerns and interests.

One of the most frequently raised issues with our office has been how to determine the best way to allow advertisers to develop cross-border campaigns which are not constrained by the great number of regulatory differences existing between the Member States. An interesting insight to some of these difficulties is to be found on page 7 of this issue where we publish a summary of the findings of the survey conducted by the research company BMRB International on behalf of DG XV and the responses to the written call for comment conducted by DG XV itself.

Many argue that the best way for an acceptable basis for commercial communications to develop would be for a European self-regulatory system to be established within the framework of commonly accepted codes of practice. There are others, however, who have serious doubts about this approach and these doubts are expressed in this issue by a leading German lawyer. This particular debate will be developed in the next issue with a contribution arguing in favour of self-regulation from a Dutch perspective.

There is little doubt, however, that advertising has an enormous economic contribution to make to the establishment and development of markets. This issue sees the introduction of a series of award-winning case histories which demonstrate the contribution advertising has made to the development of markets for a range of products in a number of Member States. We are particularly interested in covering these in forthcoming issues and would be glad to hear from readers who have suitable material for publication.

The contribution of advertising to the development of markets has always been extremely difficult to determine. This issue also highlights the important work conducted by Professor John Philip Jones of the University of Syracuse who has developed a measure of advertising's short-term effects. The technique he describes has been made available in the German market recently, with plans for the principle to be developed in a number of other Member States in the near future.

We are in the process of putting together an Editorial Board for *Commercial Communications* and want to take this opportunity to thank those who have already agreed to take time to help contribute to the development of the publication. It needs to be stressed that their involvement is purely advisory and that the views expressed in the pages of the publication are not necessarily those shared by the Board.

Rules for Marketing* in Europe

Peter Schotthöfer
Director
European Advertising Lawyers Association

*** The views expressed are those of the author**

One aim of setting up the European single market has been to improve its citizens' economic well-being and strengthen its economy at both national and international level. The Community institutions are seeking to find the best and quickest means of achieving that objective. Among the most important is the establishment of common ground rules for business.

The following example is typical of those often quoted in Germany in an attempt to ridicule what is regarded as the Brussels bureaucracy's mania for regulation. The Brussels bureaucrats allegedly had nothing better to do than to concern themselves with roll-over bars for tractors. A Directive laying down the appropriate requirements was duly adopted, so that tractor manufacturers would be able to sell their products in the other Member States, where regulations sometimes differed. The Directive provided the only means of ensuring that vehicles which satisfied the requirements could actually be sold anywhere in the EU by any firm based in a Member State. Such measures are often scoffed at, even by those who had a hand in their adoption. One might consider, for example, the position of the Bavarian Government. This has on occasion launched particularly virulent attacks against regulation mania, but was the government which initiated the Directive on roll-over bars.

So, before discussing marketing in Europe we need, in my view, to ask whether or not it is sensible and beneficial - both for the advertising industry and for members of the public - to establish uniform ground rules in Europe. Only if the answer to this is 'yes' do we then need to look at the most appropriate way of achieving that objective.

The fact that the Member States have signed the EC Treaty and are also bound by Article B of the Union Treaty already demonstrates that they agree on the need for such ground rules. But there are also quite simple economic reasons for doing so: the larger the market, the greater the sales potential; the less pronounced the differences (including legislative differences), the fiercer the competition.

Uniform ground rules not only mean considerable cost savings for the advertising industry, but also create a climate of legal certainty for business decisions.

Admittedly, the EC Treaty already confers rights that are intended to guarantee the unrestricted flow of goods across national borders within the EU. The list of basic rights safeguards fundamental freedoms, while Article 30 prohibits quantitative restrictions on imports of goods and 'measures having equivalent effect', with the European Court of Justice acting as the guardian of these provisions.

In addition, the country-of-origin principle enshrined in Article 30 ensures that a firm based in any Member State may sell its goods throughout the EU provided that it conducts its business in accordance with the laws in force in the Member State where it is based.

This principle is undoubtedly useful and necessary, but I feel that it should serve only as a back-stop rule for cases not (or not yet) covered by common rules, since the multiplicity of legislative solutions has resulted in an unmanageable fragmentation of the law. It is becoming impossible to determine the basic legal requirements for a Europe-wide advertising campaign. Let us look at how the principle works in a specific case.

It is becoming impossible to determine the basic legal requirements for a Europe-wide advertising campaign

Country A imposes no legal restrictions on a particular method of advertising so that firms based there may advertise without restriction in country B, where the method in question is banned. However, firms based in country B have to comply with the national ban, the upshot being discrimination by country B against its own firms. Sooner or later the legislature in country B has to bow to pressure from the public and the firms affected and either lift the ban completely or at least in part.

Developments in connection with Article 6(e) of the German Law Prohibiting Unfair Competition, and the European Court of Justice's judgment in the *Yves Rocher* case clearly demonstrate this. In the light of those developments and in advance of the judgment, the German legislature had already paved the way for the repeal of Article 6(e), and this was indeed done following the Court's judgment in the *Keck-Mithuard* case.

...there may be as many variations in the legal position...as there are Member States

We then had a situation in Germany where German advertisers were subject to the German ban on comparative price advertising, while firms based in Member States with no such ban were permitted to make such comparisons in their advertising in Germany.

If taken to its logical conclusion, this example could result in an utterly absurd legal situation in country B. Firms based in country A do not have to comply with a ban in country B; those based in country C (where there is only a less stringent ban) need comply only with the less stringent conditions this entails; and those based in country D need comply only with its own (again less rigorous) requirements. In theory, therefore, there may be as many variations in the legal position in country B as there are Member States.

Although a uniform legal framework may eventually evolve as a result of the pressure on each national legislature to put an end to discrimination against its country's own firms, this is bound to take a long time. The decision as to whether the present state of affairs is acceptable, and how long it will remain so, rests with those bearing political responsibility for such matters - but the situation is certainly not satisfactory from a legal point of view.

Against this background, I regard as being of secondary importance the discussion as to whether checks on compliance with the country-of-origin principle should be carried out in that country or in the country of destination. However, such checks also presuppose that effective monitoring procedures have been set in place in either the country of origin or the country of destination. There also needs to be coordination between the relevant authorities regarding the results of checks carried out. But this will not counter charges of regulatory mania or excessive bureaucracy.

Thus probably the only way of arriving at a situation that is satisfactory from a legal point of view is to introduce common rules and apply them uniformly in practice in all the Member States, i.e., by means of directives or regulations or by means of some new legal instruments still to be devised. This solution would have the added advantage of being based on political objectives formulated jointly by the institutions with a mandate to undertake such work, rather than merely on a decision by a national body (or by the European Court of Justice).

Unfortunately, with its judgment in the *Keck-Mithuard* case the Court of Justice would also appear to have largely abandoned its role as the covert instigator of uniform ground rules. This is particularly regrettable since there are no political solutions in prospect.

At this point in the discussion, the objection is usually raised that such uniform rules would not be possible anyway in view of the differing cultures, mentalities and legal systems involved. But con-

Judgments of the European Court of Justice in Yves Rocher and Keck-Mithouard

Article 30 of the EEC Treaty, which is of central importance in EU law, prohibits quantitative restrictions on imports between Member States. For example, a rule in Member State A to the effect that only a limited number of vehicles manufactured in Member State B may be imported into its territory within a specific period would be in breach of Article 30 of the EEC Treaty and thus would be null and void. Article 30 also prohibits measures having equivalent effect to quantitative restrictions.

The Court has held in various judgments that restrictions on advertising can be a measure having equivalent effect. More recently, the Court has measured a number of national restrictions on advertising against the yardstick of Article 30 and held them to be inadmissible.

The **Yves Rocher** judgment of 18 May 1993 (Case C-126/91) dealt with Article 6(e) of the German Law Against Unfair Competition (Gesetz gegen unlauteren Wettbewerb), which banned eye-catching advertising involving own-price comparisons. The French firm Yves Rocher had developed an advertising method for a number of Member States and had advertised in catalogues using a comparison of previous (higher) and current (lower) prices to German customers too.

In paragraph 10 of the judgment, the Court held that the obligation on a trader arising from national restrictions either to use different advertising and sales promotion methods for individual Member States or give up a system acknowledged to be effective because of national differences was an obstacle to imports within the meaning of Article 30 of the EEC Treaty.

However, the Court's judgment of 24 November 1993 in joined Cases B. **Keck** and D. **Mithouard** (C-267/91 and C-268/91) qualified the above case-law. In view of the increasing tendency of traders to invoke Article 30 of the Treaty as a means of challenging any rules whose effect was to limit their commercial freedom even where such rules were not aimed at products from other Member States, the Court considered it necessary to re-examine and clarify its case-law on the matter (paragraph 14).

National provisions restricting certain selling arrangements were not such as to hinder directly or indirectly, actually or potentially, trade between Member States provided that those provisions applied to all affected traders. Thus, in future, restrictions on advertising should be assessed with reference to Article 30 of the EEC Treaty only if selling such products is actually made more difficult because of a national restriction.

siderable progress has already been made - even on a voluntary basis - in introducing uniform ground rules in the form of common technical standards, for example. The reason is simple: this is the only way of ensuring that products can actually be sold throughout Europe.

In the field of advertising, too, there are good examples of uniform rules. In addition to the countless labelling Directives, the prime examples are the trademarks Directive, the introduction of a Community trade mark and, from a procedural angle, the piracy Regulation.

The two Directives with a direct bearing on advertising, namely the 1984 Directive on misleading advertising and the 1989 Directive on television broadcasting, provide the basis for establishing uniform ground rules. But, while the Directive on television broadcasting lays down more or less clear-cut targets (particularly in terms of the time-scale involved), the misleading advertising Directive can be regarded only as a largely unsuccessful experiment. Although the Directive stipulates that the Member States must prevent misleading advertising, it is silent on the matter of when advertising falls into this category. Harmonisation does not even

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need to address any differences in mentality at this stage, but uniform standards do have to be established. In Germany, an advertisement is regarded as misleading if 15% of the target audience is misled by it. The courts often commission opinion polls (frequently costing between DM 30,000 and DM 40,000) in order to ascertain whether this is the case. This is not to say that the opinion poll should be used by all courts in the EU. I wish merely to point out that the Directive gives no indication whatsoever as to how to determine whether or not an advertisement is misleading.

In any case, the Directive has not established uniform ground rules since it is not possible to foresee or ascertain before launching a Europe-wide advertising campaign whether - and, if so, in which Member States - the advertisement concerned is regarded as misleading and hence either completely inadmissible, or inadmissible in its present form.

It is a fact that - despite differing mentalities and systems in the EU - most Member States hold broadly similar views on the content of a whole range of advertisements because they regard that content as important for consumer protection. Most Member States have regulations designed to protect consumers with regard to door-to-door and mail-order selling. The existing common ground in these areas could provide the starting-point for establishing a uniform legal framework.

In my opinion, it is not even a matter of ironing out differences in mentality, but rather of bringing about a meeting of minds on what advertising may and may not do and on whether the aim is to protect the average consumer or - as in Germany - the casual consumer.

Why, for example - as the Court of Justice asked in its ruling on the purity requirement - should German beer-drinkers be better protected than their Belgian counterparts when they can be informed by means of appropriate labels on beer bottles?

Problems with Cross-Border Commercial Communications -

Results of the BMRB survey and DG XV written Call for Comment

John Mogg,
Director General,
DG XV

When trying to use commercial communications across borders in the EU, industry frequently faces a regulatory maze created by an accumulation of divergences in what are often very detailed national regulations. In particular, companies identified areas such as media supply, specific products and services and certain types of commercial communications including sales promotions, sponsorship and direct marketing as problematic. As a result, scarce resources need to be dedicated to legal research and the adaptation of marketing campaigns to varying host country requirements. Especially for smaller companies, these costs can be just too high...

The consultation process

The first issue of *Commercial Communications* (pp. 22-24) introduced the launch of the consultation exercise organised by DG XV with interested parties on the problems related to cross-border commercial communications in the EU. This issue will identify some of the most important findings[1] drawn from both the telephone/fax survey (undertaken by the independent market research company BMRB International) and the call for written comment, which was run by DG XV itself.

The Survey

For those companies not trading throughout the Union, there seems to be a clear pecking order of markets of major significance. Germany, France and the UK are of most importance to these companies, followed by Italy, Spain, the Netherlands and Belgium.

In order to expand trading into other Member States, it is print advertising (89%) which is most heavily relied upon, with just over 25% of respondents using TV.

Communication Difficulties

Our objective in conducting the survey was to identify how easy or difficult companies found it to undertake commercial communications across the Internal market. 25% of the companies stated that it was 'rather' or 'very' difficult. Some 62% thought it 'quite' easy; few found it 'very' easy (9%).

How are these difficulties characterised? Cultural problems were mentioned most often and, of these, language was the greatest single difficulty. When, however, respondents were asked to identify the single most serious difficulty they had, specific legal restrictions moved ahead of both general cultural difficulties and language.

Call for written comment

Many of the more detailed replies to the call for written comment, which gave rise to over 300 submissions (representing a response rate of ca.13%), confirm the findings of the BMRB study. Companies identified a number of regulatory problems when using the various forms of commercial communications across borders in the EU (see over, Table 1).

68 companies identified 76 areas where the differences in regulations between Member States were thought to create barriers which they classified as 'quite', 'very' and 'extremely' serious.

Type CC	Number of Companies	Number of regulatory problems identified
All/General	99	133
All Advertising	56	105
TV Advertising	52	152
Print Advertising	13	19
Other Advertising	13	19
Direct Marketing	30	64
Sales Promotions	52	132
Sponsorship	25	41
Packaging	24	50
Public Relations	3	3

Media supply

Many companies identified problems in various general areas of media supply (aside from regulations dealing with particular product categories affecting media). These were experienced as creating unequal market conditions across Member States and barriers to using particular practices when implementing cross-border campaigns. Areas highlighted included media ownership and licensing rules, cross-border sales bans on spill-in airtime and varying national airtime regulations, causing available advertising time to be up to ten times as high from one Member State to another. Complaints were also voiced concerning differences in the treatment of dedicated shopping channels.

Problems arise from widely differing national policies in relation to both media and creativity

Specific products and services

Regulations affecting specific products or service sectors came up regularly in the replies as a major concern. For *alcohol* TV advertising for example, many companies pointed to differences in regulations both in terms of timing and content. These norms and regulations can go into great detail, specifying, for example, the age limits and other characteristics allowed for models used in commercials, the relative number of models that may drink, the manner in which the models are allowed to be shown drinking and the types of situations portrayed.

One reply summarises the general feeling present in all others on this topic:

'The advertising and marketing of alcoholic drink is controlled to a greater or lesser degree throughout the EU, either by legislation or self-regulatory code. Problems arise from widely differing national policies in relation to both media and creativity. These make cross-border campaigns legally hazardous, or else reduce them to the standards of the "most restrictive" country'.

Unsurprisingly, *tobacco* was also identified as a problem area. *Over-the counter pharmaceuticals (OTCs)* and various *health care products* were mentioned as being controlled by a variety of different norms and regulations authorising or preventing certain types of commercial communications for them (eg., prohibition of TV advertising of *OTC* products in certain countries), stipulating different guidelines for content (e.g., for female sanitary products and condoms) and in certain instances imposing clearance requirements. Differences in content regulations were also noted for commercial communications for *cosmetics,* and *shower and bath products.*

Regulations and codes restricting advertising to *children and minors* were also often quoted as differing widely throughout the Union. Bans on toy advertising (for children under varying ages or during particular time periods) or regulations concerning content (e.g., the use of children in advertisements) or limiting certain forms of commercial communications aimed at children, such as sales promotions, sponsorship or direct marketing, are all mentioned as varying significantly from Member State to Member State. In the words of one of the respondents:

'The regulations controlling the content of TV advertising to children are different in all Member States. These differences are amplified by further differences in national laws having a general bearing on advertising and by the existence of voluntary or statutory code based control systems which also differ.'

Similar remarks quoting specific examples were also given in the field of commercial communications for *foodstuffs* and *dietry products.*

Other product/service areas characterised by inconsistent regulatory frameworks that were identified in the main concerned bans or restrictive measures for commercial communications by professions (e.g., lawyers, accountants), the distributive trade (eg retailers), the publishing sector and political groupings (e.g., environmental or human rights organisations) in certain Member States.

Types of Commercial Communications

Particular types of commercial communication also seem to be more affected than others. For so-called below-the-line marketing communications, for example, many respondents pointed to the restrictions on the types of promotional techniques allowed in certain countries. Very detailed specifications, concerning areas such as the maximum value of on-pack gifts or premiums, combined offers and the use of coupons and trading stamps can be completely different if not contradictory between different Member States. To quote respondents:

'Restrictions on the value of free gift items with a product .....is a major disadvantage to products which have limited advertising budgets. This affects cross-border activity in that value-added packs can be used in some countries but not transferred ....

"The rules which govern the level of incentives or reward which one can offer a consumer to try a brand prohibits investment in brand development."

'A considerable problem is the fragmentation of governance, with commercial communications in general (and sponsorship in particular) being considered by a diverse number of government departments in the EC and in Member States....'

Concerning competitions and games of chance there are also 'widely ranging views as to what can and can not be employed'. Quite some techniques in this field are banned completely by several Member States, whereas others are highly regulated. Compulsory separations between competition and purchase, lengthy approval mechanisms and varying entry mechanisms are often cited as a hindrance to the development of an effective pan-European marketing campaign.

Direct Marketing is clearly another problem area for companies marketing across-borders in the European Union. Different regulations on data protection were mentioned most frequently as a source of problems. In the words of one company:

'Direct Marketing: Extremely serious problem: Transfer of personal data (ie names and addresses) across borders within the community'.

51% of the companies interviewed wanted some minimal common approach to regulation

In the area of sponsorship, broadcast sponsorship was singled out most often as the problem area, but complaints were also made as to the lack of distinction made when drawing up regulations between broadcasting and event sponsorship, despite their fundamental difference in nature. Barriers mentioned cover areas such as general differences between Member States, various prohibited product categories, restictions on sponsoring particular types of programmes, regulations on sponsor credits, the use of logos, number of banners and brand communication during sponsored programmes.

'A considerable problem is the fragmentation of governance, with commercial communications in general (and sponsorship in particular) being considered by a diverse number of government departments in the EC and in Member States which means that no central responsibility or decision is taken, and information is difficult to establish, particularly for interested parties.'

'Rules (are)so strict that they limit the creative scope for European campaigns.'

Implications

Faced with these various problems, 20% of respondents to the BMRB survey mentioned that they adapted their marketing/ advertising for each Member State. 14% organised their marketing strategy centrally but implemented it locally, whereas 12% executed their communication separately in each country.

Preferred action by the Commission

Respondents were also asked for the type of help they would like to see from the Commission. For commercial communications, 51% of the companies interviewed by BMRB wanted some minimal common approach to regulation. A further 8% wanted pan-European guidelines.

The issue of self-regulation recieved little spontaneous mention from advertisers (only 3% of respondents believed the Commission should rely on "effective self-regulation"). Most companies thought that they should comply with established arrangements in any country with which they were communicating. Self-regulation did not appear to offer any clear advantages over legal constraints.

In terms of information to be provided by the Commission, many respondents seemed to be in need of information on the different national legislative/normative frameworks and the differences between them. On top of this, the need for more information on changes in the European and national regulatory environments was stressed.

The concept of a periodic newsletter/ leaflet was suggested most regularly as a way for industry to keep up to date on developments. It was in view of this, and more generally to be able to increase communication between all market actors in the field of commercial communications, that this newsletter was conceived. With your cooperation and comments, DGXV hopes to be able to focus it as precisely as possible on your needs.

[1] Only the replies of the category "companies using commercial communications" are dealt with in this article. The full results, including those of the service providers, the media operators, the consumer organisations and the self-regulatory authorities will be disclosed at a later date.

The BMW Case History - 'The Ultimate Driving Machine'

This case study won for WCRS and BMW the Grand Prix in the latest IPA Advertising Effectiveness Awards and the award of the title 'Brand of the Year 1995' from the Marketing Society

Joel Levy
Director
WCRS

During most of the 1970's, BMWs in the UK were sold in showrooms alongside other marques known for their performance and rarity, such as Maserati and Ferrari. Annual sales averaged between five and ten thousand cars throughout that decade, reaching a peak of about 13,000 in 1979. At that time, BMWs were positioned in consumers' minds as very expensive, very fast cars and were being bought by a rather narrow group of car enthusiasts.

In 1979, BMW decided to become a much bigger player in the British market. They replaced their concessionaire distributor with a wholly-owned subsidiary and set it the objective of increasing annual volume sales by 300% over the next decade. They indicated this had to be achieved without sacrificing high profit margins.

It was at this time that WCRS in London was appointed to develop an advertising strategy to help the new company achieve its tough business objectives. Before long it was agreed that the two primary tasks of the advertising were:

First: to extend the appeal of the BMW brand beyond the dedicated enthusiast currently buying the cars. To do this, we would need to create a more rounded brand image with values more people could buy into. Without this, the huge increase in sales could not be achieved.

Secondly: while making the brand more popular, to ensure that the exclusivity currently associated with the cars was not compromised. This was to help preserve the high profit margins.

On the basis that there is very often an inverse relationship between exclusivity and ubiquity, achieving both these objectives was going to be a challenge.

The advertising strategy that continues to reconcile these apparently mutually exclusive objectives is based on four fundamentals: first, the consistent communication of core brand values; second, the use of the 'sniper' strategy; third, adherence to the centre of gravity concept; and finally, the creation of a unique BMW tone of voice. These terms require a brief explanation.

Core brand values

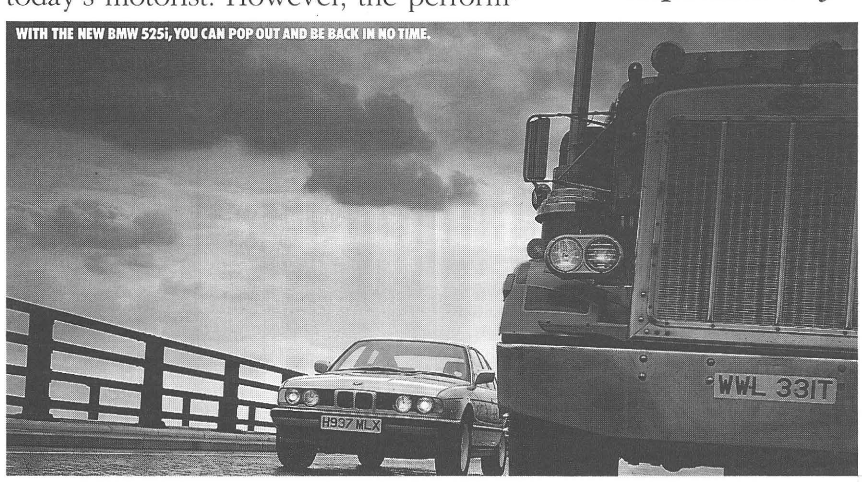
Early research showed that people chose to buy into the BMW brand before deciding on a particular model. Hence, creating a clear identity for the brand was critical. This was done by establishing the core BMW brand values and then communicating them consistently.

Consumer research, ruthless interrogation of the product and in-depth discussions with people from all parts of the BMW business helped identify four core brand values: advanced technology, performance, quality and exclusivity.

Since 1979, these values have helped shape all BMW communications. However, in order to keep the campaign fresh and relevant to changing market conditions their expression has been evolved over time.

For instance, where once performance was about sheer grunt and acceleration, it is now expressed in a more 'responsible' way for the 1990s. Here, acceleration is linked to safety and, therefore, is more in tune with the values of today's motorist. However, the perform-

Performance is now measured in a more 'responsible' way



ance message is still very clear.

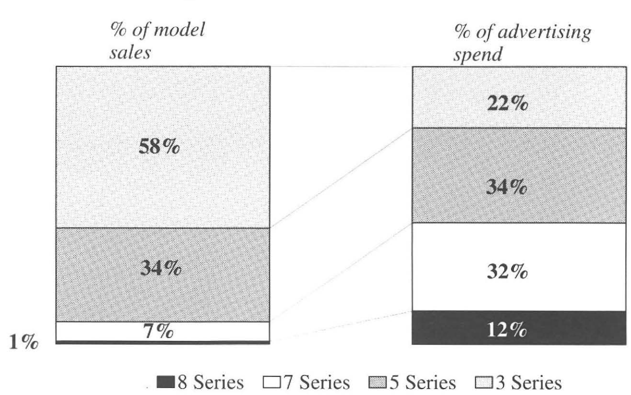
Likewise, as the quality of all cars has improved exponentially since the early '80s, BMW's expression of quality has evolved from 'cars which are well made' to 'quality which permeates everything BMW do', right the way down to how BMW train their technicians. This finds expression in ads that talk about the rigorous training programme all BMW technicians must complete before they can earn the BMW Master Technician Award. Similarly, the expression of advanced technology has moved from the examples of 'the latest in technology' to the most relevant and purposeful technology.

When there weren't many BMWs about, exclusivity could be expressed in terms of rarity. But physical rarity as a way of expressing exclusivity has become increasingly untenable as more and more BMWs have taken to Britain's roads. Indeed, the number of BMWs on Britain's roads today is fast approaching 500,000. Hence, exclusivity has now come to mean 'value not available elsewhere' - i.e., 'only BMW could make a car like this'.

It has been this evolution that has helped keep the BMW brand relevant and desirable. And it is because of this that the brand was able to take full advantage of the '80s economic boom - when it became the icon of the yuppie generation - and still retain very healthy sales through the recent recession and the conequent dramatic change in the social landscape.

Figure 1

Raising the brand's centre of gravity



The 'sniper' strategy.

The second element of the advertising strategy has been what we call the 'sniper strategy'. By this we mean the use of research to segment BMW's audiences and the use of highly targeted media to communicate the core brand values in a way most relevant to each group. For instance, advertising for the 3 Series might focus on quality for older buyers, and performance for younger drivers.

The guiding principle in the creation of our advertising has always been that our cars are not mass produced so nor should the advertising be. So, by developing and executing over 20 individual colour press advertisements every year we have been able to demonstrate each of our core brand values in the knowledge that not all of our advertisements would appeal to everyone, but that the sum of the parts would be infinitely larger than the whole. Moreover, it has been important that no single advertisement would be seen on average more than, say, once or twice by anyone - avoiding the perception of mass produced advertising aimed at everyone.

Raising the BMW brand's centre of gravity

The third component in the strategy was raising the brand's centre of gravity.

The BMW brand, at last count, comprised 84 models. The difference in price and performance between the top and bottom of the range is £57,000 and 260 bhp respectively. The strategy has always been to use the top end models to raise the centre - i.e. the average perception - of the brand higher.

In essence, this is a compensatory mechanism to prevent the decay in icon status that sales expansion would otherwise create.

In practice, this has meant allocating advertising and marketing spend disproportionately behind the top end models.

Hence, as you can see from Figure 1, in a typical non-launch year - 1990 - the 7 and 8 Series, which together represented only 8% of sales, received not far off 50% of BMW's advertising spend; whereas only 22% of the budget went on the 3 Series, even though it accounted for 58% of sales.

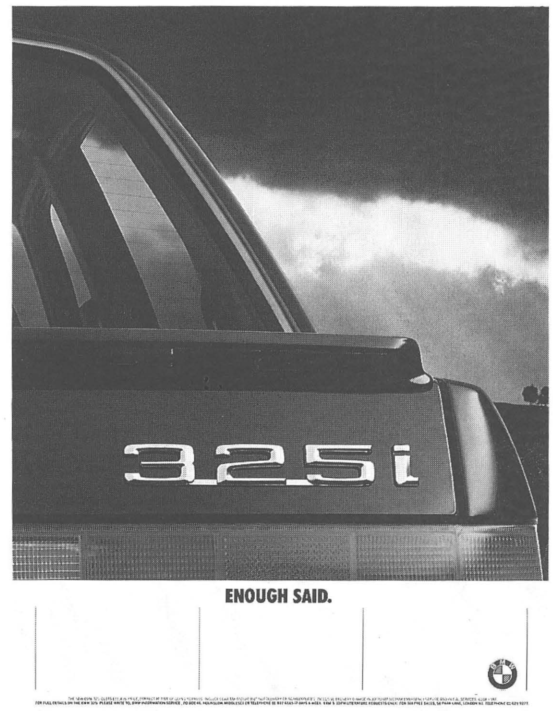
This is of great benefit to both the brand and the less expensive models in the range. The person who buys a 3 Series feels he is also buying some of the magic of the 5 and 7. Indeed, BMW advertising has consistently highlighted the similarities between its more and less expensive cars.

Consistent tone of voice

The final pillar in the strategy is a consistent tone of voice that immediately identifies an ad as BMW's. This consistency has been achieved by creating a clear vision and blueprint for what we call the 'BMW world'. It is a world that evolves, but not so much that you would notice it in one ad to the next. The evolution is virtually seamless.

The BMW world is a cool, calculated, precise place. You will seldom see people in this world because people, unlike BMWs, are fallible. The car is always central to the ad. And the ad is always based on a fact about the car that helps express the core values of the BMW brand.

In a BMW ad there is nothing that is not central to the creative idea; and any object, location, or colour that is included is chosen only after considering the question: if it were a BMW, what would it look like? This question has proved immensely useful in ensuring that the same 'tonal calibration', consistent with the BMW brand personality, is achieved with each and every ad.



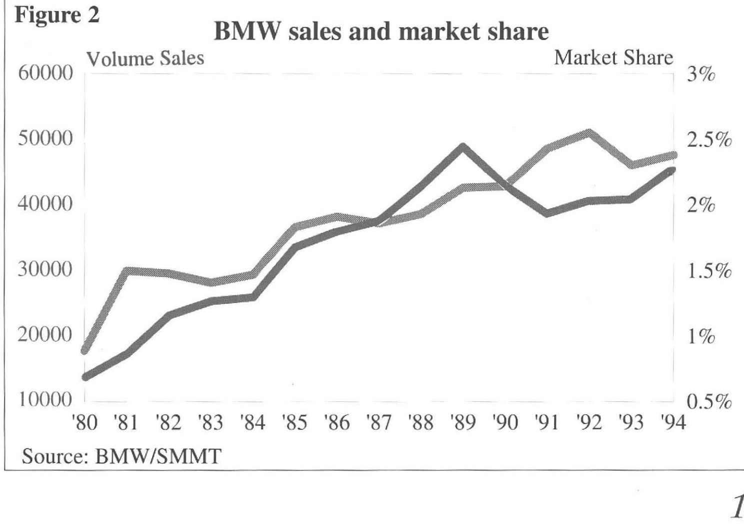
Consider two versions of the same ad to illustrate this. One version, with its dirty concrete floor, scattering of garden and DIY equipment failed the test - too much evidence of humans and their fallibility. Now consider another rendition of the same idea. The spotless, precisely balanced world depicted in this second version is the BMW world. The car stands out as a cool technical icon. This, as you might expect, is the only version that ever saw the light of day.

Assessing the campaign's effectiveness

To find out whether this strategy was successful, we need to start with the business objectives.

Figure 2 shows how not only have the sales tripled, but so has market share. Indeed, at the moment, sales of BMWs

Figure 2 BMW sales and market share



Source: BMW/SMMT

are up approximately 30% year to date in a market showing a 1% decline. Importantly, this growth has been achieved whilst retaining high profit margins. BMW dealers achieve higher margins than all other major manufacturers. And BMW has made a profit every year since 1980.

However, this is only circumstantial evidence - hardly enough on its own. It was through a Sherlock Holmes-style process of elimination that this association could be demonstrated to be no accident.

Like any investigation, the first step was to examine and, if possible, eliminate the factors other than advertising that might be responsible. It was this process that showed that price, product and distribution could not account for the level of success observed over the period and that it was the enriched imagery of the BMW brand created by the advertising that could.

Price considerations

One way to gain volume is to lower prices. However, the price of BMWs - as was the case for all German cars - rose consistently during the period as the Deutschmark relentlessly gained ground over Sterling. Indeed, in the UK the average price of a BMW remained well ahead of the market, even rising during the recession.

Importantly, the average price level of a BMW was not being driven up by selling proportionately more of the more expensive models in the range. Quite the contrary.

From 1980 onwards, BMW sold more and more of its least expensive models as a proportion of total sales. In 1980, 48% of the sales mix was accounted for by the 3 Series and by 1993 71%.

It is clear that the sales success was not due to lower prices. Indeed, BMW prices rose more than the market, despite selling proportionately fewer expensive models in the range.

Distribution factors

Though the quality of BMW dealerships certainly improved, their actual number only increased slightly, going from 143 in 1980 to 157 in 1994.

What did increase substantially was the rate of sale per dealer. In the early '80s BMW's rate of sale lagged behind the rest of the market, whereas now they lead the market, reflecting the ever growing demand for BMW cars.

So, while sales increased 300%, dealerships only increased by 10%. Clearly, the sales success cannot be accounted for by distribution.

Product improvements

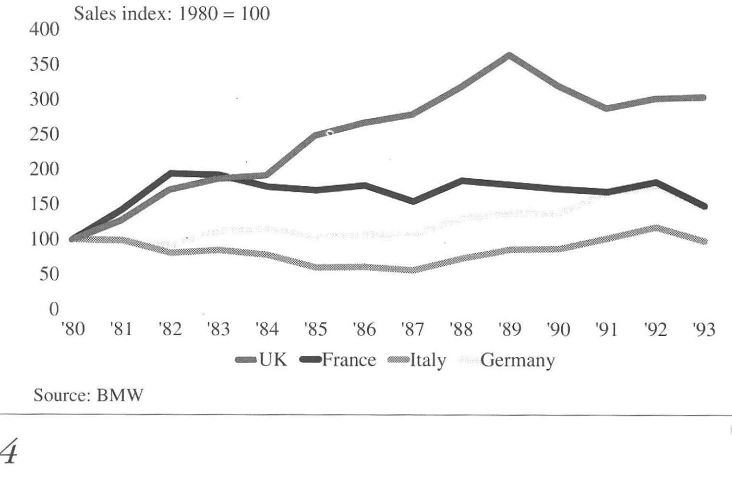
That leaves product. Did sales increase threefold because of better products?

Certainly the products improved, but no more than in any of BMW's other European markets. And if we look at BMW's performance in key European markets (Figure 3) we see that sales in France and Germany were up only 50% and sales in Italy stayed pretty much constant from 1980 to 1993.

In the process, BMW in the UK moved from being the fourth biggest seller of

Figure 3

BMW sales in Germany, Britain, France and Italy



Source: BMW

BMWs in Europe to second, just behind Germany - with the same products. So it is clear that improved products cannot account for the level of sales achieved. After all, the same products sold better in the UK than elsewhere.

This analysis eliminated probable explanations for the success achieved. The question remained, what was responsible for the success?

The factors that explain success

There are two things that distinguish BMW in the UK from BMW anywhere else. First, its levels of sales success and, second, the stature of the brand in the minds of consumers. The reality of BMWs in the UK is that there are plenty of them about. Exclusivity in the sense of actual rarity they clearly do not possess. Since 1980 the number of BMWs on Britain's roads has increased roughly 6-fold. Yet, in the minds of consumers, BMW remains an exclusive, highly desirable brand.

Indeed, BMW is, perhaps, the strongest car brand in the UK. In image terms it is more highly regarded than any other marque including Mercedes.

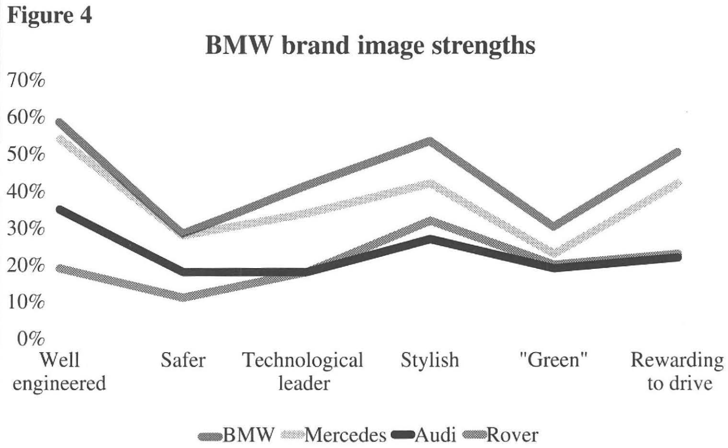
The findings from BMW's image tracking study (Figure 4) show the brand's lead over its most direct competitors on a host of key attributes - engineering prowess, safety, innovative technology, style, environmental friendliness and sheer driving pleasure.

Moreover, findings from international image tracking shows that the UK is the only market in which BMW is more highly regarded than Mercedes. The data are derived from 18 product and image statements. When compared to Germany, France and Italy, it is only in Britain where BMW's image out-performs that of Mercedes.

What makes BMW stronger in the UK is the greater depth consumers ascribe to the brand. Everywhere the BMW is known as more sporty than Mercedes but only in the UK does BMW perform more strongly than its rival on other attributes as well. This more rounded image is not due to selling different cars in Britain. BMW's sales profile is pretty much the same across Europe, with the exception of Germany where more top-end models are sold.

If we look at BMW's image over the longer term, the improvements become even more apparent. A comparison of BMW's image in the UK, France, Germany and Italy indexed against the brand's image in Germany in 1979 and in 1993 is a useful guide, as almost invariably a brand's image is strongest in its home market.

Figure 4

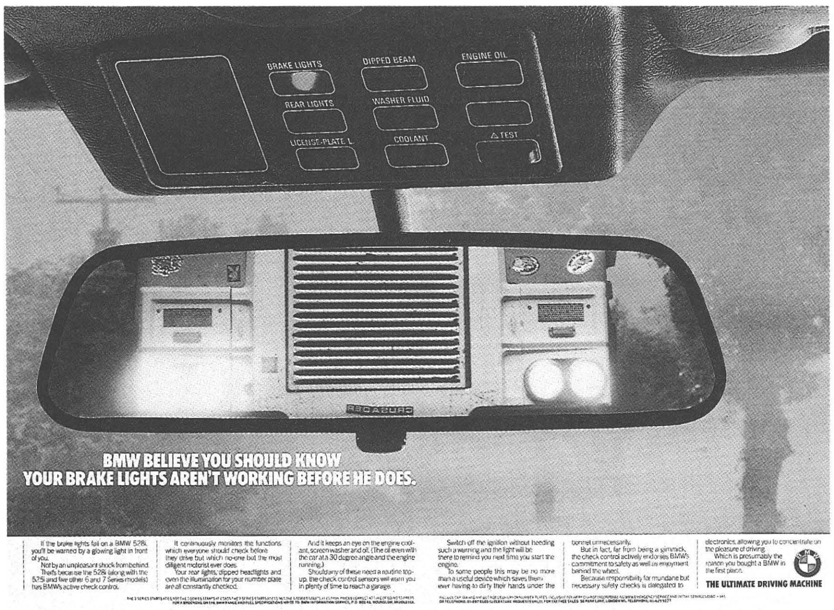


Source: Harris Research, December 1994

In 1979 BMW in the UK had weaker imagery than in Germany, but by 1992 Britain had at least matched Germany. This is in contrast to the imagery of the brand in France and Italy where, relatively, it weakened against the home market.

The strength of the brand in the UK is further evidenced by tracking study data, which show how motorists respond when asked which car they would be most likely to choose next time - a good measure of the car's desirability.

BMW comes second only to Vauxhall



Incidently, at the time this research was conducted, Vauxhall sat on roughly 17% market share; that is, its desirability was in line with its market position. BMW's market share was just under 3%, though 11% stated it was likely to be their next car.

In addition, the strength of consumer demand and the premium the brand delivers has made BMW the most sought-after dealership in the country. Asked to rate the value of their franchise out of ten by the Retail Motor Industry Federation, BMW dealers in the UK stood out significantly in their rating of their franchise versus competitive dealers' ratings of their franchises.

Rather than price, distribution and developments in the product, it is the strength of the brand that has created quite exceptional levels of demand and regard for BMW in the UK. The brand has achieved the depth of meaning and breadth of appeal originally established as a key task for advertising. In short, 15 years of consistent advertising has been critical in building the BMW brand.

One benefit of such consistency is that the advertising itself becomes well known. Though typically BMW ranks about eighth in terms of advertising spend, it is not uncommon for it to rank at least third in advertising awareness. Its awareness ranking has always been higher than its spend ranking.

But the major benefit of consistency is that the consumer has developed a clear understanding of what the BMW brand stands for. Consumers now have an understanding of what is BMW's mission: that is, a determination to make the best cars through innovative technology, an emphasis on performance and an unsurpassed level of attention to detail in the pursuit of quality. In research, no other major manufacturer comes across as being so dedicated to the art of making really desirable cars. Indeed, BMW's brand vision and its public image are truly aligned.

The commercial value of building the BMW brand

But what value can we attach to this investment in brand building advertising?

Two empirical methods were employed to put a commercial value on the advertising. The first was to suppose that BMW sales had grown at the same rate from 1980 to 1993; the other was to suppose sales had grown at the same rate as BMW in other European markets over that same period.

The first method takes out the effect of the recession in the UK which would mask the value of BMW's extra sales. The second method establishes what sales would have been if BMW had only grown at the same rate as it did in Germany, France and Italy.

In the first, the incremental sales represent something like £2.7bn.

In the second, the incremental sales represent something like £3.2bn.

In both scenarios sales of BMWs would have been a lot less than was the case - approximately 200,000 cars fewer. And BMW would have made a lot less money, some £3bn less. On an advertising investment of £91m, this represents a pretty good return.

ECONOMIC CLIMATE AND BRANDS:
Consumer Attitudes to Brands, Promotions and Pricing

Lucienne Hellebosch
Director General
GATES Marketing

For the first time since the 1950s, European consumers have felt the influence of recession for more than three successive years. We do not have any experience in predicting how the economy may perform when consumer spending has been under pressure for this length of time.

What are the consequences for brands? These appear to have lost a great deal of credibility.

Crumbling authorities

Our society is going through some radical changes which will have a pervasive influence on all Western economies.

With a series of tracking studies, Gates has been looking since 1993 into the consumer climate, monitoring changing consumer reactions and assessing what the implications the depressed economic climate has for brands. The results of the November 1994 survey showed that 83% of Belgian consumers had negative attitudes towards the current economic climate. 54% expected the recession to last a further five years, while 32% were convinced that it would last still longer. Three out of four Belgians felt the impact of the recession directly, in their wallets.

This general feeling of uncertainty is expressed also in the crumbling of respect for authorities and the disappearance of past certainties.

The end to the communist era will have an enormous impact on our economic system. Cheap natural resources and cheap labour will penetrate our markets. The bulk of our economic activity is shifting from heavy industry to the so-called brain-power industries, i.e. the high-technology industries, the development of which seems unlimited.

However, the young, highly educated generation of Asia is ready to take over. The globalisation of our markets has led to cheaper import prices, cheaper labour and, in the end, cheaper consumption prices.

We live in a period of deflation and the U.S. economy is no longer able to influence world markets as it used to. Sharper competition on the world market has led to much more competitive prices, and brands have lost much of their former credibility.

Crumbling brand authority

The attitude expressed by consumers is, 'Why spend on a brand name if the company makes a store brand which is 20% cheaper?' Consumers feel cheated. They have heard too often 'new, new, new' and have bought too many spurious diversifications and incoherent line-extensions. They have seen too many superficial lifestyle ads.

Brands have become too complex in too short a time. They have lost their guidance function for the consumer and are no longer staking out their territory clearly.

Whilst their income is depressed, consumers seek to save money. What strategies do they employ? There seem to be three major tactics. Most simply buy less often (69%), while two out of three consumers buy cheaper brands and 45% buy smaller quantities per purchase.

We have noticed a weakening brand loyalty for commodities and the highest brand disloyalty is to be found amongst daily 'pleasure' products.

While numbers of loyal brand buyers used to average 80% for dairy products and 60% for snacks, by November 1994 this had slipped to 61% and 33% respectively. Disloyalty scores ranged from 25% for dairy and up to 50% for desserts.

Crumbling brand image

Familiarity with a brand is built on exposure to the brand, both through advertising and usage. When frequency of usage decreases, advertising has to increase in order to maintain the levels of awareness.

When exposure to the cheaper brands increases, the price elasticity for the most expensive brands decreases. The psychologically accepted price premium for an A-brand decreases most in those product categories where store brands are most active. The consumer is no longer willing to pay higher prices for brand labels.

Back to core values

The change in attitudes towards brands will provoke marketing to review the significance of their brands to their target group.

Brands need to go back to their basic function for the consumer, as beacons helping consumers to find their way through a sea of products.

The recession has made price a valued means of orientation. The Belgian consumer has now experienced the feeling 'I am king, for I have the money sought after by distributors and manufacturers.' High quality, low price and service are essential to the consumer. Some extra, unexpected service may link them to a brand. Continuity in the promise offered and the special relationship with brands is needed to recreate the values the consumers expect (and want) brands to have.

The recession of the 1990s will have a long-term effect on the Belgian consumer of a magnitude similar to that of the oil crisis and the Korean War. The effect will be mainly on attitudes to spending and consumer attitudes and expectations of brands.

The Challenge of the I-Bahn

Ad driven TV or Pay driven TV?

Dr. Toby Syfret, Media Consultant

Recent technological progress has opened our eyes to the possibility of an awesome brave new world of electronic media by enabling the convergence of the telephone, the computer and the television.

There is no apparent limit to growth. Multimedia markets could be enormous. North America caught the I-Bahn fever first, then Europe, and now the Japanese. The Japanese may have been slow to see the I-Bahn, but they have caught the fever as acutely as any other nationality. Thus, a paper published last year by the Multimedia Promotion Association, an affiliate organisation of the Japanese Ministry of International Trade and Industry, valued the Japanese multimedia market at Yen 223 billion ($2.17 billion) in 1993, and predicted that it would grow by more than a hundredfold to Yen 40-50 trillion ($388.4-485.4 billion) per annum by 2015.

The figures are staggering, though it is necessary to qualify them. The increase is partly a matter of definition, since multimedia growth is as much, if not more, about the joining together of markets, which are treated as separate now (e.g., merging of television entertainment with telecommunications and computing), as it is about the creation of new market opportunities (e.g., video-on-demand or VOD).

Television entertainment, as we understand it today, will occupy a fairly small segment of the total multimedia market. This does not imply that viewing levels will suffer because of all the new and competing uses of the TV screen. Certain applications, such as videogames, may squeeze viewing levels because they compete with television programming as entertainment. In general, though, the main revenue possibilities are for non-entertainment services such as home-shopping, electronic mailing or home-banking, which will presumably be offered as efficient, time-saving alternatives to current practice. That being the case, there are grounds for predicting that, far from causing people to view television programmes less, the trends of multimedia convergence and growth will enable them to spend more time watching TV.

The questions are, how will programmes be offered to viewers, and how will they be paid for? The promise of interactive VOD technologies is that viewers will no longer have to watch broadcast channels, but can call up any programming they choose; in which case, might they not prefer to pay instead of having to watch advertising?

There are those who think that this will indeed happen. An example of the extremist position is this excerpt from George Gilder, which appeared in The Economist in 1993. According to his view:

'Television and telephone systems - designed for a world in which spectrum or bandwidth was scarce - are utterly unsuited for a world in which bandwidth is abundant.'

'Whether offering 500 channels or thousands, television will be irrelevant in a world, where you can always order exactly what you want when you want it, and every terminal commands the power of a television station today.'

It is hard to see what position brand advertising can hold on to in the kind of world that George Gilder describes.

The potential and limits for paid-for- TV

By 'paid-for-TV' is meant television services that are paid for directly and voluntarily. The alternative, 'free TV', embraces television services supported by advertising or the obligatory licence fee. Of course, free TV, whether supported by advertising or the licence fee, also costs the viewer money. The essential distinction is that free TV does not allow for any discretionary payment, and free services are available at no extra charge to anyone who possesses the necessary apparatus for receiving their signals.

Paid-for-TV comes in two main forms today: (a) basic and premium subscription services ('subscription TV'), including pay-per-view, which exists on a very small scale; (b) rental and purchasing of video software.

This article concentrates mainly on the subscription services, and argues that it does not have the potential to replace free TV. It presents a valuable and segmented market opportunity in its own right. However, there are distinct limits to how much money the public is prepared to spend on paid-for-TV, or on what kinds of programming it is prepared to pay for.

The first point to acknowledge is that subscription TV already makes a large contribution towards funding television. As Table 1 reveals, about $33 billion will have been spent on subscription TV across the biggest television markets in the world. This compares with about $80 billion spent on television advertising.

These are gross figures. For estimating net channel revenues, it is necessary to subtract cable operator and DTH subscriber management income from the subscription figures and likewise media commission from the advertising figures. At a guess, 1994 net channel revenues from subscription TV services will work out at some $15-20 billion compared with about $70 billion from advertising.

Both subscription TV and advertising TV are growing fast in some countries, especially in the Asia/Pacific region and parts of South America. In Western Europe, television advertising markets are mostly closer to maturity, but some subscription markets are continuing to expand rapidly. By contrast, advertising and subscription TV are relatively mature in the USA, which accounts for well over half the total world revenues from subscription TV according to my 1994 estimates. Yet, $17 billion spent on subscription TV in the USA contrasts with the $33 billion that Zenith forecast for TV advertising. Other sources suggest a lower figure of around $30 billion in TV advertising spend. Only by factoring in a further $13 billion for pre-recorded video can we say that the total paid-for-TV market in the USA is about equal in size to the television advertising market.

Table 1

World Markets for Subscription and Advertising TV

Region	Adv. Shr. %	Sub. Shr. %	Adv. Rev. $ bn	Sub. Rev. $ bn	Total $ bn
Africa/Middle East	71.6	29.4	0.63	0.25	0.88
Americas	66.3	23.7	41.21	20.96	62.17
Asia/Pacific	87.3	12.7	19.8	2.89	22.69
Europe	67.7	22.3	18.78	8.97	27.75
TOTAL	70.9	29.1	80.42	33.06	113.48

Source: 1995 TBI Yearbook. Countries are included on the criterion that forecast 1994 gross television spend will be close to, or exceed, $100 m.

Hence, my second proposition: Subscription TV, or Paid-for-TV (i.e., including video software rental and sales), has to grow far beyond its present size even in the USA if it is to replace spot advertising on the I-Bahns of the future.

However, it is unlikely to do so because there are clear limits to what the public will pay for subscription TV (I shall deal with video later on).

Basic subscription services: With rare exceptions, such as the UK, cable is much the most important vehicle for delivering subscription TV. European figures in Table 2 show price to be a major determinant of subscriber density: meaning, homes connected to cable as a proportion of homes passed. Other factors (e.g., quality of off-air reception, attractions of extra channels, connection charges, costs of construction, etc.) also matter; however, price is probably the most important. As a rule, cable penetration and subscriber density are high/very high in countries where it is treated as a semi-public utility, which is charged for at a low

Table 2

Trade-off between subscription fees, cable penetration and subscriber density in Europe

Country	Cable Penetration %	Subscriber Density %	Ave. Monthly Fee %
Belgium	95	97	10.7
Netherlands	87.2	93.7	8.61
Switzerland	81.7	93.5	12.45
Sweden	51.8	92.9	8.34
Ireland*	41.1	86	10.97
Norway	37.1	75.2	8.45
Denmark	57	72	5.4
Germany	45.9	65.6	8.09
Finland	36.2	59.7	3.6
Austria	26	56	15.05
UK	3	20.8	17.93
France	5.3	19.1	24.52
Spain	1.1	14.1	12.55

* Ireland: Cable penetration figures are for the end of 1993. Later figures include MMDS.
Source: Kagan World Media: European Cable/Pay TV Databook - 1995. Cable penetration and subscription density figures are 1994 end of year estimates. Monthly subscription fees are average year estimates for 1994.

Table 3

Penetration of premium Pay TV Channels

Country	End of year penetration - % 1990	1991	1992	1993
France	14	15	16	18
Germany	*	1	2	2
Italy	0	0	1	2
Netherlands	2	2	2	3
Spain	0	0	5	6
Sweden	8	11	12	12
UK	3	7	11	14
Canada	11	11	12	13
Japan	0	2	3	4
South Africa	15	16	17	18
USA	29	29	28	28

Source: TBI, JWT, Kagan World Media

monthly rate, and much lower where it is treated as a commercial profit-making enterprise, which is charged for at a significantly higher monthly rate.

Premium Pay TV: By contrast with basic subscription services, elements of the public will pay large sums of money for access to premium pay TV services, of which the core attractions are inv-ariably films and sports. Again, there is abundant evidence for price sensitivity with regard to the take-up of premium channels. Even more important, however, the market is highly segmented. Table 3 shows recent growing trends of pay TV in the larger European markets, and, for comparison, the USA, Canada, Japan, and South Africa. South Africa has been selected because it is equal with France as the world's largest pay TV market after the USA.

Three points need to be made:

● There is not a single national market outside the USA where the national penetration of premium pay TV services exceeds 20%. Although Table 3 does not show it, there is some evidence of slackening growth trends in the other leading countries, such as France, South Africa, Sweden and the United Kingdom. In the case of France, Canal+ accounted for almost all pay TV penetration in 1993. Launched in November 1984, it experienced its first-ever half-yearly drop in subscriber numbers, from 3.708 million subscribers at the beginning of January to 3.677 million subscribers at the beginning of July.

● Not even in the USA has the penetration of premium pay TV services exceeded 30%. At the same time, the especially high levels of pay TV penetration found there reflect a combination of special and favourable circumstances. Chief among them, I suggest, are: (a) the very high levels of advertising clutter on free TV; (b) the relatively low monthly charges (about $12 per premium channel on top of basic cable subscriptions); and (c) the fact of the USA's being by far the world's largest home-producer of fictional entertainment, including feature films.

● Outside the USA, a range of factors determines whether countries are good or bad markets for pay TV. If 20% or thereabouts represents the ceiling for the leading countries, others may not get near it simply because interest levels are lower. Several observers have suggested that the main reason why pay TV penetration is low in Germany and the Netherlands is because viewers can tune into an abundance of feature films and top quality sports on the free channels. Whatever the reason, interest levels are certainly lower in those countries. This is graphically illustrated by self-completion data from the November 1992 PETAR (Pan European Television Audience Research) survey, sponsored by MTV Europe. Table 4 shows the sizeable differences in levels of pay TV penetration and interest levels that were found, based on a sample of about 1,800 respondents.

Price may be an important determinant of interest in premium pay TV channels; however, the crucial point to retain when considering the potential of VOD is that the market for premium pay TV services is segmented. Table 5 illustrates this. Once more the data are from PETAR but, this time, from the November 1993 survey, with a self-completion sample of about 1,650 adults.

The PETAR November 1993 findings, which replicated the findings of the November 1992 PETAR survey, found that subscribers were no different from the rest in considering price the main disadvantage, and in general were as alert to the negatives as the rest of the sample: however, the point of real difference between them and the rest was their degree of enthusiasm for the products offered by premium film channels. They were simply significantly more enthusiastic about films.

The November 1993 PETAR illustrates one further point: namely, the concept of subscription TV is still much less widely accepted in Northern Europe than funding by the licence fee or advertising. Respondents were asked for their approval/disapproval of each method of funding on a five point scale. Table 6 summarizes their answers.

In conclusion:

● The global market for subscription TV is already substantial and growing.

● However, it has a very long way to go before it catches up with advertising.

● Nor is it likely to catch up with advertising. In the USA, which is both a relatively mature and favourable market for subscription TV, total subscription revenues of around $17 billion in 1994 amount to little over half the $30+ billion expected to accrue from advertising. Only by adding an additional $13 billion for video purchase and rental, do we obtain rough parity between advertising and total paid-for-TV revenues.

● Outside the USA, the market potential for subscription TV generally appears significantly lower. Both basic and premium subscription services show themselves to be highly price sensitive.

● In addition, (a) the market for premium subscription services, of which the core attractions are films and sports, is highly segmented, and (b) evidence from Northern Europe suggests that the concept of voluntary payment for receiving TV channels is still much less widely accepted than the licence fee or advertising revenue.

Table 4

Interest in premium Pay TV

Country	Already Subscribe %	Interested in Subscribing %	Total %
Denmark	4	21	25
Belgium (Flanders)	11	10	21
Germany	10	9	19
Netherlands	6	9	15
Norway	3	20	23
Sweden	18	17	35

Source: PETAR, November 1992

Will the future be any different?

But, some will object, the arguments and the evidence I have mustered relate to conventional pay TV services, and are irrelevant when it comes to the I-Bahn, where the whole emphasis will shift from subscription to payment on demand.

Of course, current experience of conventional subscription services cannot tell us exactly what will happen on the I-Bahn, but it does offer clues about viewer interest, price elasticity and revenue potential, which are worth paying attention to. Let us consider now what the future adds.

The main consumer propositions of paid-for-TV on the I-Bahn are pay-per-view (PPV), near-video-on-demand (NVOD), and video-on-demand (VOD), plus a few interactive services, such as

Table 5

Pros and Cons of Premium Film Channels

	Whole Sample %	Premium Pay TV Subscribers %
Attraction of premium film channels		
Films without ads	32	67
Wider choice of films	26	56
Newer films	24	50
Better films	21	46
More convenient than the cinema	20	56
Repeats	13	56
No special attractions	51	4
Negatives of premium film channels		
Cost of subscription	62	62
Need for a decoder	39	54
Enough on the other channels	30	14
Too many repeats	17	27
Can see on video/at the cinema	12	5
Video rental is better value	12	11
No disadvantages	6	9

Source: PETAR, November 1993

Table 6

How should TV be paid for?

	Licence Fee %	Advertising %	Subs./Pay %
Pro	51	43	16
In the Middle	24	22	28
Con	19	27	42
Don't know/ No answer	6	8	14

video games and home shopping, inhabiting the fringes of TV entertainment.

Of these, PPV is not new in North America, although the first European PPV service (Multivision in France) was only recently launched in May 1994 . Indeed, in North America, it has a history which goes back further than pay TV, with Canada's Videotron having launched PPV services as long ago as 1967. Canadian PPV services are still in the red. Neither in Canada nor in the USA has PPV proved a success. In the USA, for example, average annual earnings per subscriber for PPV services was $50 in 1993, less than a third of the annual revenue yield for conventional pay TV channels such as HBO. So, how might this change on the I-Bahn?

There are three ways in which the I-Bahn can help PPV. First, through the development of lower cost addressable systems. Second, through the improvement of the interactive return path, whereby the viewer can use his remote control, as opposed to the telephone, to order a PPV offering. This enables 'impulse PPV'. And third, through granting many, many more digital channels, which will enable PPV operators to greatly expand their offerings. US experience suggests that PPV take-up rates may increase severalfold when these conditions obtain.

But, we need to be cautious. To date, the core attractions of PPV seem to be precisely the same as for pay TV and video: namely, films and sports, with arguably an added (and therefore narrower) emphasis on bigness and novelty (i.e., recent release for films and 'live' sports events). Indeed, PPV has arguably less to do with extending choice, than offering greater convenience. We must therefore ask whether the gains of I-Bahn PPV will not simply cannibalise other revenue streams, which include conventional premium pay TV, video rental (and purchase), and box office receipts at the cinema.

And, it is necessary to recognize that not all the past constraints on PPV are attributable to Ice Age technology. PPV has fared poorly in North America at least partly because of the limits to what people will pay for it. It attracted a great deal of interest in the USA during the early '80s when cable growth was at its peak.

'By 1983', writes Timothy Hollins in 'Beyond Broadcasting:Into The Cable Age', 'there had been ten pay-per-view events nationally distributed, including the heavyweight boxing championship fight between Larry Holmes and Jerry Cooney in June 1982, live rock concerts by the Rolling Stones and The Who, and the films, Star Wars and The Pirates of Penzance. Prices per subscriber ranged from $10 up to $30. Early evidence seemed to augur well: the Holmes/ Cooney fight attracted almost half the potential subscribers and earned some $9 million. Several systems discovered that subscribers made such occasions into television parties, with Warner Amex estimating an average nine people per television set for the Leonard Hearns title

Table 7

Interactive Multimedia services - application preference

	Application Ranking*		Application Preference**
	First Choice	**Second Choice**	
VOD	35	3	38
Information Services	5	7	19
Educational Services	2	8	26
Home Shopping	1	14	30
Transaction services	1	11	23
Games	0	1	24

* Based on number of respondents selecting applications as first/second choice.
** Based on number of respondents selecting 'highly likely to use application'.
Source: HK Telecom Strategic Planning: Table reproduced from TBI 1995 Yearbook.

....continued on page 29

Advertising accountability

Measuring advertising's effectiveness

John Philip Jones
Professor of Communications
University of Syracuse

What does accountability mean? It means, in essence, that the effectiveness of advertising has to be measurable. There are many surrogate psychological measures and we also have some behavioural or sales measures. The surrogate measures cover things like brand awareness and attitudes to brands; brand image attributes and advertising recall and recognition and attitudes to advertising.There are very many research services that measure variables of this sort.

The behavioural measures are more problematic and more difficult. We can look at share of market/share of voice relationships and I have done some work on this myself. Over the years there has been a great deal of econometric analysis, statistical modelling and the calculation of advertising elasticities and I will refer to these below. But we now have something that is really much simpler and, I believe, much better. This is single-source scanner data, which forms the basis for the rest of this article.

I would like to nail my colours to the mast and I am not going to budge from this statement. Surrogates provide useful diagnostics, but surrogate measures on their own are totally inadequate. If we are going to have to demonstrate advertising's viability, we are going to have to have more than surrogate measures.

Consider how advertising is evaluated: before exposure we test concepts and we test finished ads; and (in theory) we test short-term sales effects and surrogates for sales effects, and long-term sales effects and surrogates for long-term sales effects. We do an awful lot of measurement of these surrogate effects, particularly in the United States, where there is a vast industry in quantitative copy testing. We do a great deal of long-term sales measurement. But, oddly enough, we do very little short-term sales measurement, which is strange, and that is what I want to concentrate on. Is it possible to detect any short-term effect from advertising? Many people say 'No!' I think they are all wrong.

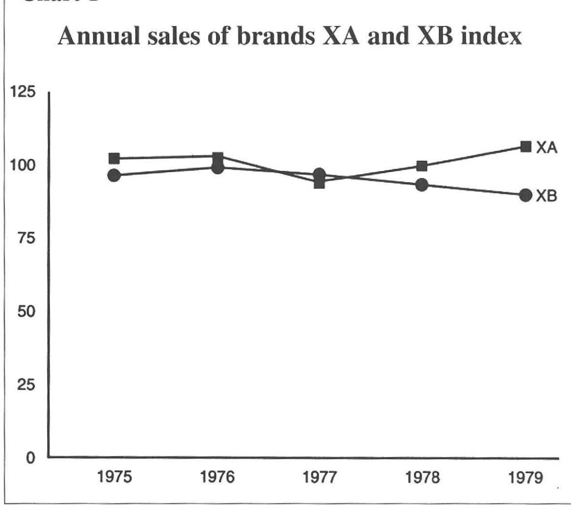
Advertising's short-term effects

The difficulty or traditional difficulty of tracking the short-term sales effectiveness of advertising has really caused the advertising industry almost to surrender the keys to the castle. Many have contributed to this surrender and here is just one example. These are the words of a person for whom I have tremendous respect, David Ogilvy: 'Every advertisement should be thought of as a contribution to the complex symbol which is the brand image. If you take that long view, a great many day-to-day problems solve themselves'. I don't disagree with that, but unfortunately,when we look at the long view, we tend to forget the short view. After all, in the long term we are all dead!

Take again a well-known research organisation which says this: 'A convincing set of conclusions can be reached by taking together modelled sales data and the results of tracking study questions.....If the trend sales suggest that the campaign is working, this is surely a much more probable conclusion if it was also well recalled, communicated clearly and shifted brand attitudes.'

I have to say, if I were an advertiser and all the advertising industry could offer me was 'if the trend sales suggest that the campaign is working', I would spend all my money below the line too. But, I

Chart 1



Obviously, with this year-by-year data we see no short-term effects. At the end of five years, however, we do see a difference in those brands and ask whether this is related to long-term advertising effects? And it was related to a long-term advertising effect, being a question really of budgetary policy, and this can be tracked perfectly easily.

But what has happened to the short-term effect? When we see these data we conclude there aren't any short-term effects and that any effects are in the long-term. When we looked at the bi-monthly Nielsen data for the brands we saw beautiful seasonal movements. We saw two months by two months regularly repeating patterns and, year-by-year, we saw seasonal drops from peak to trough, never more than 30%. If we try to look at the effect of marketing stimuli, sometimes we see some effect from a promotion if that promotion was very heavy, but we hardly ever see any advertising effects. So we think to ourselves, since the best research we have can't show any effect from advertising, advertising can't have any effect. Advertising must be something to do with long-term brand images and all those other things that David Ogilvy talks about.

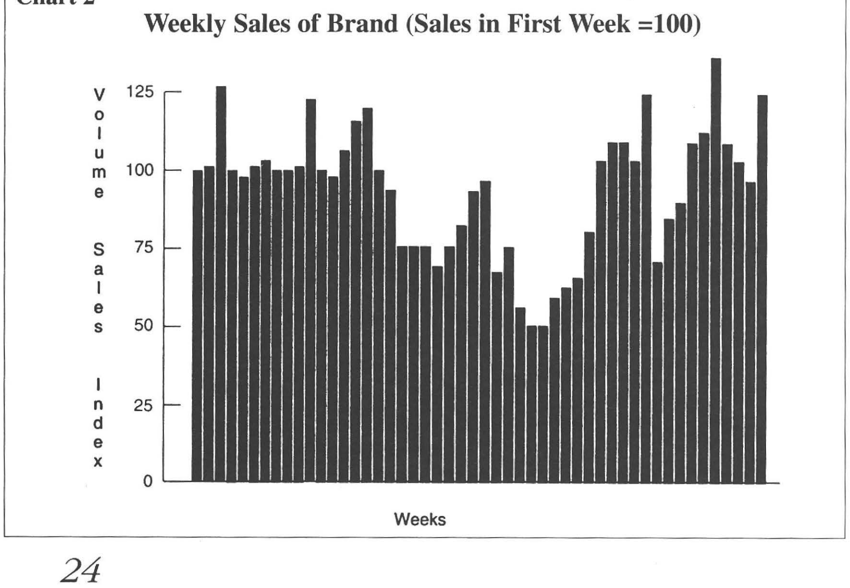
believe the research industry can actually do something a little more robust, a little more heroic than that.

The problem is, of course, that the traditional ways of tracking sales were done over relatively long periods, so any short-term movement was concealed. We are all familiar with the methods we used to use when employing Nielsen data, and I am deliberately using data from the 1970s when we relied on these types of data. Chart 1 looks at two major brands in the US in a very important category, and here we plainly see a tremendous smoothness.

When we actually started to track sales on a more realistic basis, week by week or even day by day, something else started popping out of the data. Chart 2 looks at one year, for a fairly major US brand, using week-by-week data. We had never seen such a degree of volatility. The drop from peak to trough isn't 30%, it is over 60%, and there are hardly two weeks that have the same sales level. This is typical of literally hundreds of cases we have seen in the US and the same is pretty much true of many categories in Europe.

What has driven these ups? Well, three things have driven them - first of all they have been driven by the promotions of the brand; secondly, advertising for the

Chart 2



brand, and thirdly, seasonal factors. In turn, the downs have resulted from the promotions for competitive brands in the category; advertising for competitive brands in the category and seasonal downturns.

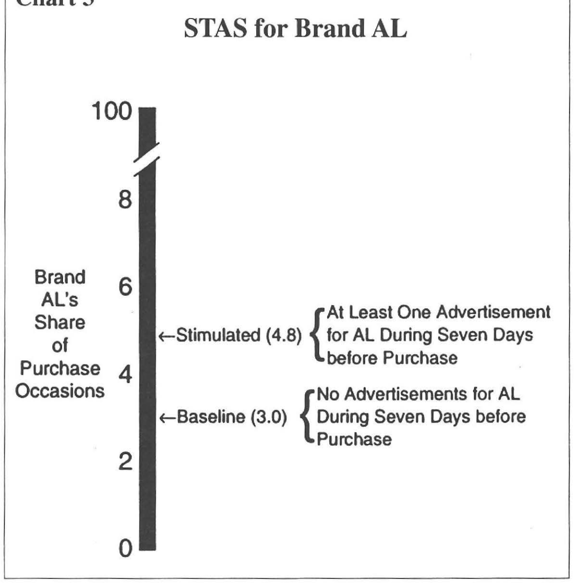
Single-source research

How can we track the effect, in particular, of the advertising? We have to use single-source research. What we mean by single-source is that we capture, within the individual household, the important variables. I am going to describe what I call pure single-source research as originally conceived by Colin McDonald: the capturing and inter-relating of three streams of data. We have to measure in detail and reliably the household purchasing of named brands and varieties; secondly, we have to capture the television viewing within the household in terms of channels and when the set is switched on to each channel; thirdly, and this is a real problem in the US because of the huge fragmentation of the television audience, we have got to be able to locate what commercials are on the air.

The average household sees 40 channels, which are dense with commercials, so there is considerable difficulty in attributing particular times to particular commercials. The only way that Nielsen has managed to do it, and I'm drawing in this article on Nielsen data, is by having something called Monitor Plus, which has a satellite monitoring service that tracks all the commercials in the largest Designated Marketing Areas (DMAs) in the country. They log something like 2.5 million commercials every month and it is a very complex procedure.

Difficult though it is, it can be done. Many of the problems highlighted over a decade of experimentation have been resolved. But it is important to keep in mind what has been learnt. The more we disaggregate- a key point- the more we

Chart 3



break down into little cells, the more we learn; and the more we aggregate the more we conceal.

I have developed a device called the Short Term Advertising Strengths test (STAS). Originally I worked on one category, looking at packaged detergents, but only at 12 brands and I couldn't really generalise too much from that. We are talking about a national sample of 2,000 households and in the pilot work I looked at 7,500 purchase occasions.

The national work I have now completed is based on 110,000 purchase occasions and has great statistical solidity. We have week by week mechanised data collection, the result of a very serious upfront investment. 40,000 homes in the United States have the hand-held scanners that collect the purchasing data. These devices get the UPC (Unique Product Code); the housewife punches in the price; and at the end of the week, the housewife dials an 800 or cost free telephone number, presses the back of the machine into the mouthpiece and all the information is downloaded to Nielsen.

The STAS is worked out in the following way. Chart 3 looks at a fairly major f.m.c.g. brand in packaging terms. It is a Procter brand. The 3% share of market without advertising I call the baseline STAS. It is the brand's share of purchase occasions in the households which have not received television advertising for it during the seven days before purchase. As a result of advertising, at least one advertisement for the brand during the seven days before purchase - very robust, very clear - the STAS goes up to 4.8. The STAS differential is 1.8% on 3%, which is a 60% lift or increase as a result of the advertising.

This is a major advertising effect, not a promotional effect. The STAS differential is a measure of sales response within seven days of advertising. It is a temporary thing. It may go down in the next week as people respond to the STAS of other brands, but it is repetitious in that the original STAS effect can repeat itself over the course of a year. If there are more ups than downs we are on a slightly rising trend, and I'll return to the long-term effects shortly. But there is one very important point of principle here. The STAS is a precondition for a long-term effect. (Those people who urge that if there is no short-term effect, simply spend a few more million dollars and a long term-effect will come should be treated with some scepticism).

The STAS differential can be either positive or negative. Advertising can actually reduce sales. It doesn't mean that it unsells the brand, it simply means that the campaign is not strong enough to protect the brand from the STAS of competitive brands. It is a measure, very clearly, of creative effect.

There is also a long-term effect. I measure this by the sales response over a 3-12 month period. The strength of the STAS differential does affect the matter. The stronger the short-term effect, the greater the thrust to push the long-term effect forward, but it is not the only thing. There is also the tremendous influence of media continuity, the fact that you need to try to avoid breaks in the schedule. And finally, there is what I call the internal momentum of the brand, which is a little different from the much discussed brand equity.

Internal momentum has got a forward thrust to it. Internal momentum actually can grow and it can go down. The stronger brands have got a very strong internal momentum. My sample, by the way, although it is based on a huge number of purchase occasions, was of 78 brands and I shouldn't really percentage these. If you will forgive the statistical solecism, 70% of those campaigns had a short-term effect.

Chart 4

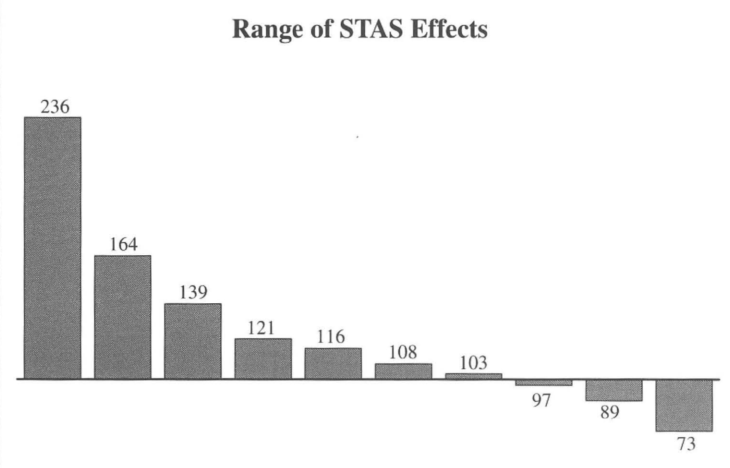
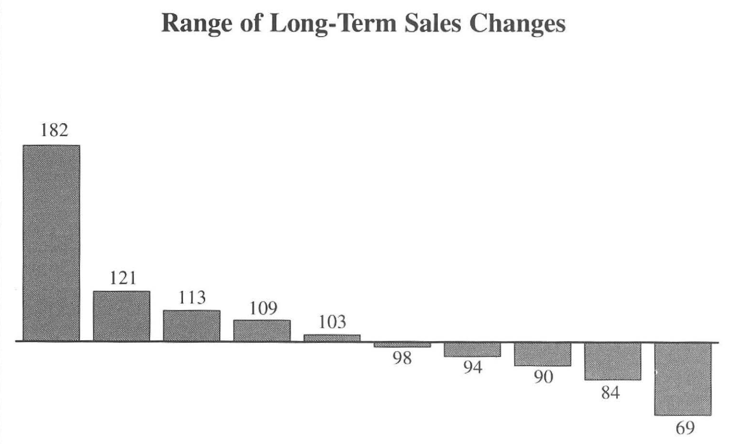


Chart 5

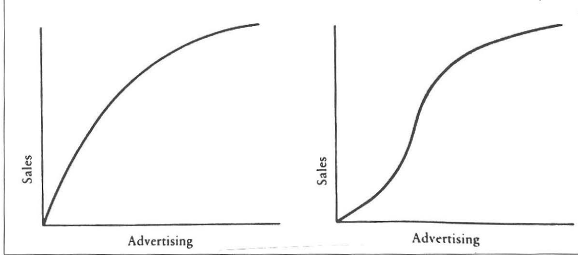


A lot of the effect is very small, but 70% did have a positive short-term effect and 46% had a short- and long-term effect. This meant in fact that the difference, 24percentage points, had a short-term effect and no long-term effect. A lot of the effect was lost, and I would suggest that this was really because of deficient media continuity. Too much is spent on concentration, without enough continuity.

I made an analysis of all the brands in a range. I did a decile analysis and broke the whole thing into units of 10 across the whole range of effects. Look at the high end response (Chart 4). How many would imagine that advertising could do that? One sees a terrific short term effect. Compare this with the long term effect (Chart 5). Here we have the same scale, but much more muted. But even the top decile has a very strong effect and the importance is in differentiating between the short- and the long-term effect. If we can isolate what the STAS differential is, and we don't get a long-term effect, we can look for the causes. In most cases it is a deficiency in media continuity, which is the point I am going to conclude with.

There are two further issues I need to touch upon briefly. One of these concerns response functions and we are all familiar with diagrams like Chart 6. On the left, the horizontal line looks at doses of advertising and then looks at the sales generated. As we can see by the configuration of the diagram on the left, the first ad produced a lot of sales, the second ad produced more sales but not quite as many, and the third one still fewer. Of course, that is the classic pattern of diminishing returns. It is the standard direct response pattern and it has always been thus. This, of course, argues for media dispersion, for media continuity and not too great a degree of concentration. If you concentrate a lot, the consequence will be diminishing returns very quickly.

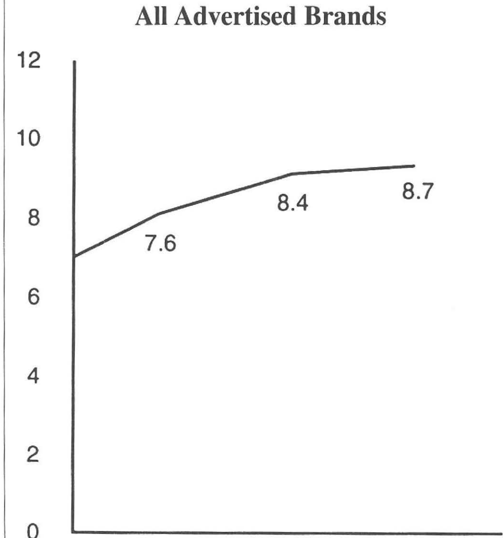
Chart 6
Advertising Response Functions



The diagram on the right represents the theoretical background for the universal American media buying policy of effective frequency 'flighting'. Here, the first dose of advertising produces a number of sales, the second one a bit more and third one a bit more, until we reach the balance or inflection point. But this argues that we should be putting our money into sufficient concentration to reach this point. Normally in the US this is interpreted as three insertions within a notional period which is assumed to be the purchase interval, but in practice is normally three insertions in a month

The question of course, which is a fairly hot debate and has been for 20 years in the United States, is which of

Chart 7
The Effect of One Advertisement
All Advertised Brands



these models is generally applicable? This sort of analysis depends, except for direct response where it is easy to measure the results, on rather complex model building. I personally tracked 19 examples of either effect, but the actual reliability of the models varies a certain amount.

Single source makes it much easier. Here we can count the sales in the seven days before purchasing from any amount of advertising and we can count the sales in the seven days before purchasing when people have seen one ad. We can clearly see how much difference one ad has made. What emerges may be a simple little picture, but it is full of problems for the American media buyer. Chart 7 shows the average of all my 78 brands and here the average overall STAS is up from 7.6 to 8.7. However, 8.4 is from one exposure; in other words, on average 75% of sales comes from one exposure and there isn't an exception. Every single brand follows the same trend. It demonstrates totally unambiguously that diminishing returns is the name of the game. Already, in media buying circles in the United States, I am not going to say the cat, but rather the man-devouring leopard is among the pigeons! It will be very interesting to see what happens over the next few months.

When I talked before about model building, I really want to look at both advertising and promotional effects. When we try to isolate these, again by econometric methods, we come to the conclusion that the adrenalin effect of advertising is really quite small. The average of 130 cases is an advertising elasticity of something like 0.2. That means, very simply, that on average a 1% boost in advertising budget will generate an increase of 0.2% in sales. It seems small but is sometimes profitable, not always but sometimes.

Table 1

	Published Averages - Short-Term Effect	Av. of Alpha Brands - Long Term Effect
Advertising	0.2	1.6
Price	-1.8	-6

The needle doesn't swing very far in sales terms. When we look at promotions of course we see a huge effect. The needle swings to an extreme degree. On average, looking at promotional price reductions, we see an elasticity co-efficient of -1.8, that is to say the 1% reduction in price will on average cause the sales to go up by 1.8%, a huge increase. But of course in most cases that is unprofitable volume, so actually making less profit from the larger amount of volume sales on promotion than from the smaller amount sold without promotion.

So, it is costing you an arm and a leg to do this sort of thing although you are getting big sales results. Now, what we haven't looked at is what happens if do both things together. What happens if we have strong promotions and strong advertising in line together. Well I managed to do an analysis from my Nielsen data and Table 1 highlights what comes out.

This is really very interesting I think. Advertising in isolation from promotions yields this small elasticity of 0.2. If promotions are alongside, the effect of advertising is increased by a factor of 8. If we look at promotions in isolation we get an elasticity of -1.8, but again, if we add on advertising we get an increase by a factor of 3, so there is an enormous synergy at work. This is the strongest argument, of course, for the buzz word in American marketing, IMC, 'Integrated Marketing Communication' and everybody talks about it in their presentations and conferences, but unfortunately, nobody does it!

fight in September 1991.... Subsequent events, however, have not been so favourable, and subscriber levels have dropped down to and even below the economic minimum for system operators, whose marketing expenses on such occasions are very considerable.'

The author concludes:

'For the system operators the lessons at present seem to be that special pay-per-view events need to be chosen carefully and marketed intensively. As one-off events each needs considerable promotion, which in the case of addressable systems must be continued right up to the moment they are shown in order to capture the impulse viewer. Such events also need the broadest appeal and cannot be put too closely together.'

Do not be fooled. When Murdoch and friends buy their hundred digital channels on Astra 1d et seq. in order to offer PPV and NVOD, they must still work hard to make profits. In the case of NVOD, the consumer attractions are not even clear, though why not bung down loads of staggered channels, and screw up audience measurement for the advertiser when digital bandwidth comes so cheap? Meanwhile, fifty PPV channels of top releases offers rather less choice than the average video store.

But then, PPV and NVOD only prepare the way for the ultimate in viewer choice and convenience: VOD. A number of VOD trials are currently in progress in the USA and other parts of the world, and word has it that the early results are encouraging. Furthermore, various pieces of consumer research testify to the appeal of the VOD concept, such as a 1995 study by Hong Kong Telecom (Table 7).

The results from Hong Kong echo US survey results.

The concept of VOD evidently strikes a happy chord with the public compared with other adornments of the I-Bahn, but there is no cause for exuberance.

Table 8

% US respondents interested in interactive services by type

	% Expressing an interest
On-demand movies or TV programmes	55.4
Educational children's shows	47.7
Travel reservations and information	40.4
TV gameshows	32.7
Sports events	31.1
Electronic mail	26.9
Video games	26
Shopping services on music channels	25.4
On-line services	24.8

Source: Advertising Age 1993; table reproduced from TBI 1995 Yearbook

● At least half the public does not express interest in VOD, and that is before the other half has had the opportunity to experience the sweet sting of purchasing on demand. Moreover, some relatively popular on-demand services, such as education, will compete against television programming for share of purse.

● The results from various pieces of research once more point to the primacy of feature films and sports as the main attractions of VOD. Once more we must ask, to what extent will VOD merely cannibalise alternative revenue streams from conventional pay-TV, pre-recorded video rental and purchase, and the cinema? Early results from US trials suggest that pre-recorded video rental, which is now most frequently rated as the most enjoyable way to watch movies according to a survey by the Electronics Industry Association in the USA, could be most vulnerable to the encroachment of VOD. This is ironic as the much vaunted Denver consumer trials by TCI have mimicked VOD servers with banks of VCRs, video libraries

Table 9

US studio revenues from feature films

	Share of revenues %
Home video	50.2
Cinema rental	25.7
Television	10.5
Pay-TV	7.7
Videodiscs	4.2
PPV	1
Other	0.7

Total 1994 revenues projected at about $16 billion
Source: Goldman Sachs Estimates, 1994

and human on-demand fetchers and machine feeders.

● If indeed the extra promise of VOD is largely at the expense of video rentals, then we must expect a relatively high price for the cannibalization. For, as Table 9 shows, the rental and purchase of video software is now the main revenue stream of the major US studios, accounting for a surprising 50% of domestic and overseas income. Surprising, that is, if we consider that video probably accounts for less than 10% of the audiences for their product. The point is that video is a highly lucrative revenue stream for the rights holders. So, whilst the cable arm of Time Warner Inc. lauds the potential of VOD, beware that other less vocal divisions of Time Inc. may take a different view. For them to retain their profit margins, VOD is unlikely to come cheap; especially with all the associated costs of developing the necessary infrastructure of VOD servers.

The rental and purchase of video software is now the main revenue stream of the major US studios, accounting for 50% of domestic and overseas income

Even supposing VOD to be a smash hit with the public, it is likely to take years to develop on account of such factors as:

● National laws constraining growth;

● Investment required by both service providers and the public for the development of the network infrastructure;

● Acquiescence preceded by negotiations between would-be service providers and the rights holders;

● Development of 'smart agents' to navigate viewers through the bewildering brave new world of choice. According to Barry Diller at the 1994 International TV Conference in Edinburgh, 'I think smart agents are going to be the single most important mechanism for empowering the entire industry. It will finally make mass media fit the individual.';

● Development of alternative mechanisms of publicity to advertise programmes which no longer appear on mass TV.

In summary:

● The future will differ most from the present in the sense that choice and convenience will be greater.

● However, the actual product and the main attractions (films and sports) will remain much the same but for some extra opportunities of 'customization' thanks to the interactive facilities of the I-Bahn.

● This ought to warn us against anticipating very much higher levels of spend on paid-for-TV in the age of VOD compared with the current potential of subscription TV plus home video and cinema.

● When it arrives, VOD will not enter a vacuum but must compete for its place in the sun against established alternative services and revenue streams. In the case of home video, it is important to recognize the very high profit margins that it delivers the holders of programming rights. For VOD to replace video, they (the rights holders) must be satisfied that they will profit further from the exchange. Granted the likely costs of establishing the necessary infrastructure for offering VOD, it is questionable whether VOD will be as cheap as video rental. If so, this will inhibit its growth.

● In short, PPV, NVOD and VOD, may well augment paid-for-TV revenues by a sufficiently large margin to entice companies like Time Warner, Canal+ or BSkyB. However, there is nothing to suggest that the financial promise of paid-for-TV is so great that it will enable the market players to dispense with advertising.

● Nor is there any contradiction in positing a mixed economy of 'Me TV', where the viewer programmes his own channel, and 'free TV' supported by advertising and the licence fee. This is because the cost per hour viewed of paid-for-TV is very much higher - say, up to ten times higher, or higher still - than the cost of free TV. As a result, even were paid-for-TV to yield twice the annual revenues of advertising and the licence fee in Europe, it would still leave more than 80% of the audience share open to free channels.

Hence it is that I reject the vision of the future projected by George Gilder, and incline more to that put forward by Rupert Murdoch at NATPE 1993. On the one hand, he says:

'Even here in the US, television is on an exponential growth curve. This year - not a decade from now, but this year - our friends at TCI will inaugurate digital compression. Within four years, 90% of their subscribers will be connected to fibre-rich networks boasting 500 or more channels.'

On the other hand, he also says:

'I love cable. Cable has helped us tremendously, and we aspire to be a leading software supplier to the cable industry. But I believe - more strongly than anything else I believe - in the primacy of mass circulation media, and that means broadcast television.'

And when will the future arrive?

And so finally to the question of timing. When will we get the I-Bahn in Europe?

Almost any answer is bound to be misleading. In a sense, the I-Bahn is already here all around us. It is a simple matter to join the Internet or Compuserve and send correspondence via E-mail. If I then said, as I guess, that it will take at least ten years before more than 10% of Europeans enjoy 500 fibre-rich or fibre-free channel capacity, depending on which delivery medium they use, the answer sounds like nothing. But if I said that, as a result of recent developments, today's Buick has more computing power than the entire Apollo project, which landed three men on the moon in 1969, or that the fax, which grew from nothing into a dominant form of business correspondence during the '80s, could become a relic of the past within five years, the tide of progress begins to sound more impressive.

Without question, the I-Bahn is an impending reality. The critical question is less how many viewers will receive an unlimited supply of channels in the next ten to twenty years than the development of services. Powerful groups like Kirch, Bertelsmann and News International are poised to launch a vast number of digital channels. Granted the constraints on market growth and the realities of paid-for-TV already mentioned, it is hard to imagine that on-demand services will account for more than 1% audience share inside ten years; but even at 1% we are talking of an on-demand market worth several billion dollars per annum.

The I-Bahn will offer much more of concern and interest to the advertiser than unlimited channel capacity ready to serve on-demand programmes. On the fringe of television programming, it promises new opportunities in home shop-

The I-Bahn may be able to show the customer anything virtually, but it cannot deliver a can of beans

ping. But there is a snag. Up to now, main developments on the I-Bahn have lain with telecommunications services, such as E-mail. When it comes to virtual shopping malls, the I-Bahn can only work if the malls are supported by additional viable retail and distribution services. They present an enormous and distinct issue from the I-Bahn itself. Put another way, the I-Bahn may be able to show the customer anything virtually, but it cannot deliver a can of beans.

It is very easy to forget the complexity of services. When everyone got excited about cable development in the USA during the early '80s, one of the stock interactive ideas for cable use was home security. It seemed so simple. Just plug a burglar alarm system into the cable return path, and link it with the local police station - no sweat. In practice, however, it was nothing like so easy or sound an idea, as Timothy Hollins once more tells us.

'The one interactive service that is undoubtedly on the verge of becoming a profitable and fully commercial business in the United States is the emergency alarm system....

'Cable companies...should be able to offer a cheaper service because they do not pay high phone-line tariffs. By offering installation charges at or below cost they can undercut conventional alarm systems, while in most cases offering a superior service....

'Cable security is still a young business and early systems have had serious technical problems. Indeed, many have had to use telephone lines for the return signal until the problems can be solved. False alarms caused by anything from signal noise to ants crawling into sensors are an inevitable concern and have led to some reluctance on the part of police and fire officials to support devices which might make enormous extra demands on their manpower.'

And so on.

As for home shopping, it is worth remembering that there is still much to commend the simplicity of old-fashioned well established return paths for ordering goods, such as the telephone and pencil on paper messages left by the front door. The fact that home delivery shopping services have declined so much in countries like the United Kingdom in recent years should alert us to the challenges of establishing viable virtual shopping malls.

The failure to appreciate the complexity of services may be one of the reasons why so many advocates for the electronic culture have consistently over-egged the pace of change. Thus, for example, almost every single published forecast over the last fifteen years of cable and/or DTH growth in the United Kingdom has proved over-optimistic, and sometimes wildly so even within a year or two of publication. And what better oracle to quote than an official government source; in this instance, Kenneth Baker, former Minister of Information and Technology.

'By the end of the decade multi-channel cable television will be commonplace. In-home country-wide TV will be used for armchair shopping, banking, calling emergency services and many other services.'

Kenneth Baker managed to omit MP surgeries as one of the thousand and one useful services on the I-Bahn. But what we also need to recall is that he spoke his fateful words in 1982, and almost nothing of his fine visions had come to pass by 1990. On the other hand, even he may have been amazed by the colossal gains in computing power and flexibility of telecommunications that occurred during the '80s, and which will in the not so distant future enable the public to supplement its fare of free, here-and-now-TV with on-demand paid-for-TV entertainment of whatever sort.