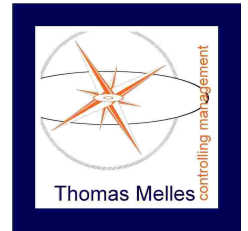


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Auction TV in Germany: Huge potential is there for the taking!



Munich.

The prospects for the success of auction television in Germany are exceedingly good. Gold media, in its current study "TV Shopping and T-Commerce in Europe", forecasts sales in Germany in this sector of 2.7 billion Euros for 2008. Yet what is actually possible is demonstrated by our neighbors in Britain: There, as early as 2003, this sector earned more than 2.2 billion Euros, and in 2008 this figure is expected to reach as much as 3.8 billion Euros. So it is worth taking a look over the English Channel to appreciate the overall and as yet unutilized potential of the German and German-speaking market. It is also well worth taking a look at the data and factual information that Thomas Melles, managing director of "Controlling Management" in Munich, has been professionally analyzing and evaluating in the past year.

Digital TV in Britain way out in front

In Europe, Britain is quite rightly seen as the pioneer of digital TV. It is therefore not surprising that the first auction channel went on air there as far back as the year 2000. With the rapid spread of digital technology and resulting increase in the number of channels available came the conception of new TV business models – and the differentiation of the individual broadcaster profiles, culminating in highly specialized niche programming focusing on the teleshopping or auction TV segments. Today, Britain has a total of more than 279 special interest channels, with about 40 of them belonging to the T-commerce sector. This category also clearly heads the rankings for the various TV sectors. In Germany – despite a disproportionately larger target audience – the situation is still quite different.

Auction TV and teleshopping are still in their infancy in Germany

In 2003 the traditional mail order industry in Germany posted a turnover of 21 billion Euros (Britain: 13.3 billion). The around 15 German T-commerce channels generated sales amounting to 1.3 billion Euros in 2003 (Britain: 2.2 billion). In the meanwhile the emerging market offers its viewers the established TV auction channel 1-2-3.tv and the newcomer arena with its good prospects for success. Although auction TV has only existed in Germany for just under a year, it is already being mentioned in the same breath as the three established teleshopping channels HSE 24, QVC and RTL-Shop.

There is then still plenty of room and a great deal of unutilized potential on the German market. But for whom and with which products? Here too, it is worth making the comparison with Britain. However, if you want to narrow down the success factors and variables from both countries in a meaningful way so as to provide appropriate recommendations, an accurate analysis of the competitive environment and consumer behaviors will be indispensable. Controlling management, one of the few providers in this field, can supply you with relevant integrated data from various primary sources.

Batch size:

How many articles do I need then?

Whereas the average batch size (number of articles per auction) in Britain is generally 50 items, the current average in Germany is only 20 articles. If you then compare the number of auctions per day and broadcaster (Britain: 300/Germany: 250), it is obvious, where the money is being made. This is also underlined by the average gross demand per day. For the British

market leader this was 350,000 Euros in the period May/June 2005, and as much as 600,000 Euros for the Christmas trading period in November/December. In Germany Melles established that First Mover's averages in the same reference periods were 100,000 and 200,000 Euros respectively. Yet it is precisely in this calculation of batch sizes that the greatest challenge lies. Above all, because the purchasing department of an auction channel has to have the most accurate information possible about the actual number of potential bidders:

If the number of articles offered per auction is greater than the number of TV customers bidding for them, either the auction price will not go above the starting price (in a rising price auction), or, in the case of a "Dutch Auction" (falling price version) the duration of the auction will become disproportionately long. In the first scenario the asking price for the article (generally 1 Euro) will quickly slide below the profit margin, and in the second case the main cost factor, i.e. "air time", will overburden the targeted profit margin. If considerably fewer articles are offered in each auction than there are viewers in front of their TV sets and willing to buy, competitive target sales are not achievable and the planned profit is likewise not worth the paper it is written on.

Product range: Which articles for which customers?

On an average daily basis on Britain's "First Mover" TV channel 9,000 customers, including 1,000 new customers, bid primarily for consumer electronics (25%), followed by household products (23%), jewelry (12%), clothing (9%) and watches (9%). By comparison, in Germany 4,500 cus-

tomers per day (including 350 new customers) make successful bids for watches (31%), household items (25%), consumer electronics (14%) or jewelry (14%).

Whereas almost 2/3 (64%) of British auction TV clients are female, in Germany it is the men who make up the highest proportion of sales at 55%, according to Melles. In both markets more than 75% of the bids are placed on the falling price variant, with which approx. 90% of the sales are

made, even though the Dutch Auction requires on average three times more "air time".

It is noticeable that clothing is not one of the high-sales categories in Germany, but that in Britain every 10th Euro is spent in the clothing sector. This is also due to the fact that in Germany the traditional specialists for variant problems – e.g. the mail order industry dealing day-to-day with different clothing sizes – has not yet taken the plunge into this market. Both

established teleshopper channels and conventional mail order dealers would do well to use auction TV to diversify their sales outlets and create new appeal on the "ebay principle".

Technology platforms are available

Even for potential market players without TV experience, access to this market is no longer an insurmountable hurdle. From auction planning and control to transmission technology and connecting up call centers there are service providers out there capable of transforming the necessary highly automated processes into a functioning system. Complete solutions such as these are available and have already been implemented successfully.

Conclusion and prospects

Continuous monitoring of the market and the competition, plus accurate benchmarking, are thus absolute necessities for broadcasters of TV auctions! They have to know exactly who their target audience is, must be able to keep track of consumer requirements and buying behaviors at all times and react instantly to any changes in the parameters. To do so they need reliable facts and figures. The analyses that can be derived from this data will reveal which products and batch sizes in which price categories can be used by which kind of auction to achieve specific sales in a defined period. And on the other hand, such data also provides valid pricing and quantity variables relating to sourcing new customers, general customer structure, local origins and buying behaviors.

According to calculations performed by Melles, German auction TV earned a net sales volume of approximately 40 million Euros (including call charges) in its first full year of trading. For 2006 alone Melles expects this figure to be quintupled – without taking any new competitors into account. Even the comparison of the gross demand (sales before cancellations and returns) between auction TV in Britain, that has become established

Fig 1:
First Mover Germany:
Proportion of product
categories in
gross revenue

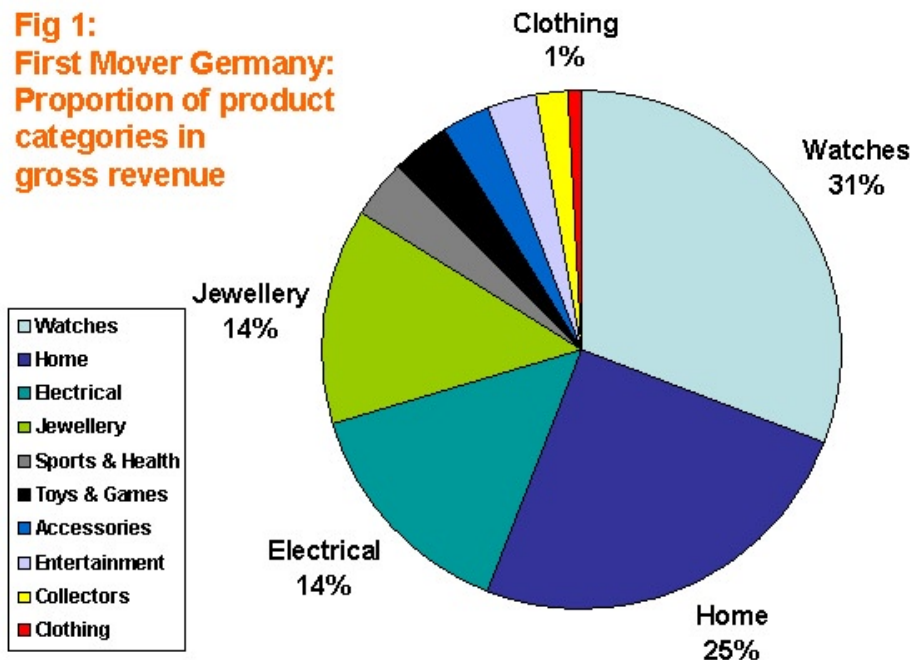
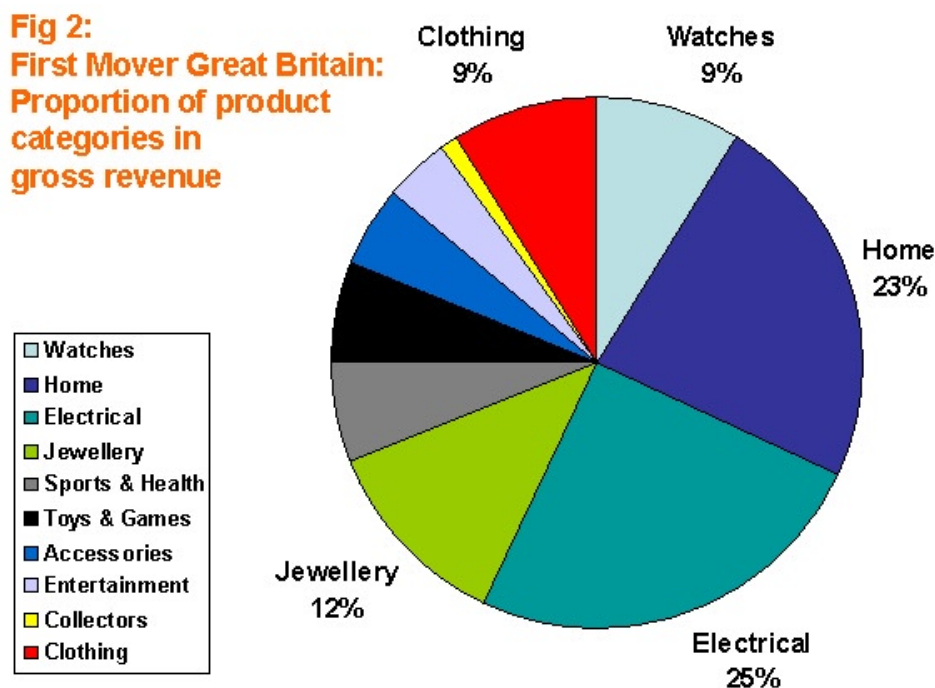


Fig 2:
First Mover Great Britain:
Proportion of product
categories in
gross revenue



First Mover Great Britain: Demand for clothing

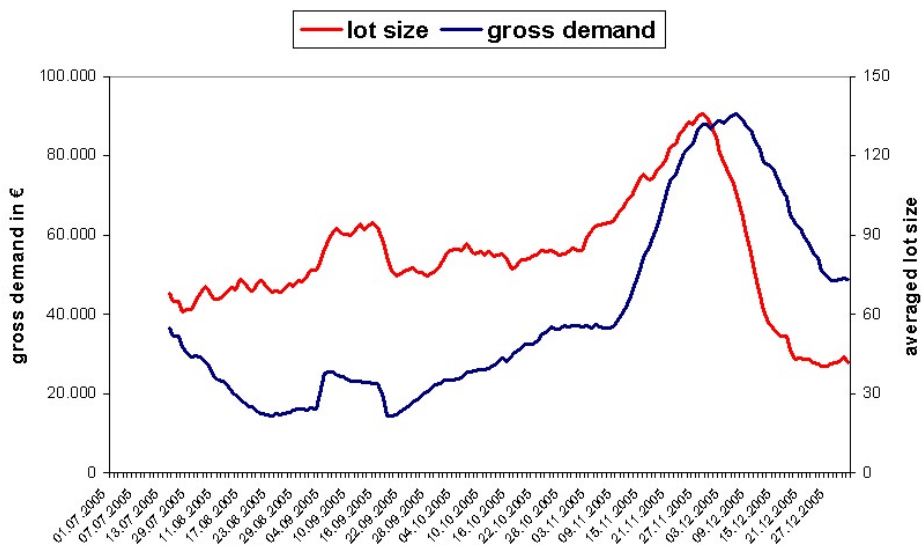


Fig 3:
Remarkable demand for clothing at first mover in Great Britain

First Mover Germany: Demand for clothing

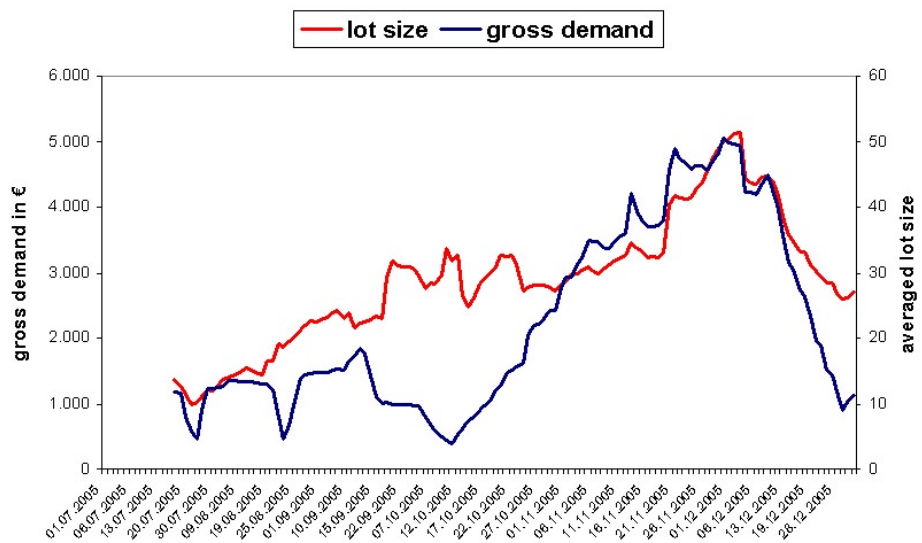


Fig 4:
Demand for clothing at first mover in Germany

in five years, and the relatively young market in Germany, anticipates a two-digit sales multiplier in the medium term for the German-speaking and remaining European market. The forecast growth rates for the entire mail order branch are already below those of the auction TV market. So far, there has obviously not been any measura-

ble cannibalization within the teleshoping market sector. It remains to be seen whether the struggling mail order industry and the continually ambitious teleshopper channels will grasp the opportunity to also gain a foothold in the auction TV megamarket.

About Thomas Melles - controlling management

After gaining his degree at the University of Freiburg, the qualified political economist completed the financial controller course at the St. Gallen Management Center.

His almost 10 years experience in the media sector have seen him in various management roles in controlling and in market research; via the Kirch Group's local TV in urban areas to teleshoping at arenamedia GmbH.

He founded the firm Thomas Melles - controlling management at the beginning of 2004, to not only accompany media launches but also provide project support in the field of television research.

For the past year he has also been focusing on monitoring the market in European auction TV.