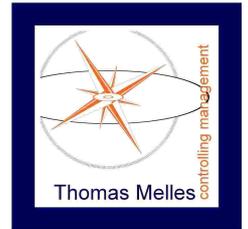


Author: Thomas Melles, Diplom-Volkswirt (Graduate Political Economist), Munich

## Auction shopping in Europe: status quo and perspectives

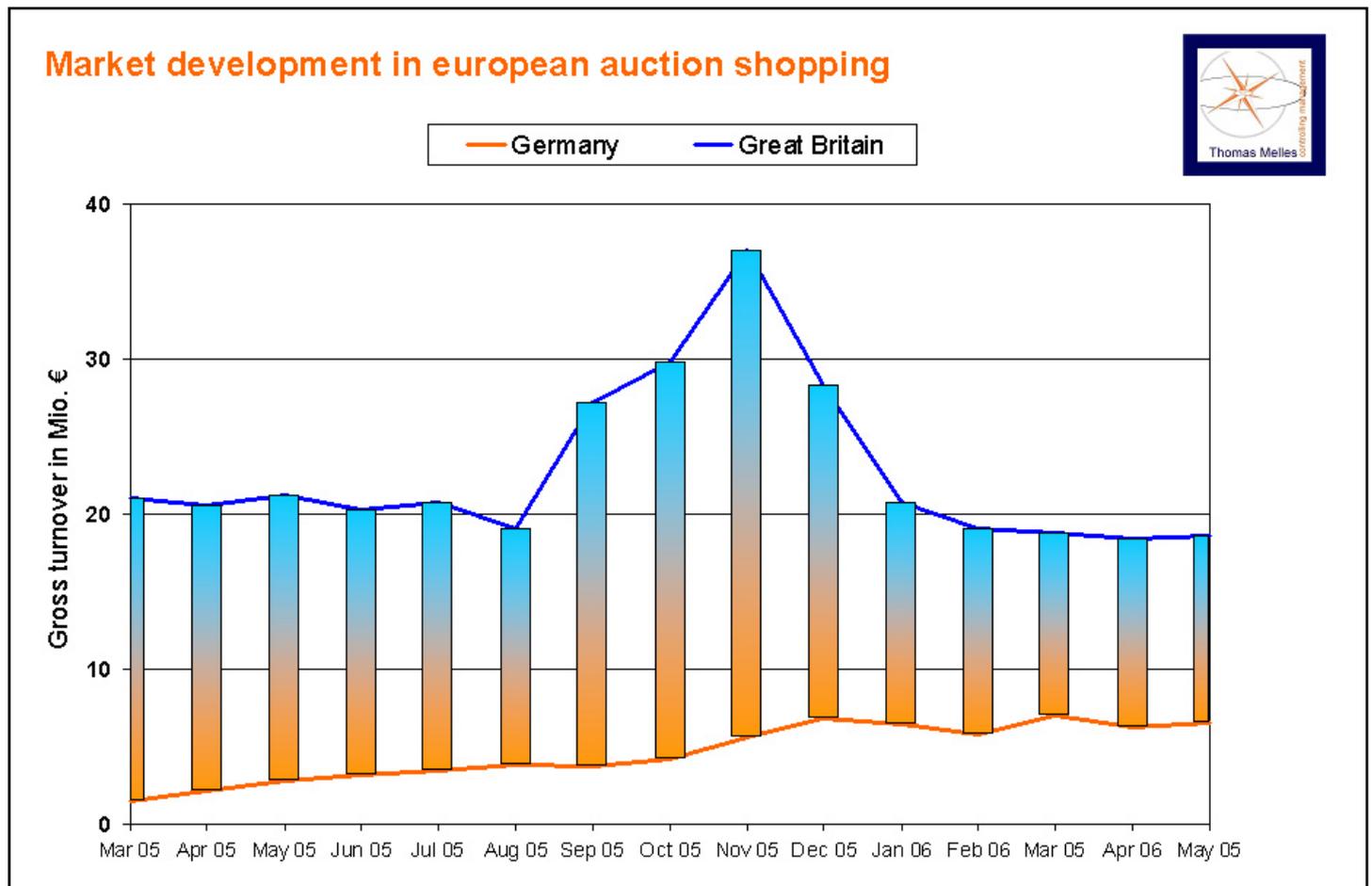


### Munich.

Auction shopping has developed into a very successful business model as a teleshopping segment in recent years. Whilst British clients have had the option of interactive pricing bidding in teleshopping for about six years now this entertaining and absorbing option has only been available to German-speaking customers for a mere year and a half.

It is therefore only logical that the industry has already diversified in the UK, that country now having four different auction program stations. This is split into three Telewest Global Inc. stations in the Situp Group, namely bid.tv, pricedrop.tv und speedauction.tv, plus a newcomer called thejewellerychannel.tv. This last has offered jewelry to the public since the end of 2005.

From a turnover viewpoint only bid.tv with 48% and pricedrop.tv with 46% are of any significance. The young German market is 98% covered by 1-2-3.tv. The other two - megalvision and bietbox.tv - cannot currently operate profitably with their present concepts.



### Germany

Market participants: 1-2-3.tv (10/2004, 98%)  
megalvision (10/2005, 1%)  
bietbox.tv (10/2005, 1%)

Market maturation: 1½ years

Distribution: approx. 20-24 Mio. TV-households

Market potential: 80 Mio. inhabitants

### Great Britain

Market participants: bid.tv (10/2000, 48%)  
pricedrop.tv (7/2003, 46%)  
speedauction.tv (8/2005, 5%)  
thejewellerychannel.tv (10/2005, 1%)

Market maturation: 5½ years

Distribution: approx. 16 Mio. TV-households

Market potential: 60 Mio. inhabitants

## Status quo and developments in European auction shopping

The British auction stations have established their market presence over six years and achieved about fifty-five percent more turnover in the Christmas quarter of 2005 compared to the quarters before. (see illustration: Stage of market maturity in european auction shopping).

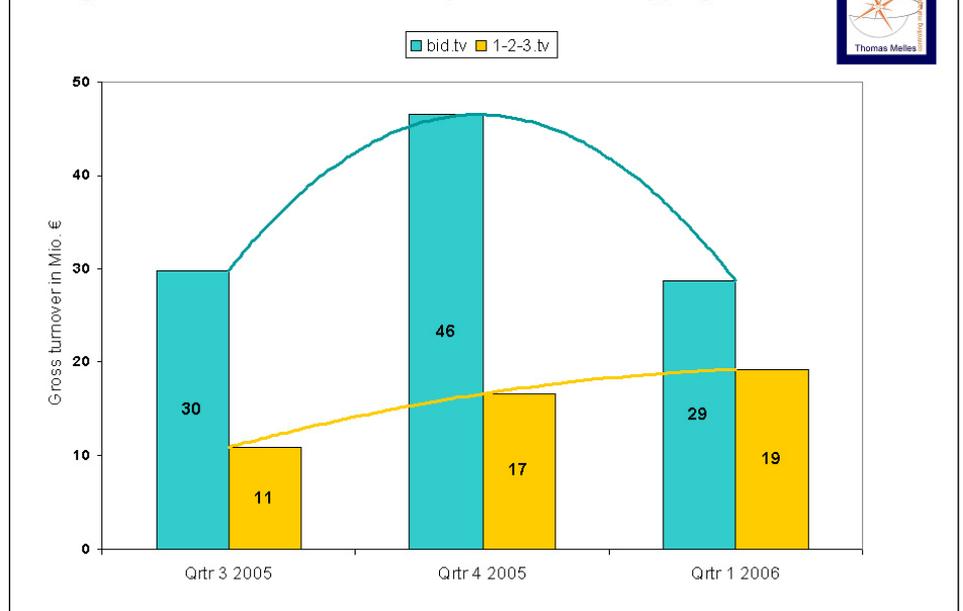
The drop in the first quarter of 2006 usual in this industry is clearly discernible here. In the first quarter of 2006 the gross turnover of bid.tv alone was around twenty-nine million Euros. The whole Situp Group probably had a gross turnover for the first quarter of 2006 of more than sixty million Euros. The growth of the German market is by contrast continuous. The impetus of Christmas business usual in the retail trade in the fourth quarter of 2005 resulted in turnover that was actually exceeded by that of the first quarter of 2006 by a good twelve percent and the second quarter will maintain this trend according to Thomas Melles, an industry expert.

The gross turnover of 1-2-3.tv in the first quarter of 2006 increased by five hundred percent compared to that of the same quarter in 2005 and totaled about nineteen million Euros (see illustration: Stage of market maturity in european auction shopping).

The British industry hence has a gross turnover that is currently thrice that of its German equivalent. Allowing for the individual technical market penetration in the UK of around sixteen million households compared to about twenty to twenty-four million potential such households in Germany it is apparent that the German-speaking world still offers plenty of room for at least two further such auction programs (see illustration: Market development in european auction shopping).

The turnover fall the normal retail trade will suffer in the near future will lead to a general expansion in the overall tele-shopping market and hence to more offerors of interactive TV auctions coming onto the market.

Stage of market maturation in european auction shopping



## Optimal lot size as a key factor in auction shopping

The approximately halved profit margins make auction shopping as a business model unavoidably a part of the discounter market segment by contrast with fixed-price teleshopping.

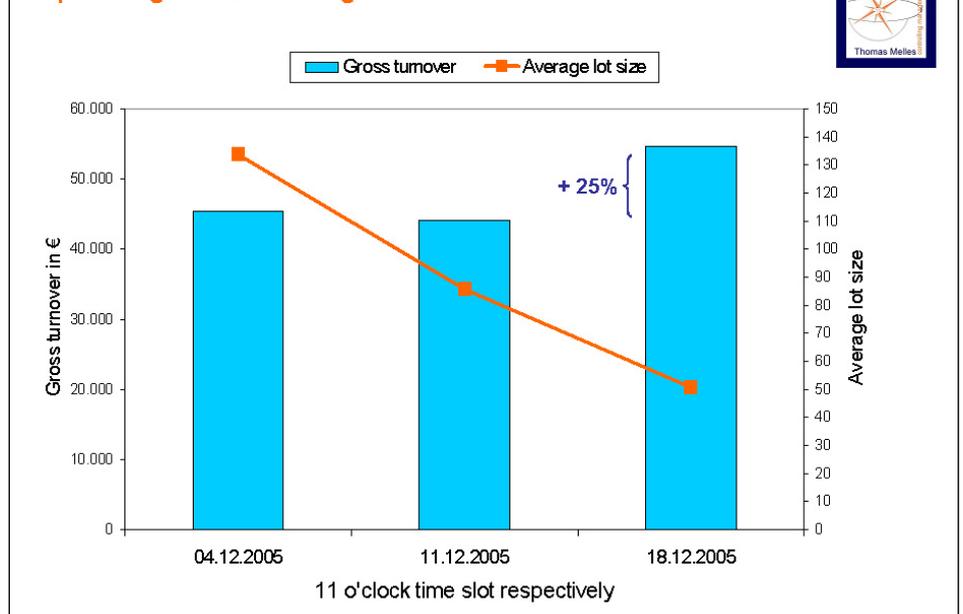
This predicates tailored purchasing, program design and production strategies on the one hand and above all optimization of lot sizes depending on technical and actual range on the other.

Thomas Melles, of controlling management in Munich, assumes that turnover in German auction shopping would have increased by thirty percent in 2005 had the companies involved used appropriate market analysis instead of trial and error methods that cost turnover as they wasted time.

The following practical example makes this clear (see illustration: Optimizing turnover through lot size).

Looking at the eleven o'clock time slot on the last three Advent Sun-

Optimizing turnover through lot size



days in 2005 it can be seen that on the second (04 December 2005) an hourly turnover of approximately forty-five thousand Euros was achieved using a lot size of one hundred and thirty-four items per auction. On the third (11 December 2005) the lot size was cut by a third to an average of eighty-six items per auction. The effect on turnover was indiscernible. On the last Advent Sunday (18 December 2005) the lot size was reduced again by forty percent to an average of fifty-one items offered per auction. Hourly turnover increased by a quarter to fifty-five thousand Euros.

The main reason was that over eighty percent of auctions were falling - Dutch - auctions. Whilst rising auctions with their predetermined duration are easily quantifiable the on-air sales times for falling auctions increased from an average of four to an average of nearly ten minutes due to the high lot sizes. In the final analysis this caused turnover and hence hourly profit margins to fall (see illustration: Optimizing on-air time through lot size).

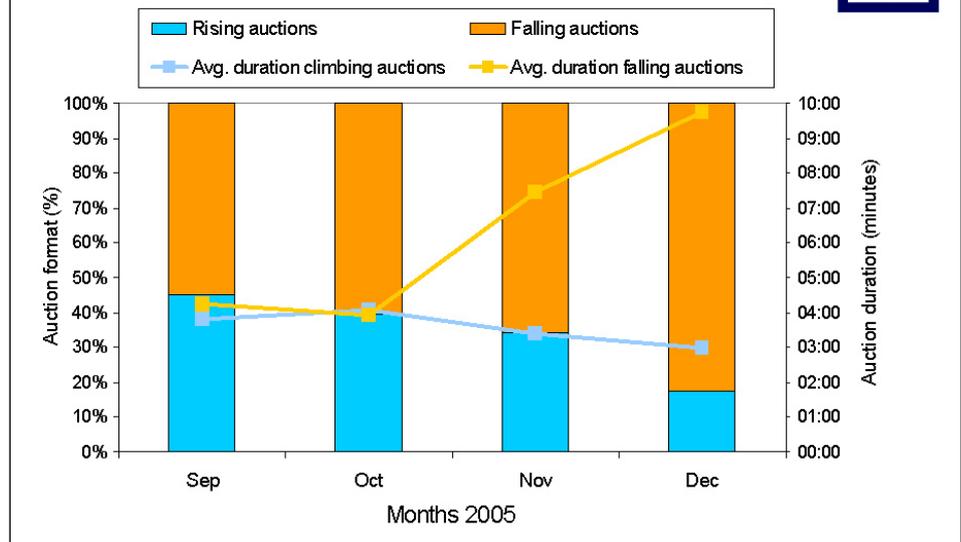
The primary challenge in the TV auction business is obvious here - the number of items offered per auction must suit the number of viewers willing to purchase.

## Summary and prospects

TV research figures on range cost TV stations at least six-figure Euro amounts annually nowadays. No tele-shopping station wants to foot this bill. The effect of valid quantity and value data is evident, especially in auction shopping, as it is dependent on so many variables to succeed.

Increasing price competition makes information from company-internal management information systems as well as top-quality but economical industry-specific market analyses of day-to-day business operations essential in maximizing profit margins.

## Optimizing on-air time through lot size



Over fifty percent of gross turnover in auction TV comes from steady customers. Such clients constitute a third of the market. Finding new customers is hence the key to success in this field.

Best possible exploitation of market penetration methods and therefore the use of suitable marketing strategies is of primary importance in establishing any program's trade name and its market penetration. It is also essential to develop sectoral and target-group-specific strategies to find new clients in the T-commerce mass medium.

In these days of innumerable TV stations and programs all that is achieved by wasteful satellite broadcasting is high scatter loss. No regular customers or reliable planning data can be found or obtained by such means.

1-2-3.tv is well aware of this and hence makes successful use of the well-known ProSieben name in the equally well-known ProSieben auction mart in the early mornings on working days.

## 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 tele-shopping 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.