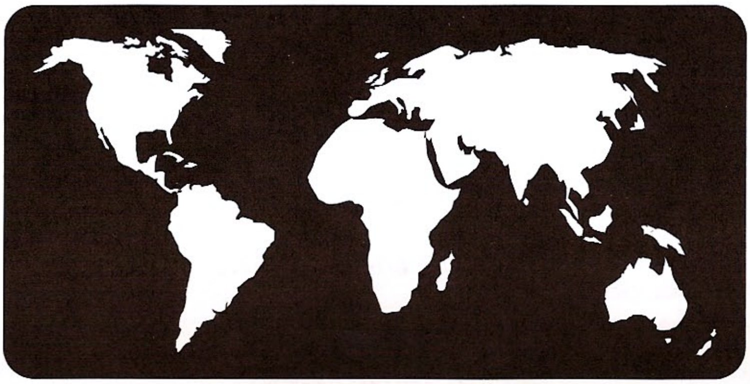
New Media Market in European Homes?

Market Study Reveals Diverging Patterns Among Consumers

Early results are in on the most exhaustive market study yet on the potential for multimedia in European homes. If you thought the emergence of the Common Market would make selling into the Old World easier, think again. Inteco Corp.'s interviews with 11,000 families in Germany, Britain, France and Italy show how dramatically diverging consumer habits, regulatory conditions and installed bases of equipment will make devising European strategies a complex task.

At first glance, for example, France looks like a strong bet for teleshopping services. Far more French families with kids (47 percent) already buy clothing from traditional mail order catalogs than do Germans or the British (29 percent each). And more French (56 percent) than Germans (22 percent) or British (31 percent) also report inconveniences associated with in-store shopping that electronic shopping might alleviate. The trouble is how to reach these consumers: Only 11 percent of French homes are hooked up to cable or satellite TV (compared to 70 percent in Germany). Some 26 percent of French homes do have a less-sophisticated Minitel videotext system — but only 6 percent use them to order clothes.



As far as PC usage goes, there's a smattering of encouraging news about personal computers moving out of the study (where they would most likely be used for work-related applications) and into the living room (where they're more likely to be used for multimedia entertainment). In the UK (where home PC market penetration is about 22 percent), 27 percent of home PCs are now used in the living area, vs. 13 percent a year ago. In Germany, however, 56 percent of home PCs are still located in the study or office — reflecting Germany's unusually vibrant home-business sector — vs. 19 percent in the family room.

As these early figures indicate, it's hard to characterize a single European market, let alone a single distribution channel. We'll report on the final conclusions of the study when they become available.

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"Highway Patrol" Rolls Out Report

For months, a panel of wise men has been mulling a plan for meshing Europe's disjointed national telecom networks and strategies into a coherent Continental Infobahn. Their report, released on June 7, offered no concrete solutions to speed deregulation or finance new networks, as the European Commission had hoped it would. But it did put forth several recommendations that at least articulate the issues involved.

The chief recommendation of the European Union's "highway patrol" — a cast of 19 CEOs from the likes of Philips Electronics, Siemens and IBM Europe — is one for which frustrated users have been screaming for years: namely, to accelerate the deregulation of state monopolies as a means to lower tariffs, and to enable faster construction of broadband networking infrastructures. But the panel did not specify a date by which this should take place.

The report is most notable for exposing what until recently has been one of Europe's biggest taboos — the need to not only open up cash-cow voice services to competition (already scheduled for 1998), but also to allow competitors to build and operate their own networks. Without the latter step, the "opening" of services alone would be academic because competitors will be at the mercy of the monopolies, who can charge whatever they like for leased lines and interconnect charges. Yet under a deal cut last year with protectionist countries, the issue wasn't even sup posed to come up for debate until 1995.

Now the report should at least give reformists a louder voice in pushing interim measures that so far have received less airing than schoolgirl gossip. For instance, some EU policy-makers would like to let railroads and other utilities running existing private networks for internal use offer alternative telecom services as soon as next year. Moreover, they would force monopoly telcos that own cable TV networks on their respective turfs — like those in Germany, France and the Netherlands — to divest the cable businesses and allow them to offer phone services.

While that move is in just the opposite direction of current U.S. legislation, it acknowledges the benefits of the U.S. model, which has relied on competition to goose the telcos into investing in multimedia highways. (The rule could also be a boon to companies like Time Warner Inc. that are shopping for European cable networks.)

The panel's report faces up to another reality: Without infrastructure competition, the private funding so desperately needed to build the new networks just won't be forthcoming. Under growing competitive pressures, even the strongest Euro telcos have other investment priorities, like trying to catch up to the likes of AT&T and British Telecommunications in building global voice-data networks. That means much of the $76 billion envisioned by EU planners for building the Infobahn and multimedia applications over the next five years might be edged into the slow lane.

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ATM Reaches Early Pilot Stage

For evidence of the Europeans' cautious approach to building the superhighway, look at their upcoming pilots for new ATM equipment. Starting in July, 18 telecommunications operators in 15 countries have agreed to turn on the first cross-border connections of the Asynchronous Transfer Mode (ATM) gear that will switch multimedia bit streams around in the future, bringing greater economies of scale and lower operating costs in offering these services. The pilots, however, are only technical tests of different equipment brands and common traffic-management methods. Most will be disbanded after 18 months. And many operators are limiting pilot users to data-only network connections that give the carriers more control over how the systems are used.

By contrast, carriers in the U.S. like MFS Datanet Inc., Sprint International and Wiltel are already signing up customers for commercial, if rudimentary, services over national ATM backbones. That could give the U.S telcos a headstart in honing their operations — even if they haven't yet ironed out all the technical issues, such as how different networks will interoperate. Their commercial zeal, compared to the Europeans' more technical approach, may prepare them to move ahead more quickly on Europe's Infobahn. MFS already plans to extend ATM service this year to London, Frankfurt and Paris, and other U.S. firms will probably follow. Only France Telecom and Deutsche Bundespost Telekom have announced plans so far for a commercial cross-border ATM service, to start in 1995. The Yankee Group Europe forecasts continent-wide ATM service revenues to climb slowly through the decade, reaching only $580 million in 2000.

In addition to U.S. competition, such embryonic services are likely to encounter another hurdle: Europe's advanced satellite communications sector, in the form of the European Telecommunications Satellite Organization (Eutelsat) operating consortium, is trying to horn in on the multimedia game by offering high-bandwidth capacity for such services at what may be considerably cheaper rates. That means that Europe's major state telcos — which own Eutelsat — may sway the success of their ATM rollout by offering competing services from within their own empires.

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A Surge of New Ventures for Olivetti

Keep an eye on tired old box-pusher Olivetti. The Italian PC champion is quietly assembling a raft of alliances that it hopes will position it on the crest of the wave of interactive electronic services in Europe. In March, it became the lead owner (35 percent) of a new, digital cellular phone network in Italy — Europe's third-largest market — with partners Bell Atlantic, Pacific Telesis, Germany's Mannesmann and others. Then in late June, it formed a 50/50 venture with a Hughes Electronics unit to run a pan-European VSAT (very small-aperture terminal) satellite network. Hughes Olivetti Telecommunications (HOT) initially aims to transmit corporations' multimedia communications around Europe, but ultimately plans to become a major electronic distributor of software as well.

In July, Olivetti will announce Italia On-Line with a major Italian publishing house as partner. Italia On-Line's offerings will be patterned after America Online's electronic bulletin boards, email and other PC-based information services. And with Florida-based Redgate Communications Corp., of which Olivetti is a minority owner, it is setting up in-store marketing kiosks to provide consumers with in-depth multimedia product information that can be updated over ISDN links to central databases. Finally, Olivetti also has its hands in CD-ROM content development through Opera Multimedia, a new Milan subsidiary.

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Put all that together with Olivetti's core business of manufacturing multimedia/videoconferencing PCs, printers, PDAs (as part-owner of EO Corp.) and ATM networking software (through ATM Ltd., a new spinoff of its Cambridge, England, R&D labs), and you start to see plenty of opportunities for technical and marketing synergy. Italia On-Line services will be marketed to mobile-phone network users, while Redgate's U.S. high-tech news services will be broadcast to European clients of the HOT network. The challenge is pulling it all off at the same time. "We're already doing too many things in parallel," concedes Vice Chairman Elserino Piol, who will manage the new strategy. And just in time. After three years of bruising losses on PCs, the new electronic services thrust gives Olivetti a chance to remake itself before PC margins totally disappear.

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Big Names, Early Experiments in News to the Desktop

Do busy working people really want to watch TV news at their desks? A lot of companies are spending big money to flush out the answer, and it could surface first in Europe. On June 2, Reuters Holdings Ltd. launched Reuters Financial Television aimed at currency traders' screens across Europe. The key, says Editor in Chief Mark Wood, is to broadcast original reporting tailored for a narrow market.

For about $135 a month per screen, traders get satellite feeds of short RF-TV live reports perhaps only three or four times a day — for instance, a news conference with the Bundesbank president, or analysts' commentary on charts of just-released economic indicators — whenever news breaks with the potential of moving markets. "People won't watch continuous TV, but they'll take it if it assists in their jobs," Wood says.

Likewise, Dow Jones & Co. will bring its U.S.-originated Investor Network video news reports to European PCs this summer. To keep users from having to sit through interminable press conferences with business executives, DJIN indexes each interview according to content for faster access.

IBM Information Solutions Ltd. and Britain's Independent Television News are casting a broader net. Akin to an IBM-NBC project in the U.S. — only further ahead — the partners this summer are piloting a digital news-on-demand service that beams ITN's world reports in real-time over satellite to desktop PCs. Subscribers can do keyword searches on an index of headlines for up to a week's worth of news.

If that doesn't sound compelling, ITN thinks it will sell best as part of a package of its other business TV services. Those internal product announcements, training seminars and other corporate video presentations that ITN's Corporate TV Networks unit usually broadcasts to big screens in clients' auditoriums will be revamped for delivery to your desktop PC. And if you get bored, you can always switch channels for an update on the war in Bosnia.

Jonathan Levine

Each month, "Global Positioning" will offer an international perspective on digital technology and business developments.