

In-Home Shopping:
Impact of Television
Shoppng Programs

by W. Wayne Talarzyk

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IN-HOME SHOPPING: IMPACT OF TELEVISION SHOPPING PROGRAMS

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- ABSTRACT -

In the past year, in-home shopping via television shopping programs, especially over cable television systems, has experienced much publicity and enormous growth in revenues. For some industry observers the future looks extremely bright, for others there is much apprehension about how large the potential market is, what kind of industry shake-outs will occur and when, and if consumers will lose interest in this mode of retailing.

This paper begins with a review of the recent phenomena of cable and broadcast television shopping. Alternative modes of in-home shopping, with emphasis on videotex, are then reviewed and compared as they relate to facilitating the steps in the consumer shopping process. What has been learned so far about television programs featuring in-home shopping is presented next, followed by an overview of possible areas for improved research and analyses. The paper concludes with a discussion of future scenarios for the industry and strategies for dealing with them.

INTRODUCTION

"Home Shopping Boom Forecast" "Retailing on TV is Exploding" "TV Retail Shows Win Viewers" "Television home shopping may be the hottest invention since the shopping cart" "Home Shopping: TV's Hit of the Season" "Home Shopping: Is it a revolution in retailing - or just a fad?" These and many other headlines and opening lines have proliferated in the popular and business presses during the past year.

Much of the focus has been on the rapid growth of cable television shopping shows. Some authors, however, see the shifting patterns of retailing involving a variety of in-home shopping modes. Much enthusiasm abounds, but in the backs of many people's minds there is that nagging reservation - is this the start of a fundamental change in the ways that products are marketed, or is it just an over-hyped aberration? Unfortunately there is not an easy answer.

This paper is designed to explore in-home shopping in an overview format with specific emphasis on programs offered via both cable systems and broadcast television. To begin, the fairly recent phenomena of cable and broadcast television shopping will be described and evaluated. Then the alternative modes of in-home shopping will be discussed with specific emphasis on videotex. The focus will next shift back to television shopping with a discussion of what has been learned so far. Areas of research issues and opportunities will then be presented. A separate section will provide discussions of possible future scenarios and strategies involving television and other modes of in-home shopping.

TELEVISION SHOPPING PHENOMENA

Shopping via television is not really a new concept. In some ways its roots can be traced back to the early days of television with the special offers of kitchen gadgets, magazine subscriptions, and the greatest hits of (fill in the blank). Who can forget the K-Tel's and the Veg-o-matics? In the 1970's the presentations became a little more professional and the ability to place orders using 800 numbers facilitated purchases. The stage was being set for the development of specialized television shopping programs.

Several versions and formats of television shopping shows were developed and tested in the early 1980's. Most met with limited or non-success. One notable exception, however, was The Home Shopping Club which initially marketed products with a unique combination of entertainment, product information and bargain type, close-out prices. Starting with a single cable television system in Tampa in 1982, a national network was assembled and ready for operation by the middle of 1985.

The operating success and the market potential of television shopping programs became readily recognized when Home Shopping Network went public with its initial stock offering in May of 1986. The rush was on to take advantage of this "new" marketing opportunity.

MAJOR PLAYERS

By some estimates more than 40 home shopping television programs are on the market or are being planned for introduction during this year. Some systems, however, have already withdrawn from the market, scaled back their operations, or decided not to enter the increasingly competitive environment. The expected shake-out has begun and many industry observers

believe that only a few systems will survive given the limited market potential. Following, in alphabetical order, are some of the major players today based on the estimated number of homes they reach and their potential for expansion and growth.¹

CABLE VALUE NETWORK - 12 million homes, all cable, 24 hour channel; show hosts present products in random order, emphasis on bargains, somewhat higher scale items than average, consumer electronics and apparel; owned and operated by C.O.M.B., a closeout liquidator, and a consortium of cable television operators which own 50 percent of the network.

HOME SHOPPING NETWORK - 40 million homes, about 40 percent cable and 60 percent broadcast; two 24 hour channels with a third channel planned; hosts provide a mixture of urgency and great values in presenting such merchandise as electronic products, jewelry, sporting goods, household products and some apparel in a random order; started with cable television systems and began buying UHF stations in selected markets in the latter half of 1986.

QVC NETWORK - 12 million homes, about 85 percent cable, and 15 percent homes with satellite receivers; 24 hour channel with programs divided into one-hour segments devoted to specific product categories; a public company with some ownership in the hands of cable television operators; features jewelry, appliances, home furnishings, fashion items and some closeout merchandise on "super bargain" program segments; Sears, which selected QVC to carry some of its merchandise lines, has an option to purchase part of the network.

¹For more specific information on these systems and others, along with data and observations on the general area of home shopping via television please see Business Week, December 15, 1986, Marketing News, March 13, 1987 and, the February 20 and 23, 1987 issues of USA Today. Additional information is available from the prospectuses and operating reports of the various companies involved in the field.

SHOP TELEVISION NETWORK - 17 million homes, some cable, some broadcast; a 24 hour network owned by a Canadian company; focuses on up-to-date products at discounted prices, does not handle discontinued merchandise or overstocks, has some J.C. Penney merchandise lines; uses a segmented approach with some products demonstrated by experts or celebrity hosts, prerecorded segments are mostly 15 minutes in length.

TELEVISION AUCTION NETWORK - 68 million homes, some cable, some broadcast; this public company has been in operation since 1980 and offers cable and broadcast television systems a one hour, prerecorded auction type of program; features closeouts and off-price merchandise in such categories as shoes and clothing, electronics, collectibles, jewelry and so forth; a studio audience "bids" on the items up for "auction" and then home viewers can call in and buy the product at the final "bid" price.

TELSHOP - 25 million households, some cable, some broadcast; based in Los Angeles and owned by Financial News Network; this prerecorded program is available to cable and broadcast television systems; the program is a talk show style sales program with a variety of name brand merchandise and featured vacation packages.

VALUE TELEVISION - 19 million homes, mostly broadcast; based in Los Angeles and owned by the parent company of Hanover House catalogues, Lorimar Television and Fox Television Stations; a one-hour syndicated program operating as a cross between a home-shopping program and a talk show featuring consumer advice from experts and celebrity hosts; features a variety of products from the 21 catalogs produced by Hanover House.

OPERATING CHARACTERISTICS

Most of the home shopping services offered over cable and broadcast television operate in similar fashions. The merchandise is presented

through a display or demonstration format with appropriate discussion by a show host or celebrity. Usually there is some bantering back and forth between the people on the show along with emphasis on the "great quality" of the product featured and the "real bargain" it represents. Most programs are usually designed to be light, quick-paced, somewhat entertaining, and frequently expressing a sense of urgency to order now before the "chance of a lifetime" passes. Some of the newer programs, especially those featuring current merchandise as opposed to closeouts and overruns, are slower paced with more of a "professional" style of presentation.

Program viewers purchase merchandise by calling an 800 toll-free number and placing the order with one of the company's operators. The operator, working at a CRT, inputs the relevant customer information along with the numbers of the desired merchandise and the major credit card to which the order will be charged. Merchandise is shipped from the company's fulfillment center, most often via United Parcel Service, and usually arrives at the customer address within 7 to 10 days. Most shopping shows maintain a customer service department which can be reached via a toll-free telephone number, to help build and maintain customer satisfaction. In most cases, merchandise can be returned within 30 days of purchase for a full refund, including in some instances even the original shipping and handling charges.

MODES OF IN-HOME SHOPPING

While this paper has an emphasis on in-home shopping via special television programs there are a variety of other modes in which customers can shop at home. Many of these modes trace their origins back to the days

of the Yankee peddler operating out of a wagon. Catalog shopping made its debut as an improved method to bring broader assortments of merchandise to the rural and remote parts of the United States.

As shown in Exhibit 1, alternative forms of in-home shopping can be viewed from the perspectives of how the information is presented to the customer and how the customer in turn places an order. For example with door-to-door sales and party plans salespeople personally interact with customers to provide information and take orders. With the traditional print mediums (catalogs, direct mail, newspaper and magazines) the information is presented in printed form with customer feedback via mail or increasingly in the form of telephone calls, frequently of a toll-free nature. The telephone can be a source of information presentation by a seller (solicitation) or means of order entry or additional seeking of information by a buyer (elicitation).

TELEVISION MODES

In terms of television as a mode of presentation, customers can receive information via cable television and broadcast UHF or VHF as discussed earlier, or from an interactive cable system or through the use of videodiscs or videocassettes using the television screen as a display device. Customers can then place orders by mail or the more usual format of a toll-free 800 telephone number. In the case of an interactive cable system they can also place orders back to the cable system's computer through an interactive control unit or handheld key pad.

Hyde, et al. (1987) discuss several organizations which have used videocassettes to market their products. Examples include: Murjani International Ltd. experimented with a video catalog to promote its Coca Cola clothing line; Soloflex offers a videotape on its home workout machine

and about one half of those who request the tape decide to purchase the machine; Royal Silk offers a 30 minute video catalog which features instructions and tips on silk along with many of the clothing items from its print catalog - the Royal Silk video may be ordered from the catalog for \$5.95; Marshall Fields sent a nine-minute videotape to 7,500 residents with VCR's in San Antonio to promote its new retail store there.

In 1981, Sears experimented with putting part of its summer catalog on a laser videodisc and sending it to 1000 customers nationwide. As new compact disc systems are developed and marketed it may be possible that full-motion video electronic catalogs will evolve. The random access capability of laser discs allow users to go directly to the desired information on the disc rather than being limited to the fast-forward or fast-reverse speeds of videocassettes on VCR's. It is also possible to combine a videodisc, for full motion visual presentations on a television screen with a personal computer linked to a videotex system for current product availability information, along with the ability to order merchandise directly. More will be said about videotex shortly.

In 1977, Warner Cable introduced QUBE, the world's first full-scale interactive cable television system. That system provided a variety of interactive communications services along with traditional television programming. American Express experimented with several shopping programs which allowed customers to order merchandise by pushing the appropriate buttons on their QUBE consoles. The results were less than favorable and the program was discontinued. In fact, consumer acceptance of the total concept of interactive programming was limited. Because of that as well as a number of other factors including budget constraints, Warner has put the

interactive capabilities on hold and the system operates today much the same as a traditional cable network.

VIDEOTEK

From an international perspective, videotex can be described as the generic name for a new, interactive, mass medium that delivers text and other visual information directly to consumers. The user interacts with the system via a handheld keypad, push button console or full alpha-numeric keyboard. Desired information is retrieved interactively from a videotex center through telephone lines, cable, or over a regular television network with text and graphics being displayed on a television screen or other video device (Widing and Talarzyk, 1982). For additional descriptive information on videotex and related technologies see Tydeman et al. (1983).

In the United States most videotex systems have fallen into two categories: regional systems using dedicated terminals with information provided in color with graphics and national systems using personal computers with information provided in text only format. Most of the regional systems (Viewtron in Florida, Gateway in California and Keyfax in Chicago) have been unsuccessful and have withdrawn from the market. Talarzyk (1986) provides some possible explanations as to the shortcomings of the systems compared to the more successful national systems.

The three major national systems (CompuServe, owned by H&R Block; Dow Jones News Retrieval, owned by Dow Jones; and The Source, recently sold by Reader's Digest to a venture capital firm) currently have almost

700,000 subscribers.² In addition to a variety of services such as news, weather and sports information, consumer information, financial and business data, airline and other travel reservations, interactive games, electronic mail and bulletin boards, banking and financial services, and others, most of the videotex service offer some form of in-home electronic shopping.

Comp-U-Card, for example, is available on all three of the major national consumer videotex services. As a pricing and purchasing service, Comp-U-Card allows its members to access information on over 250,000 products via toll-free telephone lines or through in-home videotex services. On-line shoppers can search the data base by product type or features, do comparison shopping and actually place orders for merchandise. Prices are usually 30, 40 or even 50 percent below suggested retail. In most cases, members of Comp-U-Card, who pay \$39 a year for the service, seem to be using the system for pricing information and then using that data to make deals with local retailers.

On CompuServe, subscribers can also shop via the Electronic Mall which focuses on convenience and the psychological attraction of shopping using the computer rather than trying to underprice retail stores. Developed by L.M. Berry and Company and CompuServe, the Electronic Mall today features over 80 merchants. The Electronic Mall is organized into sixteen shopping areas, each one representing a particular product line and group of merchants.

²For more information on these and other videotex activities in North America please see Talarzyk and Holford (1986).

The results of an A.C. Nielson study, as reported in Sight & Sound Marketing (1985) showed that the Electronic Mall has better response rates with lower costs than traditional direct marketing methods. During the four month study an average of 2.1 percent of the visits to the Mall resulted in a sale. The average direct mail/catalog response rate is around 1.5 percent. The basic reasons for shopping the Mall included convenience and time-savings. A recent profile of the Electronic Mall shopper is presented in Exhibit 2. The Mall is currently owned exclusively by Compuserve.

Hagedorn (1987) reports that J.C. Penney will be introducing a type of videotex shopping service later this year. The service, called Telaction, will be part of a basic cable television subscriber package, which will allow home shoppers to order products using a touch-tone phone. When tuned to the Telaction channel, shoppers choose a product category or merchant from a menu listing of alternatives. Once in a category, consumers are shown number coded products. Shoppers can request more details about any product and can review their "Shopping Cart" of selections before completing the transaction. Initially the service will reach 125,000 homes in the Chicago area. Depending on consumer and retailer reactions, J.C. Penney may take Telaction to as many as 20 major cities in 1988 and to an additional 40 markets over the next five years.

Trintex, a joint videotex venture between Sears Roebuck and IBM, recently announced that it was ready to accept advertisers for its expected system trial in 1988. This system should offer increased opportunities for in-home shopping via videotex type technologies.

While videotex has not caught on as rapidly as many industry observers had forecasted, it still represents a significant potential area for the growth of electronic in-home shopping. As the present systems add more

services and subscribers, and as new services come to the marketplace, videotex should play a major part in expanding in-home shopping for many households.

COMPARISON OF SHOPPING MODES

The traditional shopping process model postulates that consumers go through a series of five major steps in a purchasing decision: problem recognition, search for alternatives, alternative evaluation, purchase decision and outcome (Engel, et al, 1986). To help understand how the alternative methods of shopping relate to the various steps in the shopping process Exhibit 3 is provided as a frame of reference.³

In this Exhibit the greater number of stars implies that the particular mode of shopping is of greater potential value in positive performance of the step. For example, problem recognition is more likely to be enhanced by visiting stores and interacting with sales personnel and watching television shopping shows with their sense of value and urgency than by passively skimming through a catalog or going to a videotex system for information.

It should be noted that the process which led to Exhibit 3 is a highly subjective one and that interested readers are urged to bring their own expertise to bear in interpreting and applying the information. This reference frame, however, should be of value to individuals thinking through the potential of alternative modes of shopping for their product offerings and their present methods of distribution and marketing. Each of the steps will now be discussed via comparisons of the alternative shopping modes.

³Appreciation is expressed to Hyde, et al. (1987) for permission to adapt portions of their evaluations for the purpose of this paper. Exhibit 3 is a limited version of a more detailed exhibit which they prepared. The author of this paper added the information on videotex as a comparison to the other shopping modes.

With catalogs and videotex systems consumers have as much time as they want to assimilate the available information. The information must be assimilated quickly in the case of television shopping programs because the product is usually off the air in a few minutes.

Again, well trained and motivated customer service representatives can facilitate the alternative evaluation for television shopping consumers by being available to answer questions and provide additional information via toll free telephone lines. Using split television screens, television shopping programs could leave selected items on display, along with some product information, while the program hosts go on to other products. This would give consumers more time to think about the product and evaluate it. While this would reduce some of the urgency appeal, the trade-off of additional time to think about the product may be of greater value to some consumer segments.

PURCHASE DECISION

If checkout clerks are available, purchases can be made immediately and simply in most stores. Likewise with videotex systems, the pushing of a few keys on the keyboard can complete a transaction. With catalogs and television shopping shows consumers may get a busy signal when calling and then go through a lot of product and credit card information when ordering, especially with catalog purchases.

To improve the purchasing process, some of the television shopping programs retain relevant information in their computer systems on their regular consumers. This facilitates the ordering of merchandise since the consumer does not have to repeat such information as address, credit card number, and so forth. More efforts need to be placed on improving order

entry with specific emphasis on more and better trained operators, if television shopping is to grow as a shopping mode.

OUTCOME

Shopping in stores usually means that consumers take their purchases home with them. With the other modes of shopping there is the wait for the merchandise to arrive along with the potential that it may be damaged or lost in transit. Many stores have the potential to provide some post services on a "while you wait" basis. Other modes of shopping have the potential to provide nearly all of the post purchase services that stores offer but the distance between the consumer and the seller is likely to complicate the process.

Videotex may offer the greatest potential in the area of post purchase services by electronically directing the consumer to related products or areas of interest. Also, at appropriate times the videotex system may provide reminders about ordering again or about sales or special offers on products of interest to the individual consumer. The ability to store, recall, and deliver such information to individual consumers when they sign-on to the system can enhance the personal characteristics of videotex.

Television shopping programs, along with catalog and videotex shopping, are weakest compared to traditional store shopping in the area of order fulfillment. To improve on this relative weakness, the television shopping system operators need to work with the delivery services on reducing the time between order entry and order delivery. This may involve adding warehouse locations around the country or grouping orders together on a geographical basis and delivering to hubs via the fastest shipping modes and then breaking orders down for regional and local delivery.

PROBLEM RECOGNITION

As stated above, experiences in stores with viewing product displays and interacting with store personnel greatly enhance the problem recognition step in the shopping process. Likewise, watching television shopping programs can be very effective in motive arousal and need activation, especially based on the sense of value and urgency conveyed by the programs. The passive nature of most catalog experiences does not often result in the need activating or persuasive power of the other shopping modes. Likewise, since most people go to videotex systems for information or to perform some specific transaction there is little potential of problem recognition via this mode of shopping.

For cable television shopping programs to enhance their effectiveness as a shopping medium, the emphasis on problem recognition needs to remain strong. A major part of presenting any product on the shopping shows should be on the types of consumer wants and needs that can be satisfied by the product. This will involve using the strength of this shopping mode with the attentive, receptive mood of the television viewer.

SEARCH FOR ALTERNATIVES

Location, in terms of search for alternatives, is facilitated by the ease of finding merchandise in a catalog and the breadth and depth of information via a videotex system. Likewise, catalogs are immediately accessible at the point of problem recognition and videotex systems are under the direct control of the user. Stores may not be conveniently located to a consumer and of course the consumer would have to leave home to begin the search/evaluation process. Merchandise may not be offered when desired or needed through a television shopping program, even though the

television shopping program is easily and immediately accessible at the point of problem recognition.

Personal service is clearly best when dealing with store personnel. They can usually offer in-depth product information, comparative information, ensemble coordination for apparel, and so forth, if they have been properly trained and motivated to do so. With videotex systems the consumer is interacting with the information base on their own so there is no personal service involved. Similarly, with television shopping programs and catalog shopping the consumer has no direct personal involvement with the organizations unless telephone calls are made.

To improve their relative position in the area of search for alternatives there is little that television shopping programs can do other than offer alternative products at the same time in a given product area. The expanded availability of customer service representatives to provide information over the phone could improve the personal service dimension of alternative search.

ALTERNATIVE EVALUATION

With alternative evaluation, objectivity is of highest potential with catalogs and videotex due to the text nature of the information and the amount available along with the obviously lack of potential bias from salespeople. Availability of product is generally limited to what the consumer sees on the sales floor of a store while catalogs and television shopping programs are usually very clear on what sizes, colors, models and so forth are available. Videotex may offer the greatest potential here because inventories can be updated almost instantly and the consumer can know exactly what is available.

Obviously, trade-offs need to be taken into account. Some consumers may be willing to pay more for quicker delivery. Telephone operators, therefore, should have information available so that consumers can decide if they want over-night or two-day delivery in exchange for paying higher prices. Other consumers are likely to be quite willing to wait a little longer and have lower shipping and handling costs.

SUMMARY

A quick perusal of Exhibit 3 shows that each of the shopping modes offer strengths relative to the other modes. On this selected set of characteristics within the shopping process steps, it is interesting to note that videotex rates quite favorably and is similar to the profile of catalog shopping but with greater potentials in the area of purchase decisions and post services. If videotex becomes a shopping force within the marketplace it is likely that it will gain its largest initial acceptance among consumers who are currently catalog shoppers. For additional information on videotex and its potential as a mode of retailing see Urbany and Talarzyk (1983) and Waites (1983).

TELEVISION SHOPPING - LEARNINGS TO DATE

A few companies have undertaken proprietary studies and some consulting firms have prepared private syndicated reports, but little is publicly known about detailed characteristics and behavior of consumer shopping via television programs. Likewise little is known about the performance of the industry to date or its long run potential. The following points, gathered from the operating reports of publicly held companies, from information presented in newspaper and magazine articles, and from conversations with

industry observers, provide a brief overview of what is known currently and publicly about the industry.

- o Since its inception in Tampa, 72 percent of the 125,000 homes in the area have bought something from Home Shopping Network.

- o Home Shopping Network has an average gross margin of 40 percent (compared to 28 for the typical discount store), and has a net margin of 10.6 percent (more than three times the average for traditional retailers).

- o Home Shopping Network sells over 25,000 items each day; 80 percent of the business is from repeat customers; the average order is around \$32 and the average customer places 15 orders per year; 30 percent of buyers account for about 60 percent of sales.

- o For its fiscal year ending August 31, 1986, Home Shopping Network reported that 9.8 percent of the items shipped were returned. In dollar figures the returns amounted to 17.4 percent of gross sales.

- o Some industry participants are in television home shopping as a defensive strategy - "If we're not there, someone else will be there."

- o Some consumers buy for price, others buy for quality of merchandise - QVC reported that during the first three weeks, the top 20 sellers among its 160 products offered, included both the least and most expensive items and the least and most discounted items.

- o Jones Intercable did a telephone survey among a small sample of cable television subscribers in small towns in New York and Wisconsin. Results indicated that the most likely television home shoppers were middle aged (35 to 64) with households' incomes of \$35,000 or more. Important factors in this type of shopping included convenience and price. Such

shoppers were also likely to regularly enter sweepstakes. Other findings on television home shoppers included:

- 6% - of cable television subscribers made purchases
- 64% - purchase once a month or more
- 66% - watch more than one hour of shopping programs per week
- 48% - have bought from catalogs in the past six months
- 71% - spend more than \$20 per purchase

o Some consumers watch television home shopping programs for entertainment; in addition, for some, there is a sense of excitement in not knowing what is coming up next and a concern of switching to another channel and perhaps "missing the bargain of a lifetime."

o As competition among program providers increases, cable and broadcast television operators are obtaining ownership positions in the programs or better shares of sales revenues coming from their areas. When Home Shopping Network started acquiring UHF stations, it agreed to pay cable operators five percent of sales from their zip code areas regardless of how the sale originated.

o In 1985, measured sales from television home shopping programs were \$91 million; such sales reached \$450 million in 1986; forecasts for 1987 are in the \$2 billion range; projections for 1990 vary from \$3 billion to over \$6 billion depending on the assumptions made by the prognosticators.

o For some consumers the novelty of television home shopping may be "wearing off." To help reach more consumers and keep the enthusiasm up, shopping programs are using more celebrity hosts, emphasizing special product categories in certain time slots, and adding games, prizes and contests to the show format. Home Shopping Network sends its customers

"Spendable Kash" (usually valued at \$5) on their birthdays to be used for future purchases.

This collection of facts, observations and anecdotal information provides some insights to the television shopping industry as it exists today. Clearly more research and information is needed to objectively analyze this industry, to examine its long-run potential and impact on other in-home and more traditional forms of retailing, and to develop strategies to effectively market this type of retailing on an on-going basis.

RESEARCH ISSUES AND OPPORTUNITIES

As evidenced by the information in the previous section there are still a lot of unknowns and things that need to be learned about the television home shopping industry. This section is designed to explore, in an overview format, some of the consumer research and competitive/economic analyses which should be of value to academics, industry observers and practitioners.

CONSUMER RESEARCH

In terms of consumer research needs, there are two broad areas of interest - descriptive and theoretical. From a descriptive perspective it would be advantageous to have more information on the television home shopper such as socio-economic and psychographic characteristics and behavioral patterns. Some key questions include: How do customers who shop from television programs differ from those who use other in-home modes of shopping or those who patronize various types of traditional retail stores? How satisfied are consumers with their television home shopping experiences? What types of products are they purchasing and how frequently are such

purchases made? What are the attitudes toward and preferences for various formats for the shopping programs?

From a theoretical perspective other key issues and questions emerge. For example, are the currently accepted models and theories of consumer behavior and advertising effectiveness still appropriate for messages delivered and products purchased via television home shopping channels? Specifically how does source credibility, steps in the decision making process, one and two-sided arguments, information processing and other communications issues relate to information presented to consumers through such shopping programs?

COMPETITIVE/ECONOMIC ANALYSES

Competitive studies which examine the impact of television home shopping on other forms of retailing would be helpful for longer-term retail forecasts. Studies could also evaluate the relative effectiveness of alternative formats for such shopping systems, including basic methods of actually presenting the products to consumers. It would also be interesting to compare sales responses to television home shopping shows offered over cable television systems versus broadcast UHF or VHF stations.

Economic analyses could focus on the potential life cycle for television home shopping systems. Specific questions might address: When is the industry likely to peak in terms of sales volume? At what level of sales is market saturation likely to occur? How many individual shopping channels or shows can be supported by the market? What is it likely to take to be one of the industry survivors? Is there a potential problem with a shortage of traditional merchandise for television home shopping programs (closeouts, liquidations, discontinued products, manufacturer overruns, and so forth)?

FUTURE SCENARIOS AND STRATEGIES

Based on where the television home shopping industry is today and the changing marketing environment in which it operates, what does the future hold? What evolutionary processes will take place in the industry? How should industry members respond to market change, specifically increasing competition? These and related questions are the focus of this section.

MARKET SEGMENTATION

In most marketing situations today, market segmentation is often viewed as the key to success. This observation is likely to be especially true for the television home shopping industry as it matures. As competition increases and as certain markets reach saturation it will become increasingly imperative that shopping shows and their product offerings be targeted to selected market segments. Fortunately by combining the reach of broadcast television (both UHF and VHF) and the available channels on most cable television systems such market segmentation should be able to be achieved.

FACILITATING ENVIRONMENT

In many ways the business and consumer environment seems quite conducive for in-home shopping in general and television shopping in particular. Talarzyk (1986) outlines some of the areas where this is true. For many organizations it is difficult to find, train and retain qualified and courteous in-store personnel given prevailing wages and benefits. As a result, many consumers find visiting stores a discouraging experience in terms of seeking and receiving information and sales assistance.

Changing consumer demographics and altered lifestyles are also influencing the in-home shopping market. As more multi-income families

emerge, along with the increasing levels of education in society, more families are finding their affluence improving. At the same time, however, there are additional pressures on the amount of time available for shopping.

Many consumers are placing more emphasis on self-fulfillment and instant gratification, both of which can be aided through "do-it-yourself" marketing from the home and the ability to make shopping decisions easily and quickly via some of the emerging technologies. Some of these emerging technologies for in-home shopping can also aid the increasing desire on the part of some consumers for more product information. Information load and consumer decision making (Malhotra 1982) does need to be considered here, however. Also as members of society become more familiar and comfortable with computers they are likely to be more accepting of videotex type shopping services.

INDUSTRY SHAKE-OUT

Given the large number of organizations moving into television shopping shows and the probability of consumer interest waning sometime in the near future, a major industry shake-out seems inevitable. In fact, some of this is already beginning to take place. Some industry observers feel that the market will be able to support only two or three major shopping networks and a limited number of specialty, one or two hour syndicated shopping programs. With this in mind, some of the shopping networks and individual shows are going to go by the wayside. Concurrently, appropriate mergers and acquisitions are probable as industry consolidation takes place. It is also likely that relationships between operators of shopping networks and programs and their media (cable television systems and television broadcasters) will become more "equitable."

EMPHASIS ON MARKETING

As long as markets are expanding rapidly and competition is minimal, the emphasis on marketing principals can be limited. As the environment changes, however, the marketing of television home shopping shows and their products will become increasingly important. This ties in with the earlier comments on market segmentation and impending industry shake-out.

It seems likely that the shopping shows and networks will have to become more marketing oriented. This will begin with a better understanding of individual markets and their needs, along with a thorough understanding of the competition, all based on sound marketing research. Then it will be followed by improved product offerings targeted to selected market segments, likely advances in order fulfillment and post purchase services, varied pricing strategies including rebates and special promotions, and enhanced advertising efforts to attract consumers to the shopping shows and bring them back on a regular basis.

REVENUE PROJECTIONS

As stated earlier, revenue projections for the television home shopping shows vary greatly based on the optimism and assumptions of the forecaster. Hyde et al. (1987) make what seems to be a reasonable sales projection of around \$2.8 billion in 1990 in the United States. This is based on: 94 million households (times) six percent penetration (times) 15 purchases per year (times) \$33 average transaction size (equates) \$2.8 billion. Based on their projected 1990 sales of \$456.7 billion for GAFO (general merchandise, apparel and accessory, furniture and home furnishings and other miscellaneous shopping goods) stores, the total projected volume of television home shopping "can be accommodated within the retail structure without adverse consequences or any other mass appeal mode."

EVOLVING SHOW FORMATS

Based on increasing competition, expanded use of marketing concepts, and a focus on market segmentation, it is likely that formats of television home shopping programs will continue to evolve. As pointed out earlier, many of the new shows have already moved away from the original format of a "strong sales pitch with energetic hosts enthusiastically extolling the great bargain at hand." Different types of merchandise, especially more upscale products are appearing, along with product experts and celebrity hosts to add varied dimensions to the shows and provide differentiation across competing programs. At the same time some shopping programs are developing game show formats with contests and prizes for both members of the studio audience and home participants. Such evolutions will continue and expand as programs compete to attract and maintain consumer interest and purchases. Once again, the hypothesized "key to success" will be the effective utilization of the concept of market segmentation.

TECHNOLOGY POTENTIALS

For two books on marketing and retailing based on emerging technologies the interested reader is referred to Buzzell (1985) and Mascioni (1986). These books provide some interesting and timely perspectives on recent technological developments and their implementations and potentials.

If one takes a longer and more futuristic viewpoint, however, it is intriguing to think about what might be coming that will facilitate consumer interest and participation with in-home shopping technologies. One scenario deals with full-motion-video delivered to the home, in digital format, on demand. This can be a very personalized shopping system, with information brought to the consumer in the desired format at the desired time.

With computer capacity built into a digital television set, with information down-loaded on demand over telephone lines or cable systems, with the information accessed and processed with a hand held keypad similar to today's remote controls for television sets, consumers of the future may be able to shop world-wide organizations from their home. With computer voice generation and full-motion, three dimensional computer graphics, consumers may be able to "see" themselves wearing the clothes being offered for sale, using the products being demonstrated and so forth, all with a salesperson "talking" to them personally.

All types of entertainment could also be delivered over such systems in an on-demand format. An interesting perspective is that consumers may learn to use a very sophisticated computer system without even knowing or thinking about it as a computer. It is introduced into their lives as an add-on personal information service delivered as part of a television entertainment system. This scenario could be developed in much greater detail, but hopefully the interested reader will grasp the potential even with this limited description. It is important to point out that much of the technology needed to attain such systems is already available or in experimental modes.

A key caveat remains. Not all consumers will seek, readily adapt to, or even want the type of system just discussed. But some will, and if that market is of sufficient size and economically viable such systems, or variations thereof, are likely to evolve. Will they replace all other forms of retailing and information sources and entertainment? The answer is clearly no! But, they will supplement and perhaps serve as primary sources for some consumers. Once again, the key for success for organizations which

develop such systems will be their ability to properly and efficiently segment the markets.

SUMMARY

Back in the 1960's a classic article (Doody and Davidson, 1967) was written about the in-home shopping experiences of a couple living in the 1970's. Using a computer they were able to do their shopping at their convenience, with the purchases, even groceries, delivered to their home within hours. Then McNair and May (1978) wrote about the next "revolution of the wheel of retailing," which included many ideas about electronic, in-home retailing.

In many ways both of these articles were on the right track in terms of potential changes in retailing. Also, both were clearly ahead of their time. As all marketers know, consumers do not always do what is probable or what is expected of them.

The question today is what forms of in-home shopping are likely to play major roles in the coming years? Are the television home shopping shows of the present part of the evolution of in-home shopping or are they merely a tangential approach to retailing? Obviously these are not easy questions to evaluate, let alone answer definitively. Only time and the proverbial twenty-twenty hindsight will yield "answers."

A Japanese businessman once stated what he thought was essential to initial and continued success in doing business in Japan. As cable television system operators, television broadcasters, traditional retailers, and home shopping program developers evaluate trends and potentials of in-home shopping they would be wise to consider his words. "We have to keep

one hand on the rudder, which is the present, and the other sketching a map for the future."

EXHIBIT 1

IN-HOME SHOPPING ALTERNATIVES

| <u>TYPE OF SHOPPING</u> | <u>PRIMARY MODE OF INFORMATION PRESENTATION</u> | <u>MODE OF ORDER ENTRY</u> |
|-------------------------|---|----------------------------|
| Door-to-door | Personal | Personal |
| Party plans | Personal | Personal |
| Catalogs | Print | Mail/telephone |
| Direct mail | Print | Mail/telephone |
| Newspapers | Print | Mail/telephone |
| Magazines | Print | Mail/telephone |
| Telephone solicitations | Personal | Telephone |
| Telephone elicitations | Personal | Telephone |
| Radio | Radio | Telephone/mail |
| Cable television | Television | Telephone/mail |
| Broadcast UHF-VHF | Television | Telephone/mail |
| Interactive cable | Television | Direct |
| Videocassette | Television | Telephone/mail |
| Videodisc | Television | Telephone/mail |
| Videodisc/computer | Television | Direct |
| Computer (videotex) | Video display | Direct |

EXHIBIT 2

CHARACTERISTICS OF ELECTRONIC MALL SHOPPER

| | |
|-----------------|---|
| Sex: | 96% male |
| Marital Status: | 64% married |
| Age: | 36 years (average) |
| Education: | 48% college graduates |
| Household Size: | 3.1 people (median) |
| Occupation: | 60% professionals, managers, executives or proprietors |
| Income: | \$44,000 (median) |
| Computer Use: | 10.6 hours per week |

EXHIBIT 3

SHOPPING MODES COMPARED BY STEPS IN THE SHOPPING PROCESS

| SHOPPING PROCESS MODEL STEPS | MODES OF SHOPPING/BUYING | | | |
|------------------------------|--------------------------|---------|-------------|----------|
| | STORE | CATALOG | TV SHOPPING | VIDEOTEK |
| Problem Recognition | *** | * | *** | * |
| Search for Alternatives | | | | |
| Location | * | *** | ** | *** |
| Personal Service | *** | * | * | * |
| Alternative Evaluation | | | | |
| Objectivity | * | *** | ** | *** |
| Availability | * | *** | *** | *** |
| Assimilation | ** | *** | * | *** |
| Purchase Decision | | | | |
| Expediency | *** | ** | ** | *** |
| Ordering Simplicity | *** | * | ** | *** |
| Outcome | | | | |
| Fulfillment | *** | * | * | * |
| Post Services | *** | ** | ** | *** |

* - of less potential value in positive performance of the step
 *** - of more potential value in positive performance of the step

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