

## PIRP PERSPECTIVES

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### **"Information Services:" Inevitable Policy Controversies and Market Uncertainties**

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"Information services," unfortunately, are often bound in the web of regulated industries (particularly regulated telephone companies), at least in the eyes of many industry analysts. Yet, hearing about the "information revolution" and the emergence of the "service economy" over the last decade, literally hundreds of companies have combined "information" and "services" in their corporate mission statements in hopes of catching a ride on two different shooting stars. Thus policy dilemmas and market uncertainties meet in the information business, a situation that was the subject of my recent remarks to the Fourth Telecommunications Conference at the University of Utah. This issue of *Perspectives* reproduces those remarks.

#### **976 Was a Cakewalk**

Our panel's topic is in the form of a question: "Heralding the Introduction of Information Services: Will the Public Respond with More 976 Controversies?" My reply is an emphatic "Yes!" Actually, I think that the question understates the nature and scope of the battles that lie ahead. The 976 controversies were a cakewalk compared to what "information services" will evoke. In other words, controversies will continue to flourish in this arena, for some quite basic reasons.

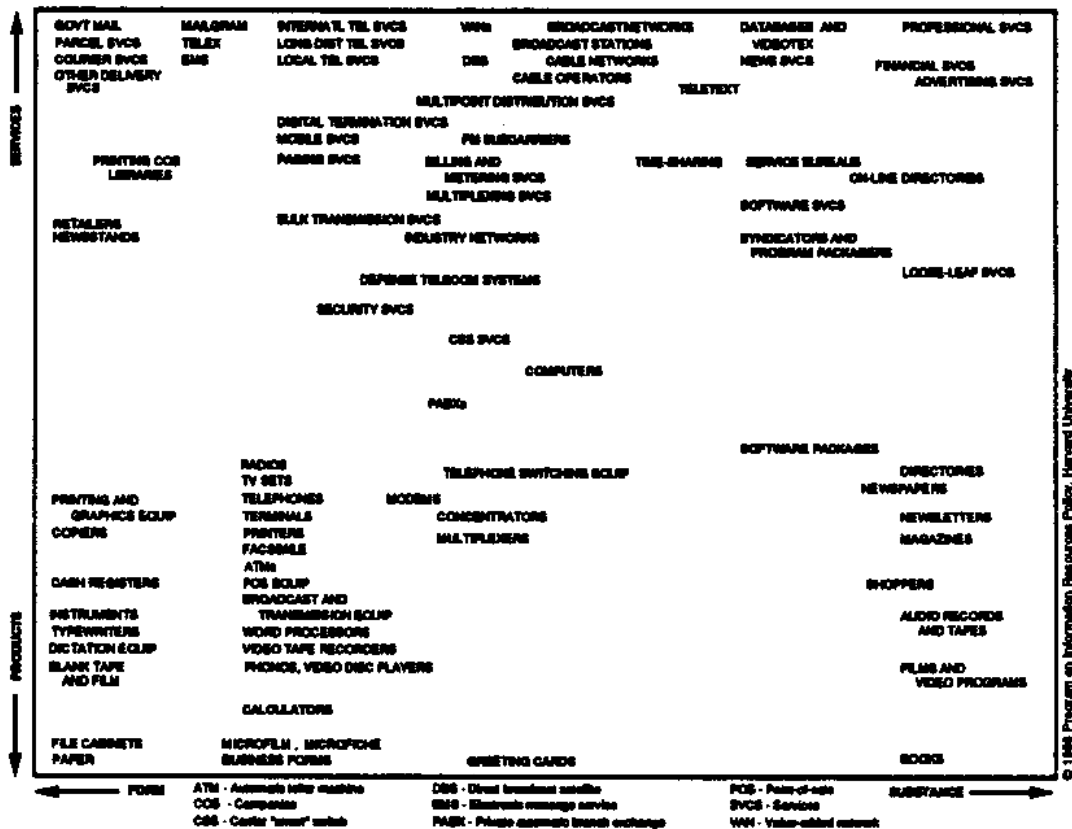
(For the uninitiated, "976" refers to a group of information services available to telephone subscribers through dialing a 976 prefix. Various "chat lines," "dial-a-porn" and "dial-a-Santa" services were among the more controversial 976 offerings.)

Let me begin with the matter of scope because the question implies that "the public" was the primary source of the 976 controversies. I think that everyone here understands that this implication is somewhat misleading. "The public" is only one source of telecommunications policy controversies, and normally the last to arrive on the scene. "Information services" have been a matter of telecommunications policy controversy for decades because of competition among would-be providers and, occasionally, because of the politicking of large corporate users of telecommunications services. "The public" gets drawn into the melee after the other players (and their political champions) have determined the shape of the playing field.

The broader introduction of "information services" will trigger numerous and nasty controversies for five basic reasons, which I will summarize as conceptual, technological, political, institutional, and social (or personal).

Conceptually, the problem is that "information services," however courts and regulators attempt to define the term, is such a huge concept as to defy legal, regulatory, or marketing boundaries. About 10 years ago I created a diagram which we have called "The Information Business Map" (see below). The top half of that "map" plots a sampling of activities which fall under the rubric of "information services." Using fairly modest assumptions and conservative calculations, I find it easy to conclude that "information services," including professional and

financial services, constitute more than half of all economic activity in the United States today, and we can expect that proportion to grow. This observation leads me to conclude that trying to define anything in terms of "information services" is an exercise designed to confuse both participants and observers. I would argue that the term should be excluded from rational discourse. As Sir Henry Campbell-Bannerman said, describing another term in the 1890s, "it deludes the earnest and it imposes on the simple."



Developments in technology, of course, have been a major contributor to the conceptual confusion, a situation which can be expected to continue and probably to accelerate. The technologies for creating, collecting, processing, transmitting, storing, and distributing information have proliferated during our lifetimes, and each new innovation further confounds our previous definition of a particular information service. It seems to me that corporate entities are becoming smarter and smarter in using new technologies to escape from old legal and regulatory boundaries, particularly when those boundaries have been defined by the use of technology-based terms. We would be silly not to expect a lot more controversy as technology spawns new variations of products and services which threaten established market shares and political arrangements.

The political sources of controversy in the information services arena represent an intriguing blend of the old and the new. The old in this instance are all the traditional regulatory arguments about universal service, cross-subsidies, "cream-skimming," and so on. The new arguments entail very real concerns about providing the technological infrastructure required for a state (or a company, a nation, a society, or individuals) to participate in a services-intensive economy. The new arguments also include a lot of irrational rhetoric about bringing the benefits of the information age to every household, *à la* Minitel. Given the endurance of the

old politics of telecommunications and the virulence of the new ones, real or bogus, I expect the introduction of each new service offering to generate additional controversies.

The institutional sources of controversy surrounding the introduction of new information services are quite apparent. The United States (and all other countries) spent the better part of the past century carefully crafting a set of corporate monopolies and public regulators to deliver basic telephone services to most people. Increasingly over the past 20 years, however, new technologies and new corporate players have been chopping away at the old institutional arrangements. Under the old regulated monopoly structure, life used to be pretty stable. Now life is increasingly unpredictable and, as a result, everyone has become paranoid. Every new service offering, every new tariff, is seen as the camel's nose entering the tent, or the first step on the slippery slope leading to perdition. With all of the insecurity among the present players, the environment is ripe for new controversies.

The personal or social causes of additional controversies in this arena should be even more obvious, especially when we talk of offering new and different services to an ever-broader and less-expert market. I think the 976 controversies were instructive in this regard, but only minimally. Every new information service offered will cause us to revisit 976-type issues: pricing, access, blocking, privacy expectations, First Amendment rights, to name a few. Each new service also will raise new controversies, most of which we cannot begin to anticipate.

In summary then, of course the public and regulators and competitors and just about everyone else involved will respond with more 976-type controversies as new information services are introduced. But so what?

We know the controversies are there and we know that most of them are insoluble, especially when people debate theoretical offerings in advance. If the truth be known, we seldom, if ever, really "resolve" these kinds of policy controversies in this country. We cope, we readjust, we compromise, we redefine, and somehow we muddle on to the next set of controversies.

#### Addressing the "Real" Questions

The "real" questions surrounding the introduction of most of the heralded services concern the market for new information services. What we really need is an environment that allows for a lot of market experimentation, an environment in which regulatory paralysis does not cause every new idea to arrive stillborn. Creating such an environment will not guarantee success for new services, but the absence of such an environment will guarantee failure.

The good news for most of the people here is that some service offerings will be fabulously successful. The bad news, particularly for regulators and managers accustomed to the predictable old world of telephony, is that 90% of all new product and service offerings in competitive markets fail. The worse news is that no one is very good at guessing which 10% will succeed. And, the worst news may be that the more you have to educate your customer as to the value of your product, the more likely it is that you will be part of the 90%.

Personally, I would like to see people in the industry talking less about the inevitable policy controversies and worrying a lot more about how to test and develop the market for information services.