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The Mission: Tap High-Growth Internet Business

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The mission, should Europe's ICT sector wish to accept it, is to be prepared to capture a good chunk of the growing market for new tech and telecoms business driven by internet developments – and do it now, before it's too late. Jumping on a fast-moving train is a costly and dangerous strategy.

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The next decade will be crucial for the European internet industry (EUII). Right now, European firms dominate more mature, slower-growing segments, while higher-growth segments remain relatively untapped. What is Europe doing to tackle this challenge?

The EUII can basically be divided into three groups:

1. A **core** providing internet IT and network products and services;
2. A **linking component** providing internet telecom services;
3. A fast-emerging **web ecosystem** (i.e. web-based applications, services and content in close and innovative relationships with users and traditional players).

Whereas the core internet industry tends to be dominated by global IT players based in the US, internet telecom services are predominantly led by large European telecom suppliers who gain the lion's share (58 % in 2012) of EU11 revenues*.

STRONG IN EQUIPMENT-MAKING, BUT ...

In the globalised internet industry, Europe is relatively strong in network equipment and smart handheld devices, but faces tough competition from Asia. Europe has a limited presence in the new and rapidly-growing areas of software and IT services and the 'web ecosystem', such as internet-advertising-based business models and data-mining products for marketing, geo-location, etc.

Revenue growth is projected to vary widely across different parts of the internet industry. Looking ahead to 2015, software and IT services are expected to be the most dynamic components of the EU11, driven by cloud computing, mobile apps and innovative applications such as big-data analytics, at rates of 12-13 % annually. Telecom services and network equipment and operations businesses are projected to grow at a modest 5%.

What the EU internet industry needs ...

Access to **finance**, mechanisms to offset investment risk, and efforts to stimulate entrepreneurial activity, including support for startups (see also on page 8).

Governments must move away from "picking winners" towards **sustaining competition**.

Businesses must open their innovation, production, delivery and value-chains to suppliers and users on more **equal terms**.

Agile and small-scale enterprises and **user-led innovation** are especially important to the internet industry.

Industry should embrace flexible business arrangements and lower adoption costs to encourage end-users to **exploit the potential** of new internet-based services and applications.

Growth in the network side of the business has held up during the current economic crisis. More broadly, the internet sector of the ICT market shows signs of leading the wider recovery of the ICT market. "It is not evident that the rest of the economy will follow, or that these growth rates can be sustained if it does not spread beyond the internet industry," notes the European Commission.

Demand for internet-related technologies and services is estimated to grow rapidly in all business and consumer segments, but particularly in those sectors where European suppliers are currently lagging behind in the intensity of IT usage. This includes: utilities (12.7 %), healthcare and education (9.7 %), business services (8.4 %) and distribution (8.2 %). As a result, on current trends Europe's dependence on foreign IT suppliers at home will grow and its share of lucrative global technology markets will shrink.

Sustaining competitiveness and innovation will require different strategies for the different players in

the EU11 who face an increasingly convergent market from very different starting points. European IT players – mostly small and close to their local markets – will have to become bolder, find new financial and human resources to invest in innovation, look for new clients and possibly test their mettle beyond the EU borders. If not, they risk being wiped out by outside players (e.g. Amazon’s cloud services).

But perhaps the greatest challenge lies with Europe’s leading ICT and telecom players who must adapt or renew their business models. The value of strategic assets, such as fixed-line infrastructure which once sustained a relatively small number of dominant market players, has been eroded by new technological and market trends.

THESE CHALLENGES CAN BE MET IN DIFFERENT WAYS

One approach is for incumbents to gain a new lease of life by vertical integration and diversification into the IT and service layers (‘facilities-based competition’). Another is a layered competition structure with communications and network services provided as utilities, sustaining a common platform on which the web ecosystem can thrive.

The industry must support the continued development and deployment of (open) network infrastructures without restricting the flow of rapidly evolving internet-based applications and services that generate value for end-users. Yet ‘openness’ requires interoperability and standardisation for a competitive web ecosystem and its underlying networks to flourish. And greater innovation in applications, services, business models and markets is critical. But European capital markets are more risk averse than their US equivalents, which often means that public funding is needed to fill the gap for longer-term, more innovation-led ICT R&D.



Right now, however, European governments seem more committed to austerity than growth. Europe’s leading IT players can of course pick up the baton, but traditional industrial policy and capital markets need to support them by investing in innovation.

** Sales of internet-related technologies and services, excluding generalpurpose IT and web ecosystem revenues (i.e. services like e-commerce, advertising and subscriptions).*

More info

- Read the FI3P project’s final report ‘Towards a competitive European internet industry’ – <http://fi3p.eu/publications/> [1]

(Article from [net-innov future](#) [2] magazine (2014)).

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