

■ The Information and Communications Market in Western Europe

Report Highlights Prospects in Italy and Spain

by the Office of Information Technology Industries, Trade Development

Western Europe represents the world's second-largest market for information and communications technologies (ICT) and services after North America. In 2002, the value of the ICT market in Western Europe was \$712 billion. According to the latest *ExportIT* report, the region offers many opportunities for U.S. companies, although the ICT sector is currently in the midst of a slowdown due to the collapse of the Internet sector in the United States. Italy and Spain, the fourth- and fifth-largest ICT markets in Western Europe, respectively, offer excellent opportunities for U.S. companies.

Economic growth remains stagnant in Western Europe, both generally and in technology sectors. Economists and industry analysts do not expect any appreciable general economic recovery before the end of 2003. Lower corporate profitability and lack of confidence have led European companies to focus on cost savings instead of expansion.

Overall, ICT spending is forecast to grow by 3.2 percent in 2003, 40 percent less than predicted two years ago. Other factors hamper ICT market growth in Western Europe.

These include overcapacity in the information technology sector, a critical re-examination of the benefits information and communications technologies bring to business after the drastic dotcom sector decline, and reassessment of the return on investment before a firm approves any new investment in such technologies.

The economic slowdown in Western Europe lagged the decline in the United States by about six months. Investment in information and communications technologies experienced a ripple effect as a result of the decline in Internet activity in the United States. Industry representatives, government officials, and corporate executives believe that the ICT market will not rebound until late 2003 or sometime in 2004.

TRENDS AND OPPORTUNITIES

Large enterprises are concentrating on back-office operations and will streamline them with customer relations management, supply-chain management, e-business, data storage, and IT security systems. Most mobile operators are deferring any further investment in wireless technologies until there is a clear commercial rationale for launching a 3G or universal mobile telecommunications system. New applications have not materialized as rapidly as

thought, and those that have emerged do not offer the kind of advances and efficiencies that were expected. The high cost of 3G mobile devices and the disappointment with 2.5G has not resulted in much enthusiasm for a technology whose benefits have yet to be defined. New applications are seen in the data communications field, as mobile technologies will offer Internet access, e-mail, and other e-business features that will enhance revenue for business users, who are the initial targets of 3G marketing.

Privatization and liberalization over the past decade in mobile and data communications, and wireline markets have introduced greater competition throughout the European Union. This development in turn has driven investments in leading-edge technologies, lowered many telecommunications costs, and encouraged e-commerce development and general Internet use. Nonetheless, competition in most EU countries' wireline markets, including Spain and Italy, remains limited because the telecommunications incumbents (which were recently privatized) still control more than 85 percent of their respective national markets. They remain the dominant providers of telecommunications services, including broadband. This phenomenon has contributed to

slower than expected Internet expansion. Internet penetration rates average 40 percent in the European Union, and less in Spain and Italy.

Electronic commerce is growing, albeit slower than in the United States. Business-to-consumer e-commerce in Spain remains at less than 1 percent of consumer spending, but its growth rate from 2000 to 2001 was an astounding 257 percent. Industry representatives and association executives expect that the economic slowdown will influence on-line consumer spending, and that growth will be minimal this year. Business-to-business transactions will experience a similar slowdown. Despite ambitious plans of the governments of Spain and Italy to encourage ICT diffusion via governmental policies, the private sector holds reservations about investing heavily in new Internet applications at this time.

ENCOURAGING INDUSTRY CONVERGENCE

The European Commission has worked diligently to harmonize telecommunications, Internet, and e-commerce regulations throughout the European Union to foster ICT convergence and trigger economic growth. A basket of initiatives including the eEurope initiative, as well as e-commerce and digital signatures directives, are expected to boost the region's ICT markets. National implementation of these directives is uneven, however, and Spain only recently implemented the e-commerce directive with passage of a law on information society services and electronic commerce. This law features several controversial provisions that have led to legal action in Spanish courts by several privacy advocates and Web site operators.

Additionally, the governments of Spain and Italy are working via their information society blueprints to broaden Internet use in schools and rural communities, promote the use of broadband, and introduce ICT training programs to provide digital opportunities to those

citizens who are not receiving the full benefits of the digital age.

In Spain and Italy, there are many niche opportunities for small and medium-sized U.S. enterprises, particularly with similar firms in both countries. The slowdown in economic activity will require a long-term outlook for those enterprises expecting to expand their business in southern Europe. Growing competition, narrow profit margins from voice services, and general economic contraction have led ICT providers in the European Union to concentrate on business communications, broadband, and mobile data communications. These are areas in which U.S. suppliers can make inroads with careful planning as well as cooperation with in-country partners.

Ultimately, U.S. companies will have to establish a local presence in order to successfully compete in Spain and Italy. The culture, size, distribution systems, and other characteristics of these markets require local organization and support, but the rewards could be worth the effort. ■

This article draws from the latest *ExportIT* report on Western Europe (highlighting Spain and Italy), which is available at www.export.gov/infotech. Jon Boyens, Damon Greer, and Myles Denny-Brown contributed to the content of this article as well as the full report.

ExportIT

ExportIT reports are a series of in-depth studies of foreign IT and Internet markets. They describe and analyze trends, key issues, and events in telecommunications, Internet, and e-commerce adoption in individual and regional markets. These reports help create a framework from which small and medium-sized U.S. enterprises can make educated business decisions about entering foreign markets.

Analysis focuses on the status of telecommunications liberalization, competition in information and telecommunications services, deployment of new technologies, and how these changes are affecting the spread of Internet use and e-commerce.

Economic, cultural, historical, and political factors that influence the adoption of information, Internet, and e-commerce technologies are also vital pieces of these reports. Suggested market entry strategies for smaller firms, as well as U.S. Department of Commerce and other resources to assist U.S. firms in market entry endeavors, are provided.

Look for recently released reports on China and Western Europe (highlighting Germany and France) at www.export.gov/infotech.

