Europe is lagging behind in the digital economy

This in-depth analysis is particularly timely as the European Commission is to disclose its digital strategy, amid calls for an industrial policy that could boost European ICT equipment manufacturers.

The five main sectors of the digital economy are scrutinized: equipment and handsets, IT services and software, telecom services, Internet services and on-line contents (see table below). To understand the underlying market dynamics, two perspectives are taken into account: demand via consumption and supply via the market players.

The stagnation of demand in Europe is in stark contrast to the growth of consumption that is being experienced globally in the digital arena

At only 0.4%, the annual increase in value of ICT products and services consumption in Europe is weak compared to other regions over the same period (2009-2014). The comparable figure in the US is 5%, for example, while in Asia it reaches 6%. Europe’s share in the global demand has thus fallen by five points in five years, from 26% to 21%.

This decline is primarily due to the shrinking base of telecom service revenues, itself due to falling prices. Europe is the only region where the telecom sector has declined in value: the market for telecom services has lost 3% of its value per year.

Yet, globally end users’ consumption of digital services has maintained a healthy growth rate of 4.5% per year over the past five years. This growth is particularly strong in the internet services and content sectors, which experienced a 25% and a 7% growth rate respectively. As a result, although telecom services continue to represent one third of the digital economy overall, its relative importance is plummeting and has fallen by 3.4 points in five years.

European players lag compared to their counterparts in the global digital industry

Several forces continue to displace the center of gravity of digital products and services towards Asia and North America: the lower turnover of European telecom operators compared to their counterparts elsewhere, but also the fact that there are almost no European players in Internet services, and the weakening position of the European IT services and equipment sectors.

Moreover, the shift of the digital economy dynamics towards North-American and Asian actors contributes to further worsen the structural imbalance between the level of consumption in Europe and the value of the combined output of European firms in the sector. Although Europe accounts for 21% of total global demand, European digital players now only represent 17% of global supply – a deterioration of five points between 2009 and 2013.

This weakness also impacts the health of the supply side sector: while the turnover of European equipment manufacturing firms amounted to 30% of 2013 investments in digital equipment within the European Union, the share of European internet players is only 15% of internet services consumption. Yet, European firms have a significant role to play in IT services, content and, to a larger degree, in telecommunications services. In particular, telecom service providers – which have 58% of total digital revenues in Europe - are key stakeholders for Europe’s future strategy towards the development of its industry in the global ICT sector.


- The analysis of demand is based on publicly-available data from Idate, PAC, GFK, Zenith Optimedia, IFPI.
- The analysis of supply is based on the published data of the top 500 digital firms who represent 90% of the global turnover of all quoted companies in the ICT sector (Reuters).
- The actors are classified by segment based on their core business and by geographic zone based on the location of their head office.

<table>
<thead>
<tr>
<th>Equipment - Handsets</th>
<th>Software &amp; IT services</th>
<th>Telecom services</th>
<th>Internet services</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecoms : network equipment, mobiles IT : computers &amp; peripherals EGP : TV, tablets, connected objects</td>
<td>Software : infrastructure software, B2B, B2C package software, IT services : IT services &amp; consulting, product support</td>
<td>Services : fixed and mobile data services and Internet Networks : telecom, cable, satellite</td>
<td>Social networks, research engine, e-commerce (investment/direct revenues and third-party ad spending)</td>
<td>TV, video, radio Jeux Music and Editing (investment/direct revenues and third-party ad spending)</td>
</tr>
</tbody>
</table>
**Demand side:** final consumption in value terms in the digital economy according to the regions

ICT market weights by region

![Graph showing ICT market weights by region for 2009 and 2014.](image)

Today Europe only represents 21% of the world market (source?)

Market trends by geographical area (2009=100)

![Graph showing market trends by geographical area.](image)

Stagnation of consumption in Europe

**Supply side:** digital economy players by sector and region

Revenues of players from each region split by sector (2013)

![Graph showing revenues of players by sector for USA, EU28, and Asia.](image)

Supply side: digital economy players by sector and region

Revenue growth of players of each sector by region (CAGR 2009-2013)

![Graph showing revenue growth of players by region.](image)

Telecom operators’ revenues account for more than half of the total EU incomes. Revenues of EU players have decreased by 1% per year.

ICT sector distribution of revenues by region (2013)

![Graph showing ICT sector distribution of revenues for each region.](image)

Revenues of the European network operators represent 33% of all the income of network players EU+USA+Asia.

On the other hand, the revenues of European Internet players only represent 1% of the income of all Internet players.

**Offer / Demand**

Ratio between value of consumption in each region and global sales of players of the region

![Graph showing ratio between value of consumption and global sales.](image)

Global sales of European players of the internet represent only 15% of the consumption of the European in internet services.

Global sales of European equipment providers represent only 30% of equipment spending in Europe.