CONFINDUSTRIA SERVIZI
INNOVATIVI E TECNOLOGICI

# THE FEDERATION

Confindustria Servizi Innovativi e Tecnologici (Confindustria Innovative and Technological Services) is the Italian Federation that gives a common voice to all those businesses that create technological, professional, managerial, and organizational innovation.

The Federation aims at increasing the sector's economic growth and political influence, so as to make it a driving factor enhancing Italy's productivity and modernization in the frame of the economic trend of convergence between Information & Communication Technology and businesses and professional services, fostering the adoption by companies of new strategies and new competitive tools.

Confindustria Servizi Innovativi e Tecnologici represents businesses that offer consulting services, advertising, public relations and marketing, computer technologies, digital contents, e-media, engineering, internet, certification bodies, radio and television networks, research and surveys, satellite applications, training, technological and professional services, telecommunications. Altogether all the above sectors are a very significant part of the economy representing 13% of the Italian GDP.

The purpose of the Federation is to represent, assist and defend the interests of the sector in relation to all technical/economic, social, and cultural issues either on a national, European, and international level. In particular the Federation:

- encourages and promotes sector progress, in the interest of the national economic/productive system as a whole, also supporting the development of international cooperation through initiatives with international organizations and industry Associations;
- improves working conditions of the represented businesses categories, also by submitting and supporting proposals for new laws and regulations;
- performs economic researches, studies, monitoring all the sector's relevant indicators, and promotes discussions concerning scenarios of interest to the sector as a whole;
- monitors the labor market development and participate the sector's social dialogue with the unions, by promoting labor regulations more in line with the

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requirements of the service industry where labor flexibility is a fundamental competitive factor, and by assisting single associations when asked.

**The Federation, organized in 51 Industry Associations and 62 Local Organizations, represents 17,000 companies employing 600,000 workers.**

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# CREATIVE CONTENT ONLINE

Over the last few years, Europe has experienced great changes in the digital contents sector, where consumers, progressively abandoning the passive role they held for many years because of the “one way offer” of the analogical entertainment market, have moved towards a more **proactive role**, that is pushing the market to develop and offer new services and contents and, by doing that, become capable of addressing the market’s new changing rules and policies.

We are therefore assisting to a true **digital revolution** caused by multiple factors. First of all the growing diffusion of the role of Internet in consumers daily life (especially youngers and adults between 25 and 40 years), diffusion that is having a strong impact on consumers habits and lifestyles that bring extensive changes in the accessibility and availability of contents.

This ongoing trend is proved by **the increase of time users spend on the web.**

In Italy this growth is not expected to decrease in the short term, also because of the large gap on internet use that still exists between our country and the other main European markets. At the same time we are witnessing the move of internet towards the **new paradigm of web 2.0**.

One of the main consequences of this move is the dramatic change in the users’ behaviour, that moving away from a passive role, which has characterized the demand of contents and entertainment during the past years, have instead assumed an active approach starting to act as **prosumer** (neologism created upon the combination of the words producer + user).This transformation has caused one of the most important changes in the digital economy sector: in other words, users have started to become at the same time content producers and consumers.

Such phenomenon had also an impact on the development and distribution of digital contents: blogs, creation of shared contents (e.g. Wikipedia and Social Bookmarking), pod casting distribution and all other self-produced contents have become instruments more and more used, available for free and often in competition with paid products/services.

**Moreover, the advertising sales on the web** has **also grown** .To a certain extent, this development is a consequence of the extra time users spent on the Internet, which implies a reduction in the audiences of traditional media. To some other extent, this increase has generated new markets by attracting companies less used to traditional advertising, thanks to the reduction of the required level of investment of internet advertising. This trend is also contributing to a slow and gradual transformation of business models implemented by operators in certain segments. Such operators in fact , even if in part still continue to use the pay model, are giving more attention to the introduction of free contents on the market so to attract a higher number of users and, consequently, producing more investments in advertising.

From the offer point of view, it is especially **newcomers** , - i.e. operators who have started and developed their business activity over the internet, who are mainly represented by large multinational companies,- that are influencing the expansion of this sector imposing new policies that are replacing the ones existing in the traditional world of Media and Entertainment.

If Internet has been the platform driving the development of the e-Content market, it is the **video market segment that has shown the most interesting dynamics** proving to be the most important market in terms of expansion rate. In this case, the traditional operators active in the digital terrestrial TV and satellite TV sectors are the ones driving this market's positive trend, although we are currently experiencing the entry of new operators starting their business activity in the Web TV sector, creating new offer models fully based on the web. In this case, sales deriving from advertising are the main source of revenue and the challenge for these operators is in fact based: i) on the relevant expansion of the on-line advertising market, ii) on the segmentation of the web audience and iii) on the ability to offer contents tailored to the user's taste, so to catch the interest of the so called "valuable targets" (i.e. targets different from those attracted by the traditional media) exploiting the *long tail* paradigm.

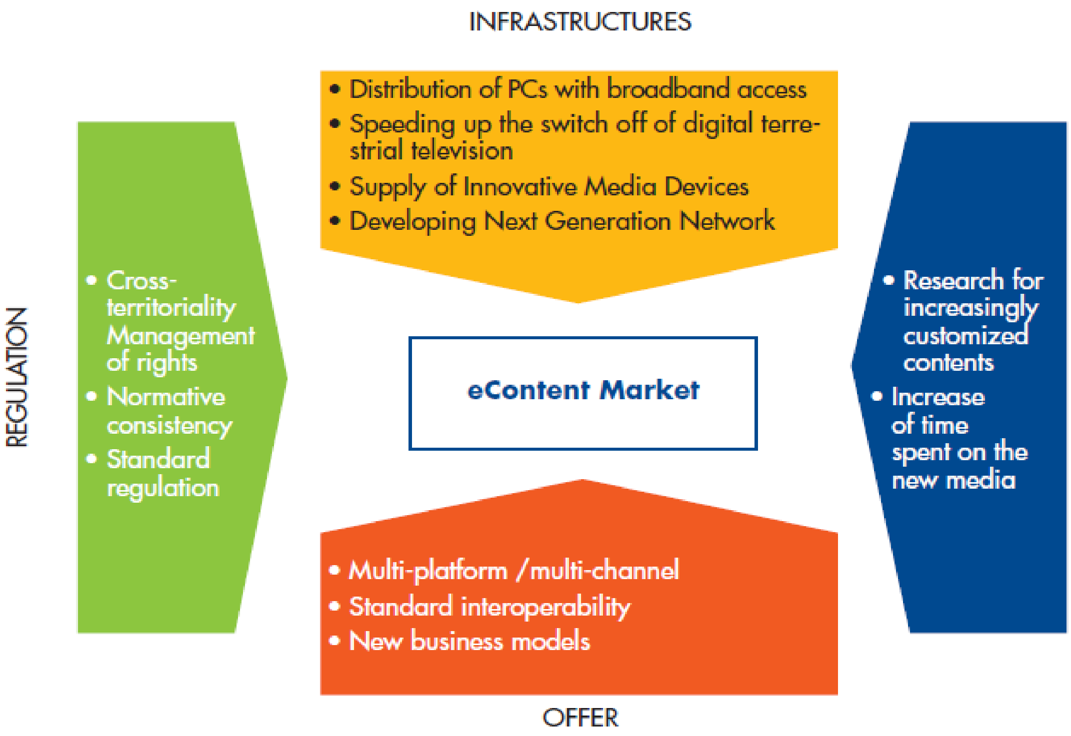
Amongst all other contents that have played a leading role in the market, music and *gaming* have assumed a leading position because of the success of new innovative multimedia *devices* (in the case of music, for example, the huge explosion of sales in portable digital readers, such as the i-Pod) and on the growing investments made by the operators in favor of the offer development.

Finally, it is important to emphasize the gradual switch to digital broadcasting of the radio industry, deemed to become one of the main market players in the upcoming years, thanks to the new potentialities offered by the new platforms.

## THE MAIN DRIVERS FOR MARKET DEVELOPMENT AND ACTIONS THAT NEED TO BE TAKEN

The growing potentials of the e-Content market are strictly linked to certain drivers able to simplify its development and allow the effective realization of expectations relating to market trends over the next years.

### The main development factors for the e-Content market




*Source: NetConsulting*

Among all factors that make possible the development of all e-Content market segments, there are: the distribution of PCs with broadband connection both in families and in micro enterprises (professionals, traders and craftsmen); the speeding up of the “switch-off” process of digital terrestrial TV and a higher accessibility of *devices* permitting the enhancement of the “*customer experience*”.

These factors may require the introduction of supporting policies both on the demand side (in terms of tax deduction on PC training packs and on e-contents on line for certain categories of users) and on the supply side (guarantee of a return in the investments made for facilities).

In the specific case of Terrestrial Digital Television, for example, supporting actions are focussed on:

- detailed planning of the sequence of different regions involved in the switch-off process and of the future use of freed-up frequencies;
- setting up effective financing policies and subsidies both for the demand and supply side;
- standardisation of the offer related to access *devices* (it has been agreed, for example, that according to a law provision, starting from April 2009, televisions must be sold with integrated digital tuners: however, producers tend to sell simpler *devices*, which do not have any interactive features, with the implicit effect of damaging *broadcasters* efforts to promote digital products);
- user’s awareness of the importance of the upcoming *switch-off* (communication policies).

*Mutatis mutandis*, effective policies and similar strategies shall be undertaken to promote digitization towards the many families who still do not have PCs with broadband connections.

At the same time, however, it is also essential to tackle several problems that have hampered the development of this market since the very beginning, mainly related to the players operating in the initial phases of the value chain.

One of these problems is the diversity of standards for the management of “*digital rights*”, still present in the market, that prevent its effective interoperability and creats barriers to free circulation of content. It is in fact evident that such heterogeneity of standards is due to the relative newness of this market. However, it is also clear that, if left without a solution, this problem may prevent the development of this market.

This issue requires the unanimous effort of all market players, as the above mentioned barrier can only be eliminated working together towards a common objective, by overcoming different perspectives and individual specific interests. In fact, only the full ability of consumers to have access to a large number of contents as possible may allow for the full development of this market.

The cultural, social and economic impact of the contents market, network integration, interoperability of platforms and terminals (together with a more recognized definition of *standards*) as well as the gradual transition to next generation facilities, the possibility of associations and *partnerships* among network operators, *Service Providers*, *Application Service Providers,* content suppliers and right holders, are all elements requiring an efficient system for the **protection of rights,** aiming to the growth of the digital contents market and able to grasp, by using a neutral approach, characteristics pertaining to different technological platforms, so to develop an offer suitable to the existing and potential demand.

In order to achieve this goal, it seems fundamental to update certain relevant regulatory aspects. For example, the cross-regional management of rights, in order to overcome territoriality that still applies in the sale of licenses. Such mechanism is still based upon an obsolete model that is not any more suitable for the web as it is today, able to connect and reach any part of the world regardless the location where contents have been purchased or produced.

Moreover, another urgent policy review is the harmonization of the VAT for “available” on-line contents, that should also include a reduction of the tax rate.

This provision, while would not have a large impact on the government’s finances, it would give operators a strong signal and an effective incentive to increase their e-Content offer and for consumers to increase the use of internet for their purchases. Another very important issue that needs to be addressed is the download of contents carried out through file sharing and peer-to-peer, representing a phenomenon, nowadays, still growing. It is a cultural rather than an economic factor that leads us to believe that repressive measures would not be sufficient to defeat it.

The action taken by certain record companies of exploiting peer to peer networks to distribute music for free, and selling advertising space instead, could represent one of the innovative solution to the increasing significant problem of the lack of payment for author’s rights, not only for the music but also for cinema and television production sectors.

In this respect, it is important to emphasize that the fast and balanced development of the digital content market, requires a **review** of the large body of **regulations** on author's rights, giving mandate to the Governments to draft "Legal Codes on Author's Rights", rationalizing and updating the regulations in force.

It is specifically the contents quality and the fact that these contents meet the requirements of the demand, that promotes the development of this market. In fact, only by increasing the availability of contents and contextualizing the offer in order to better target audiences, it will be possible to effectively contrast the file sharing phenomenon and push the e-Content market further.

Legal, regulatory and financial initiatives supporting the availability of public contents on-line will also be essential for the development of the e-Content market, especially on the cultural and academic side, but also with regards to information databases, particularly of public domain, that shall be made available to operators to be then offered to the final user.

## POSSIBLE ACTIONS FOR THE "EUROPEAN DIGITAL AGENDA"

We appreciate the issues highlighted by European Commission within the Consultation, and we deem that the Commission itself should have e central role for the creation of a Single marker of Creative Contents Online together with concerned public and private institutional bodies.

Therefore our Federation, as far as the operational actions to be taken, according to principles set forth by the "European Digital Agenda", would strongly recommend the establishment of Policy Group, in which representative's should be primarily guaranteed, first of all members of business' Associations, in order to ensure knowledge and exchange of data among interested parties. It is in fact of primary importance to define common standards among Member States in relation to available data and survey procedures, business models and consumer habits as well as about rules' "environment".