WPP Italia

The European House Ambrosetti

The Role of Communications in Tomorrow's World

Generating value and cultural change

6

Burson-Marsteller

CONTENTS

Massimo Costa
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Italy has emerged from the recession and low growth that has characterized the last five years, and it is on its way to closing 2017 with a growth in GDP of around 1.5%. This positive result—still limited, but positive—was foreshadowed in the favorable trend in the communications and advertising market in 2016 which recorded an overall growth rate of more than 3%.

We highlight these figures as a reminder of the reasons why, six years ago, we decided to launch a collaborative effort with The European House – Ambrosetti for the creation of the WPP Italia Advisory Board: the deep-seated belief that the growth of investment by companies operating in Italy in marketing and communications services could make a positive contribution to exiting the recession and relaunching Italy and its economy.

The numbers would seem to confirm our intuition. As a sector leader, we could not be content with maintaining or even increasing our share of a market that was losing value and which had shrunk by one-fifth over a three-year period. Our role was and continues to be that of stimulating the awareness of companies, businessmen and managers about the value and contribution to growth and profitability to be had from good professional marketing and communications services.

Over the last three years we have seen an increasing convergence between technological innovation and communications, a process that is very strong in some countries, and slower, but constant, also in Italy. A slowness linked, perhaps, to the slower evolution in social trends, with a significant part of the younger generation often lacking adequate preparation and faced with reduced employment opportunities. This tendency towards social lethargy is mirrored in the still-weak recovery in domestic consumption and resulting emphasis on exports, on one hand, and continued focus on costs on the other.

Nonetheless, there have been important signs of change in Italy, too, in particular in some urban areas such as Milan and Florence where a mix of innovation, investment and major events has created a pole of attraction from around the nation and launched a period of growth that appears to be strong and solid.

We believe this is the next challenge facing our country: to make Italy a more dynamic place by creating opportunities for employment and development through a more intensive use of digital technologies, while broadening to other areas of the country that force of attraction of investment and talent that is the absolute prerequisite for true economic growth.

The communications sector will play its part, despite the fact it is currently undergoing a period of profound organizational evolution. All the major players in the sector are being asked to make a qualitative leap to further accelerate the change they are undergoing, and to provide ever-more effective support for the activities of companies in Italy and around the world.

WPP Italia and the members of its Advisory Board have renewed their commitment to concerted thinking, analysis and discussion, as synthesized by The European House – Ambrosetti Working Group in this position paper.

In today's global market, Italy must rapidly find its place by focusing on its attributes of creativity and manufacturing excellence which are recognized the world over. Quality and creativity which require innovative technologies and professional communications services. Today more than ever.

KEY FACTS & FIGURES

WPP GROUP

Mission: *to develop and manage talent, to utilize that talent all over the world for the benefit of our clients, in partnership and with profit*

WPP is a world leader in communication services. It includes companies with prominent market positions in:

- **Advertising**
- **Media investment management**
- **Data investment management**
- **Public Relations and Public Affairs**
- **Branding & Identity**
- **Healthcare Communications**
- **Direct Digital, Promotion & Relationship Marketing**
- **Specialist Communications**

The Group comprises more than 150 companies: each has its own identity, is responsible for building relationships with its customers and works on developing and delivering its own distinctive expertise. The strength of each brand lies in this and in its capacity to respond to the demands of the communication market in a targeted and effective way. Clients engaging with these companies seek talent, satisfaction and experience through a well-articulated, quality brand-by-brand system. This is testified by results and by the number of WPP companies that work with:

- **360 of the Fortune Global 500 companies**
- **All the Dow Jones companies**
- **78 of the NASDAQ 100 companies**

A total of 200,000 people work for WPP companies, in 3,000 offices in 113 countries. There are 55 companies belonging to the Group in Italy, operating in different sectors, for a total turnover of 400 million euros and employing around 2,500 people.

1

MISSION, CONCEPT AND GOALS OF THE WPP/THE EUROPEAN HOUSE – AMBROSETTI ADVISORY BOARD

1.1. ADVISORY BOARD MEMBERS AND OTHER KEY PLAYERS IN THE INITIATIVE

This position paper summarizes and collates the observations and findings of the sixth year of activity of the WPP/The European House – Ambrosetti Advisory Board, created in 2012 with the goal of providing concrete and informed answers to the major challenges facing companies in the Italian communications sector and, at the same time, provide a new perspective on the **role of the communications sector for the Country's growth and competitiveness**.

The Advisory Board includes some of the leading individuals in the world of communications and Italian business, all selected for their experience and expertise in the areas under examination and their ability to be reliable, high-profile opinion leaders in their specific areas.

The members of the 2017 Advisory Board are:

- **Antonio Baravalle**, *Managing Director, Lavazza*
- **Aldo Bisio**, *Managing Director, Vodafone Italia*
- **Fabio Caporizzi**, *CEO, Burson Marsteller Italia*
- **Luca Colombo**, *Country Manager, Facebook Italia*
- **Massimo Costa**, *Country Manager, WPP Italia*
- **Marco Costaguta**, *Fast Moving Consumer Goods Expert and President, LTP*
- **Valerio De Molli**, *Managing Partner and CEO, The European House – Ambrosetti*
- **Luca Garavoglia**, *President, Davide Campari*
- **Gad Lerner**, *Journalist and President of the Editorial Board, Laeffe*
- **Francesco Pugliese**, *Managing Director, CONAD*
- **Cristina Scocchia**, *Managing Director, KIKO*
- **Andrea Zappia**, *Managing Director, SKY Italia*

The Advisory Board is an open structure and each meeting draws on the contributions of outside experts who are involved based on the specific questions of each meeting. Our thanks for the contributions given during the course of the year also go to:

Massimo Beduschi, *CEO, GroupM*

Giuseppe Bonomi, *CEO, Arexpo*

Federico Capeci, *CEO, Italy Kantar Insights*

Francesco Cruciani, *Managing Director, Campari Italia*

Andrea Imperiali, *President, Auditel*

Roberto Liscia, *President, Consorzio Netcomm*

Enrico Vita, *CEO, Amplifon*

The initiative and position paper are overseen by The European House – Ambrosetti Working Group, comprised of:

Massimiliano Sartori, *Head of the Policy Impact Practice and Project Leader of the initiative*

Cetti Lauteta, *Consultant, Scenarios and Intelligence Practice*

Riccardo Maria Barchiesi, *Consultant, Scenarios and Intelligence Practice*

Loredana Zaccuri, *Staff support*

Valeria Casati, *Staff support*

Our thanks for their contributions to the initiative also go to: **Norina Buscone** *(Vice President Research, GroupM)* and **Giuseppe Cariello** *(Graphic Designer, Burson-Marsteller Italia)*.

The initiative has also benefited from the synergy with the "**ThINK Digital**" Advisory Board, created in 2017 from the collaboration between The European House – Ambrosetti and GroupM with the goal of "*making it clear to CEOs how communications has become a veritable strategic driver at all levels that is solidly and inextricably connected to all functions within a company, and persuading them to design and plan future strategies in order to be able to take full advantage of the opportunities deriving from innovation and technological development in communications*".[1]

1 - The first "ThINK Digital – Technology and Digital: Changing to Revolutionize Communications" Forum was held in Milan on July 18, 2017 (eventi.ambrosetti.eu/groupmforum/).

1.2. MISSION, CONCEPT AND GOALS OF THE INITIATIVE

The mission of "**The Role of Communications in Tomorrow's World – Generating Value and Cultural Change**" initiative is:

To contribute to promoting the development of enhanced awareness of the role and importance of communications, not only to improve the business results of companies but also—and above all—to create value, employment and growth

As has been stressed from the first year of activity[2], the economic crisis of the last decade had a strong impact on the results and performance levels of the communications sector and, now that the country has begun to grow once again,[3] efforts must be redoubled to move in the direction of **exploiting the strategic role** this sector represents for Italy, by promoting a broad-based process of change that focuses on the potential of innovation, digitalization and training of human capital.

In this regard, it should be noted that the communications sector is currently undergoing widespread change that is the result of a number of phenomena present on both a national and international level. These include, but are not limited to:

- The "**4.0 Industrial Revolution**". It is made possible by the combination of digital technologies (hardware and software) capable of communicating with each other and, in the case of businesses, of synergistically creating a digital structure that is integrated with corporate processes. The result is a radical change in the functioning of organizations, including their intangible components, such as human capital. By exploiting the pervasive nature of digitalization, companies are putting speed, flexibility and adaptability at the center of their strategies.
- **Changing demographics and consumption models**. Today, consumption is guided and driven from "below". It is customers themselves, through the integration of different purchasing channels, who guide the definition of corporate strategies. Possessing a significantly larger quantity of information than in the past, today's consumers are forcing companies to be much more prepared and flexible and to offer products that are increasingly personalized.
- **Big Data and large flows of information.** The widespread and indiscriminate use of electronic devices generates a large amount of information that can be used to feed **enormously large databases**, which differ in number, frequency, and way they have been generated (Big Data). The possibility of accessing large data archives of structured or non-structured heterogeneous data coming from a wide variety of

2 - For more detailed information, please refer to the findings from the previous five years that can be found at www.ambrosetti.eu.
3 - The growth prospects for Italy and the communications sector will be examined in Chapters 2 and 3 of this position paper.

sources, poses new challenges of analysis and interpretation to which Big Data Analytics can respond[4].

The category of consumers capable of most knowledgeably exploiting digital devices to generate value for themselves is unquestionably that of the **Millennials**, the group of people born between 1980 and 2000, who—as will be examined in Chapter 4—are bringing about a veritable revolution in the marketing and communications methods of companies and government and institutions.

- The birth of **nationalist and neoprotectionist movements** in the world's major economies. The geo-political scenario is comprised of numerous risk factors that bear on the ability of European countries to strengthen the recovery currently in-progress, thus projecting a shadow of doubt about the future.

  In particular, the crisis in the Middle East and the Mediterranean area that has created large migratory flows towards Europe generates economic and social tensions among member states of the European Union, and within the states between the various political movements which are having to face a humanitarian crisis whose size make it difficult to manage. Within this climate, several political movements, capitalizing on the lack of consensus within the leadership of European countries, are attempting to ride the wave of Eurosceptic sentiment in large segments of the population in a number of European Countries. From this standpoint, the results of the Brexit referendum in the United Kingdom, which fed radical positions on economic and EU-related issues, represented a break with the past.

  Other threats to Old World cohesion have also been generated by the election of the new US president, Donald Trump, who promotes protectionist policies that could result in further economic problems for a Europe already having to manage delicate relations internally and, more recently, with the push for independence in individual European regions, such as Catalonia.

All these phenomena, analysis of which is complex and outside the purview of this position paper, impact on the communications strategies of government and institutions, political movements and the media and, at the same time, radically modify the markets and consumer targets companies are oriented towards, thus requiring increasingly-sophisticated skills in marketing and the ability to analyze new business opportunities.

Within this rapidly-changing context, professionals in the communications sector must be able to guarantee companies **new forms of interaction within an increasingly-complex market** in which the struggle to reach every consumer and the correct management of ever-larger information flows become factors of survival and growth.

4 - It is a new category of applications which are not solely and exclusively for analyzing large-scale data flows, but also allow for them to be broken up and only the relevant information stored. Because the totality of this data is generated by channels and sources that are very different, data banks must be designed that can interface with multiple systems requiring increasingly complex management.

It is with this awareness that the activity of the WPP/The European House – Ambrosetti Advisory Board has proceeded and its observations been developed in order to attain a number of important goals:

- bring the communications sector back into the center of attention of the business community to highlight its positive and unique competencies;
- establish the communications sector as a body of professional activity with a high value added that is very attractive to young people and women as a central element for any development and growth strategy of a country;
- channel messages, guidelines and suggestions to external stakeholders to reinforce the country and its economy;
- inform/persuade companies of the need to adopt an effective, quality communications approach.

The WPP/The European House – Ambrosetti Advisory Board as a driver for development and ideas for the Country and its economy

These goals have been pursued through the involvement of highly-qualified, impartial and diversified individuals (the Advisory Board)[5] together with external experts called in as needed to provide specific experience or expertise and guarantee further enhancement and impartiality in the thinking process.

Each year the Advisory Board examines both a number of specific themes for the relaunching of competitiveness in the communications sector, as well as major national issues that directly and/or indirectly impact on the performance of communications firms. From this standpoint, it represents a platform for developing **strong messages of change and ideas for the growth of the Country** aimed at policy-makers, companies, consumers and, above all, communications sector.

Through the creation and transfer of a new approach to the communications sector, the intent of this project is to:

- reaffirm the importance of the contribution of communications **as a fundamental asset for the Country's economic system**;
- bring together the market and clients, including and above all small- and medium-sized enterprises which represent the backbone of the Italian productive system, by building on **consulting and accounting expertise**, the ability to offer support in internationalization processes and profile target markets and consumers;
- collaborate with government and other public and private organizations (such as universities) to continuously update the competencies of the professionals of this sector and adapt them to the needs of the market;

5 - The members of the 2017 Advisory Board are listed in the section 1.1.

- build **professional development and career paths** to create a new generation of "marketing people" capable of thinking and acting in a strategic way;
- develop solutions and strategies to attract **the most competent and professional resources** on an international level;
- promote greater **transparency and governance in the management of consumers and companies data**.

In addition (through the pamphlet **Why Italy is definitely alive & kicking** and the **Final Forum**), the Advisory Board continues to give voice to a number of the most interesting entrepreneurial case studies, examples of Italian success stories and excellence, with the goal of showing international markets how Italy is able to produce value, reinvent markets, construct new business models and propose successful products and services.

In the previous five years, the Advisory Board focused on various examples of excellence, entrepreneurship and ability to innovate listed below.

Figure 1.1. Why Italy is definitely alive and kicking: the Best Cases from previous years.
Source: The European House – Ambrosetti data elaboration, 2017.

Thanks to these enterprises, Italy "challenges" a number of clichés about their real competitive abilities that are often fed by not particularly promising standings in the main international rankings,[6] and demonstrates, through concrete examples, that it is still possible to do business in Italy.

6 - Italy is 8th in the world in terms of GDP, 4th in value added of its manufacturing sector and 9th in terms of exports, as well as being the #1 European country in terms of citations per researcher and, in the last decade, the #1 country in the world for the number of scientific publications per researcher. On the other hand, in many international rankings, it is low in the standings. For example, it is 44th in the Global Competitiveness Index 2016-2017, 50th in the Ease of Doing Business 2017, 77th in the World Press Freedom Index 2016 (behind Costa Rica, Namibia and Uruguay) and 60th in the Corruption Perceptions Index 2016 (behind Rwanda, Botswana and Ghana). For more details please refer to the strategic report "Global Attractiveness Index: the true barometer of a Country's attractiveness", The European House – Ambrosetti 2017 (www.ambrosetti.eu/global-attractiveness-index).

The pamphlet[7] presents the stories of ten other successful enterprises, dividing them into two groups that define the "Reason Why" and common thread of our approach:

- **Best Cases**: to highlight certain distinctive aspects of doing business in Italy by focusing on a number of companies that have distinguished themselves in terms of levels of competitiveness and orientation towards innovation;
- **Foreign Direct Investment (FDI)**: to analyze a number of examples of acquisitions that contribute to enhancing Italy's image internationally.

The success stories selected this year with the contribution of the Advisory Board are: Atlantia; Biesse Group; Cisco; Diasorin; Dow Chemical; Gruppo Calzedonia; Gruppo ERG; Fincantieri; Hitachi; La Molisana.

SELECTION CRITERIA

1 Best Cases — Highlighting of a number of **distinctive aspects of doing business in Italy** by focusing on different companies that have distinguished themselves in terms of levels of competitiveness and orientation towards innovation and internationalization, **including through acquisitions.**

2 Foreign Direct Investment — Focus on **FDI to Italy** to analyze cases of acquisitions/productive investment that contribute to improving Italy's image abroad.

COMPANIES SELECTED

Figure 1.2. Why Italy is definitely alive and kicking: selection criteria and the Best Cases for 2017.
Source: The European House – Ambrosetti data elaboration, 2017.

These companies are not necessarily the best and the most innovative in their sectors, nor do they represent the only success stories in Italy, but their strategic and investment choices testify to the quality of Italian know-how.

Thanks to their stories, in 2017, we can continue to spread the word about an Italy which, despite everything, is unquestionably still alive and kicking.

7 - For more information, please refer to the pamphlet, "Why Italy is Definitely Alive and Kicking", 2017, available on the www.ambrosetti.eu website.

1.3. 2017 PROJECT ACTIVITIES

The activities of the WPP Advisory Board include three meetings during which to the participants examine and discuss, a high-level international forum (Milan, November 10, 2017) and some one-to-one meetings for in-depth discussion with national and international experts on the issues of the initiative.

Figure 1.3. Scheduled 2017 activities of the WPP/The European House – Ambrosetti Advisory Board. Source: The European House – Ambrosetti data elaboration, 2017.

This year, the working group identified **three priority themes for study** that are the starting point for elaborating an overall, comprehensive view, not only of the current social-economic situation in Italy, but also of the role that the various players (policy makers, business, communications operators) can play in the Country's relaunch, through more attentive and realistic activities of communication, investment and utilization of the unique competencies possessed.

The themes were examined across-the-board during the three meetings and benefited not only from the contribution of all the advisors, but also that of external experts who provided more specific information about the issues being studied:

- "***Analysis of North-South consumption trends as a prerequisite for identifying areas of intervention to relaunch the Country and its economy***" (Milan, April 4), with the outside contribution of Massimo Beduschi *(CEO, GroupM)* and Francesco Cruciani *(Managing Director, Campari Italia)*.
- "***The competitiveness of countries, from digital capitalism to neoprotectionism***" (Milan, June 6) with the outside contribution of Giuseppe Bonomi *(CEO, Arexpo)* and Enrico Vita *(CEO, Amplifon)*.
- "***Technological innovation and the challenges for measuring communication effectiveness***" (Milan, October 5) with the outside contribution of Federico Capeci *(CEO, Italy Kantar Insights)*, Andrea Imperiali *(President, Auditel)* and Roberto Liscia *(President, Consorzio Netcomm)*.

Emerging clearly from these encounters were both Italy's strong points and weak points, which, directly and indirectly, affect the communications sector.

In particular, what clearly emerged this year were a number of strategic needs to boost Italy's competitiveness—to be discussed in the chapters that follow—including:

- Relaunching of both public and private consumption and investment.
- Reduction of the gap between North and South Italy.
- Support for investment in innovation and research as a pre-condition for enhanced corporate productivity.
- Growth for small- and medium-sized enterprises.
- Redesign of Italy's image abroad through highlighting its distinctive assets including, for example, its solid manufacturing sector, a tourism sector that remains under-utilized, metropolitan cities as centers of creativity, and entrepreneurship for young people.

All these suggestions are based on in-depth knowledge of the communications market, for which an up-to-date picture is presented in Chapter 2.

2

CONSUMPTION TRENDS AND THE NORTH-SOUTH GAP

2.1. The italian economic situation: the Country is on a “Narrow Path”

2.1.1. Italian growth - Against a backdrop of lights and shadows

Ten years after the onset of the crisis, the world’s economies have begun to grow once again, albeit at different rates. In 2017, the global Gross Domestic Product (GDP) will grow at a rate of **3.6%** and Europe also seems to have entered the road to recovery with more vigor: for the entire Eurozone, growth in 2016 was +1.8%. Forecasts for 2017 confirm a further growth of **+2.2%** with positive figures for all the major European economies: Germany, France, Italy and Spain[1].

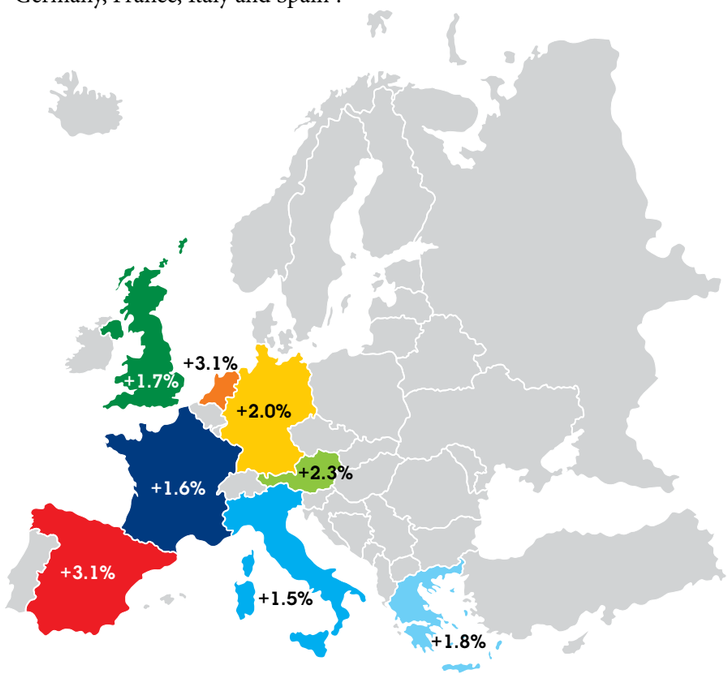


Figure 2.1. Real GDP growth estimates, Eurozone and main economies, 2017.
Source: The European House — Ambrosetti elaboration of International Monetary Fund data, 2017.

1 - *OECD Economic Outlook, September 2017.*

Focusing on Italy, what emerges is that—despite the fact that an acceleration in growth (+1.5%) is expected in 2017—the speed with which the country is facing the recovery towards pre-crisis levels is not in-line with that of the other main European countries.

As also stated in the recent newsletter of the Italian Ministry of Economy and Finance, **the Country is treading a narrow path**. Fiscal measures are necessary and urgent in a country whose public debt is one of the highest in the world and which, it must be noted, exposes Italy to external shocks that weaken it in the face of foreign economic trends. Fiscal measures that imply, essentially, either spending cuts or increase in taxes—or both. All other external conditions being equal, this translates into lower growth, at least in the short-term. And this is exactly what should not be done now that the recovery begins to intensify in a way that has not happened in recent years. On the contrary, it is necessary that we foster the recovery underway to allow its effects to spread throughout Italy and in the greatest number of economic sectors possible. Reducing public debt, consolidating the budget and not hindering growth: this is the major challenge the Italian government will be facing over the coming months.

Along this "narrow path", the route embarked upon by Italy over the last two years is unquestionably positive,[2] but, if the country wants to significantly modify the "fundamentals" of its economics to produce new employment and wealth, it must not just move faster than it did yesterday (as it has begun to do), but faster than the other countries. There are various reasons why this has not yet occurred.

During the activity of the Advisory Board in 2017, identified as being among the principal reasons are low productivity[3] (also the result of the low capacity of Italy and its economy to produce "widespread innovation"), excessive bureaucratic red tape, limited acceptance of competition in professional and public services, low efficiency of services (such as the judiciary system), the high proportion of small- and medium-sized companies (which, on average, have a lower capacity for investment in R&D than large companies)[4] and last, but certainly not least, the **North-South gap** that also, and above all, affects the trend in domestic demand.

Therefore, on a structural level, action must be taken in the areas of productivity and unemployment, with the adoption of policies that boost consumption throughout the country and provide support through specifically-targeted policies for not only medium/high-technology sectors (which have shown themselves to be quite resilient during the crisis),[5] but also those more affected by the consequences of the economic crisis, such as construction. In this regard, it should be noted that in the regions of

2 - As is examined in section 2.1.2, the improvement in Italy is primarily linked to the positive trend in manufacturing and, in particular, the force with which Italian companies are increasingly internationalizing through the promotion of their products abroad. This results in an increase in economic activity that is also impacting regions in Southern Italy (see below).
3 - For additional information refer to Chapter 4.
4 - For additional information refer to Chapter 3.
5 - Among these are the life sciences and aerospace sectors.

southern Italy, over the period 2008-2015, the value added produced by construction dropped by **-24.2%**[6].

In general, despite the fact that in 2016 its average growth was in line with the national rate,[7] the south of Italy, in terms of employment, productivity and the economic-social conditions of the population, has not yet returned to pre-crisis levels and, in addition, the gap with the macro-area of the north has widened.

On the other hand, the consequences of the economic crisis have been profound. Between 2007 and 2014, Italy's southern regions were affected by a **significant de-industrialization** process which caused a tangible reduction in the value added produced by manufacturing (27 billion euros in 2015 compared with 38.3 billion in 2007). In addition, although the sector has begun to recover in the last two years, the **impact on national manufacturing as a whole continues to drop**, registering a level of 11.4% in 2015 (in 2007, the share was 14.9% and, even earlier, in 2000, it was 15.2%).

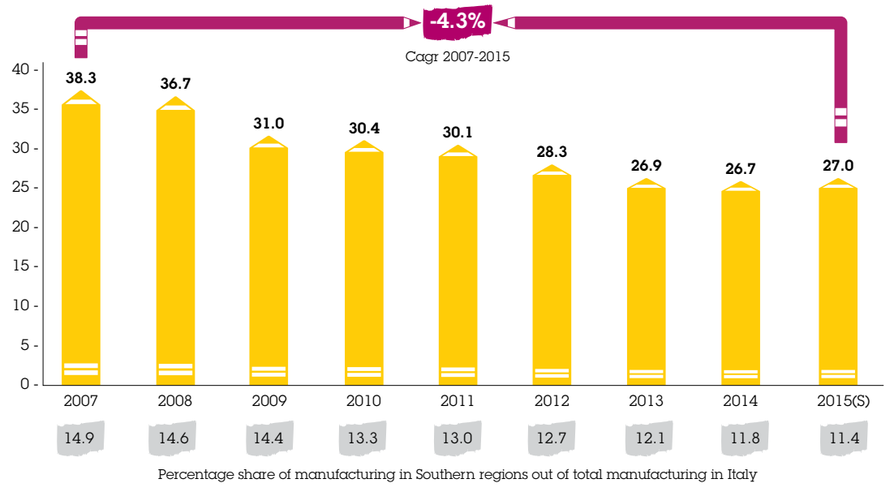


Figure 2.2. Value added generated by the manufacturing sector in Southern Italy, billions of euros, 2007-2015(S). Source: The European House – Ambrosetti elaboration of Eurostat and ISTAT data, 2017.

Despite the positive signs that are appearing, it should be noted that the **structural weakness of industry in Southern Italy** hinders the launching of a serious development process in the macro-area, also because it is accompanied by a low level of labor productivity which, in general, involves all types of economic activity.

6 - The national Compound Annual Growth Rate (CAGR) of the value added produced in the construction sector for the period 2008-2015 was -3,3%. Source: The European House – Ambrosetti elaboration of ISTAT data, 2017.
7 - According to Svimez estimates, in 2016 the recovery in the so-called Mezzogiorno (the South of Italy) strengthened, with performance levels, on average, in line with those of Italy as a whole (1%). This turnaround in the trend is also, and above all, connected with measures and programs launched on a national and EC level for the three-year period 2015/2016/2017.

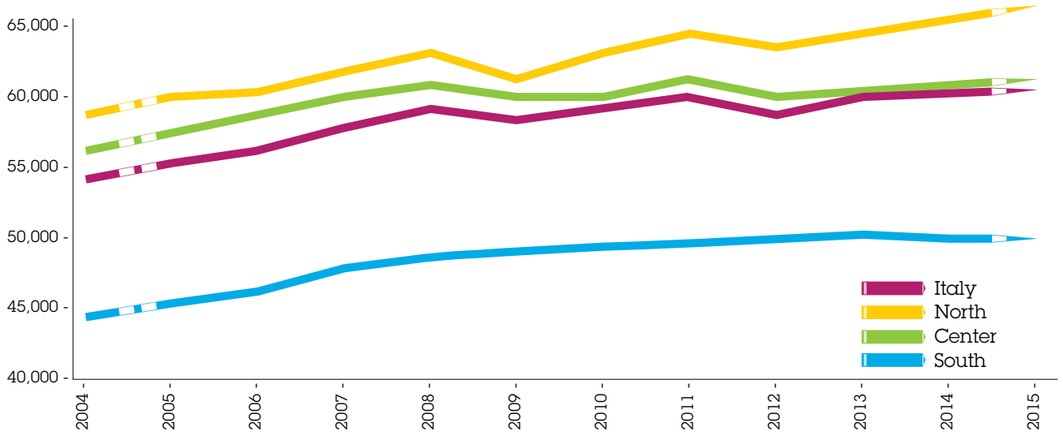


Figure 2.3. Value added per employee, Italian macro-areas, 2004-2015.
Source: The European House – Ambrosetti elaboration of ISTAT data, 2017.

The main consequence of this situation is a **job market that is still far-removed from pre-crisis levels**, although in 2016 the number of those employed began to rise once again at a more concerted rate, including in the south. In the 2nd quarter of 2017, there were 23.6 million people employed in Italy (+378,000 on the 1st quarter), of which 26.1% were in the South (+3.3% on the 1st quarter). However, it is in the Southern regions that employment levels have yet to return to pre-crisis levels (6.5 million employed), compared with Northern Italy where, with a 50.4% employment level, there are +293,000 employed people compared with 2007.

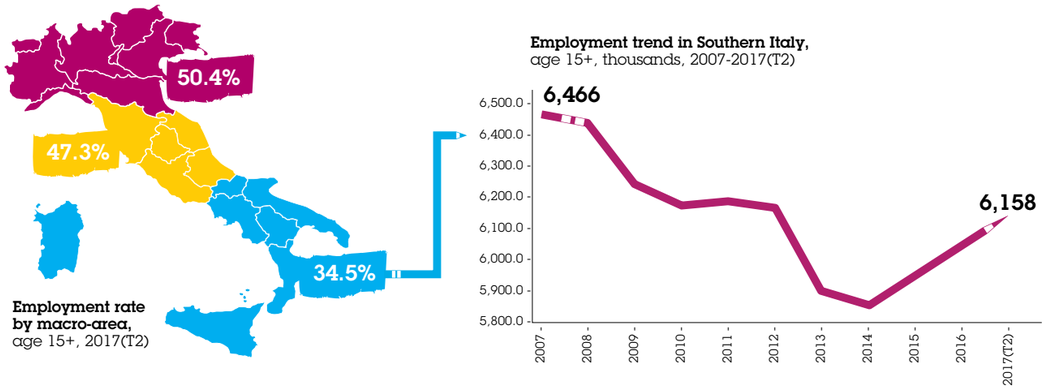


Figure 2.4. Employment per macro-area, percent of the total population age 15 and up, 2017(T2) (left) and number of employed in southern Italy, thousands 2007-2017(T2) (right).
Source: The European House – Ambrosetti elaboration of ISTAT data, 2017.

Associated with this situation is a **low level of participation of women and young people** in the job market and training in all regions of the south.

	Rate of NEET* youth age 15-29, 2016		Female unemployment rate age 15+, 2016		
	2016	Delta '16-'15		2016	Delta '16-'15
Italy	24.3	-1.3	**Italy**	12.8	0.1
North	16.9	-1.6	**North**	8.7	-0.3
Center	20.4	-1.1	**Center**	11.3	0.0
Southern Italy	34.2	-1.1	**Southern Italy**	22.1	0.8
Abruzzo	24.7	-2.2	Abruzzo	15.2	-0.2
Molise	26.3	-1.2	Molise	14.0	-0.7
Basilicata	26.4	-2.4	Basilicata	15.3	-0.4
Sardinia	30.5	-1.3	Sardinia	17.8	-0.4
Apulia	31.2	-1.9	Apulia	22.7	0.9
Campania	35.3	0.0	Campania	23.6	0.5
Sicily	38.1	-1.2	Sicily	24.0	1.3
Calabria	39.9	-1.7	Calabria	26.3	2.6

(*) Young people who are not at school, are not employed and are not involved in a training program

Figure 2.5. Share of NEET young people (age 15-29), percent, 2016 (left) and level of female unemployment, age 15 and up, percent, 2016 (right).
Source: The European House – Ambrosetti elaboration of ISTAT data, 2017.

The economic and social gap between the North and South of Italy is still too wide and is also reflected in the **per capita GDP** which, in the regions of the South, is significantly under the national average.

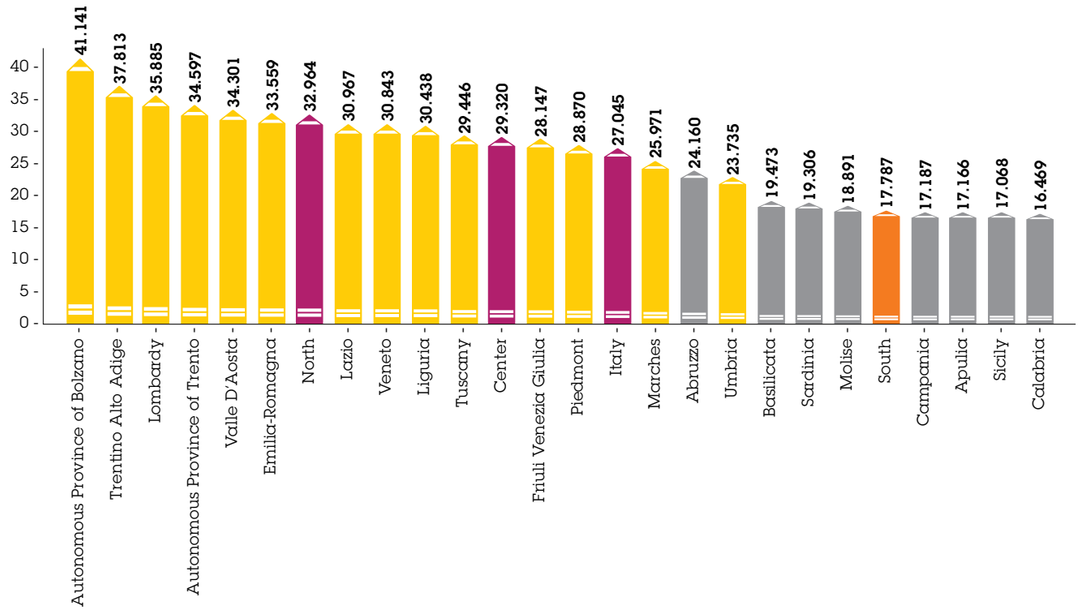


Figure 2.6. Per capita GDP, thousands of euros, Italian regions, 2015.
Source: The European House – Ambrosetti elaboration of ISTAT data, 2017.

While in 2007 the gap between the north and south of the country was 14,332,000 euros, in 2015 the difference rose to 15,177,000 euros (+5.9%)[8].

As a result, **poverty in the South remains at its highest-ever level**: in 2016, **9.8 people out of 100 lived in absolute poverty**,[9] compared with 6.7 in the North and 7.3 in central Italy. Similarly, the Summary Indicator of Poverty and Social Exclusion—which, in addition to low family income also takes into consideration low employment intensity and material deprivation[10]—shows that those living in the southern regions are more vulnerable. In Sicily, more than half of the population (55.4%) lives in families at-risk from poverty or exclusion, in Apulia and Campania it is over 45% (respectively, 47.8% and 46.1%), compared with the national average of 28.7%.

In light of the awareness of these widening gaps, the regions of Southern Italy recently returned under the spotlight of media and, above all, government and institutions but with the goal of **promoting incisive measures to boost their competitiveness and attractiveness** to promote greater openness and development.

For example, part of this strategy is the creation of the **Guaranteed Minimum Income** (GMI) which constitutes an initial step towards reinforcing the purchasing power of individuals. In addition, in 2017, the **Mezzogiorno Legislative Decree**, which integrates EC resources available to Southern regions with additional national resources, was approved.

8 - *In 2007, average per capita GDP was, respectively, 32,717 euros in the north and 18,375 euros in the south. Source: ISTAT, 2017.*

9 - *Incidence of absolute individual poverty (per 100 individuals with the same characteristics). In 2007, in southern Italy, this value was 3.8%. Source: ISTAT, 2017.*

10 - *Employment intensity is measured by the number of family members between 18 and 59 years of age who work less than one-fifth of the time. Material deprivation is defined as the percentage of individuals living in families with at least four out of nine of the following signs of deprivation: 1) arrears in paying utility bills, rent, mortgage or other type of loan; 2) insufficient heating; 3) inability to meet unexpected expenditures; 4) inability to provide a proper meal at least once every two days, i.e., with meat or fish (or equivalent vegetarian) protein; 5) inability to take at least a one-week vacation once a year; 6) not being able to afford a color television; 7) not being able to afford a refrigerator; 8) not being able to afford a car; 9) not being able to afford a telephone. The two indicators identify the possibility/impossibility of affording the majority of expenditures for certain goods and services. Source: ISTAT, 2017.*

The Mezzogiorno Legislative Decree

Provides for overall financing of 3.4 billion euros for the development of the south, all national resources to be distributed as follows: 1.25 billion euros for the "Resto al Sud" ("I'm Staying in the South") program which finances businesses by young entrepreneurs between 18 and 35 years of age; 50 million euros for agricultural companies founded by young people; 200 million euros for Special Economic Zones (SEZs); 330 million euros for the maintenance of court buildings and a 250 million euro contribution to local entities; an additional 250 million euros for repair work on the A24-A25 motorway[11] and 300 million euros for work in areas damaged by earthquakes; 40 million euros for retraining and relocation of employees from companies or sectors in crisis in Mezzogiorno regions; 11.2 million euros to protect workers suffering from asbestos-related diseases; and 750 million euros for upgrading the road system in Calabria.

Specifically, the creation of the **Special Economic Zones** (SEZs) represents a major new aspect in this Decree. By Special Economic Zone (SEZ) is meant a geographically-limited and clearly-identified zone in which companies that are already operational and those which locate there may benefit from **special investment and development conditions**.

SEZs have been created around the world as laboratories to attract investment that can promote the growth of production and employment.

In order to generate competitive advantages, the Italian government has decided that the perimeterization of the SEZs in southern Italy must include at least one port that is part of the trans-European transport network.

The advantages include **tax breaks and streamlining of bureaucratic red tape**. Specifically, tax credits have been raised to a maximum of 50 million euros for each individual investment made within the SEZs. The companies benefiting from these measures must continue to do business within the SEZ for at least the seven years following the investment for which they received the incentives; failure to do so would result in the rescinding of the benefits received. In addition, the companies themselves must not be facing bankruptcy or liquidation. The regions of Campania and Calabria (with the ports of Naples, Salerno and Gioia Tauro) have applied to become the first experimental SEZ areas, with measures already approved by the regional governments that define the criteria and procedures for creating the areas in which the measures provided for could be applied.

Source: The European House – Ambrosetti elaboration of data from the Italian Ministry for Territorial Cohesion and the South, 2017.

11 - *Connections between the Autostrada del Sole (A1) and the Autostrada Adriatica (A14).*

Restarting from these measures represents a first important step in the development of the macro-area of the south and, as a result, in the growth of Italy. Nonetheless, it should be stressed that without a determined increase in investment, it could take at least another ten years to return to pre-crisis levels—too long.

2.1.2. Relaunching consumption and investment for growth in the South and Italy as a whole

Despite the problems related to productivity and the continued north-south gap, in 2016 Italy achieved an all-time record trade surplus, with a peak of a 51.5 billions euros differential between exports and imports. The competitiveness of Italian business measured in terms of budget surplus has never been so high, and today it represents one of the strong points driving the (albeit slow) recovery[12].

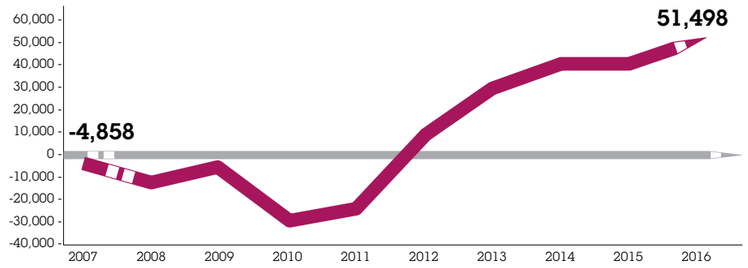


Figure 2.7. Italian trade balance, millions of euros, 2007-2016.
Source: The European House – Ambrosetti elaboration of ISTAT data, 2017.

This result is primarily the result of an **increase in exports** and not a drop in imports.

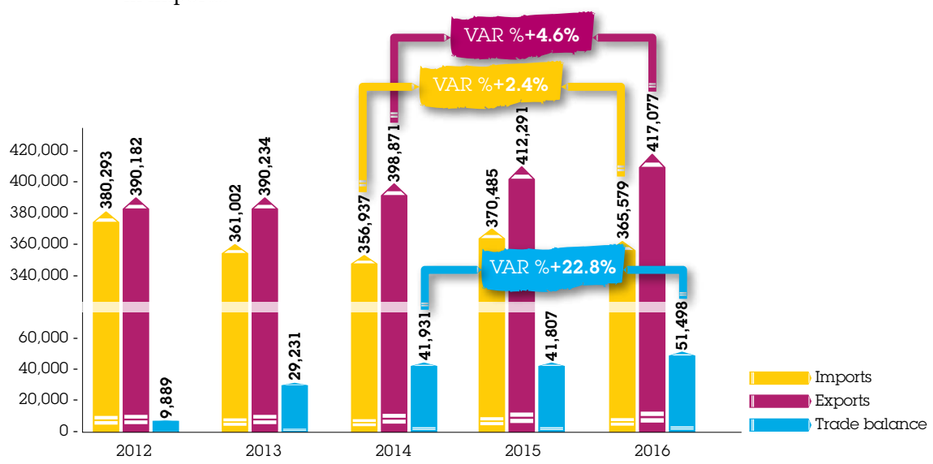


Figure 2.8. Evolutional trend in trade balance, millions of euros, 2012-2016
Source: The European House – Ambrosetti elaboration of ISTAT data, 2017.

12 - A closer look at the reasons why Italy is "alive and kicking" can be found in the sixth edition of the "Why Italy is alive and kicking" pamphlet prepared by The European House – Ambrosetti and WPP.

Since 2014, there has been a growth in imports of +2.4% generated by a (fairly slow) **recovery in domestic consumption**. The total value of global exports, on the other hand, has gone from about 400 billion euros in 2014 to 417 billion euros in 2016, an increase of 4.6%. It is thanks to these growth trends that the +22.8% increase in the balance of trade (2014-2016) is extremely positive and not influenced by other "unhealthy" factors such as those seen between 2012 and 2014 when the drop in imports was linked to a decrease in domestic consumption.

The growth in exports is a global trend. Looking at **non-EU countries**, Italy increased the value of its exports with all its main trade partners: China, the United States and Canada.

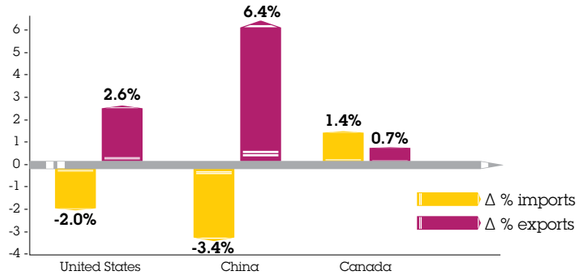


Figure 2.9. Trend in Italian trade with its main non-European partners, percent, 2015-2016.
Source: The European House – Ambrosetti elaboration of COMEXT data, 2017.

Also with European countries, where the question of currency exchange has been sterilized (and therefore does not impact on trade performance), the results obtained by Italy in 2016 are a clear sign of its competitive strength.

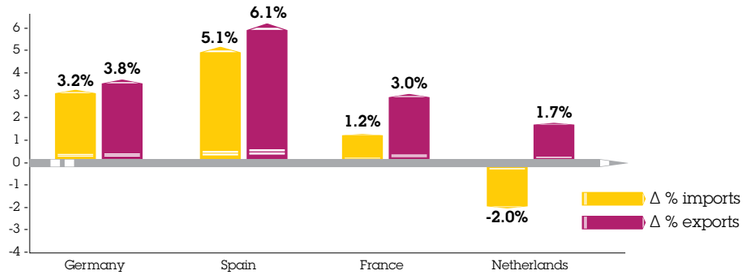


Figure 2.10. Trend in Italian trade with its main Eurozone partners, percent, 2015-2016.
Source: The European House – Ambrosetti elaboration of COMEXT data, 2017.

Within this context, it should be stressed that the trend towards growth in exports in the first two quarters of 2017 has remained positive (+8.0% compared with the same period in 2016), with a major contribution from some regions of the Mezzogiorno: Sardinia (+47.5%), Sicily (+30.3%) and Calabria (+8.8%). Driving exports in 2017 were the non-European countries of China (+26.0%), Russia (+21.0%) and Turkey (+14.0%). This positive dynamic (even if at lower rates than those seen at the beginning of

the year) also includes sales towards the MERCOSUR countries of Mexico (+11%) and Brazil (+15%)[13].

The results obtained on both a European and non-European level allowed Italy to increase its market share of global trade from 2.7% in 2013 to 3.0% in 2016.[14] These signs of recovery are not unexpected and are supported by the positive trend in the manufacturing sector, where value added rose by **+5.0%** in 2014-2015 and 3.5% in 2015-2016, allowing the country to maintain second place on a European level in terms of value added produced by this sector (approx. 237 billion euros in 2016).

Despite the improvement registered in the share of the **export balance to GDP** (3.5% in 2016) and share of **manufacturing to total value added** (16.5% in 2016), it must be stressed that these two components, alone, **cannot be the only drivers to growth in Italy**. In fact, they comprise only a minimal part of Italy's GDP and even significant variations in these two aspects would be unlikely to trigger an overall growth trend of the magnitude the country requires.

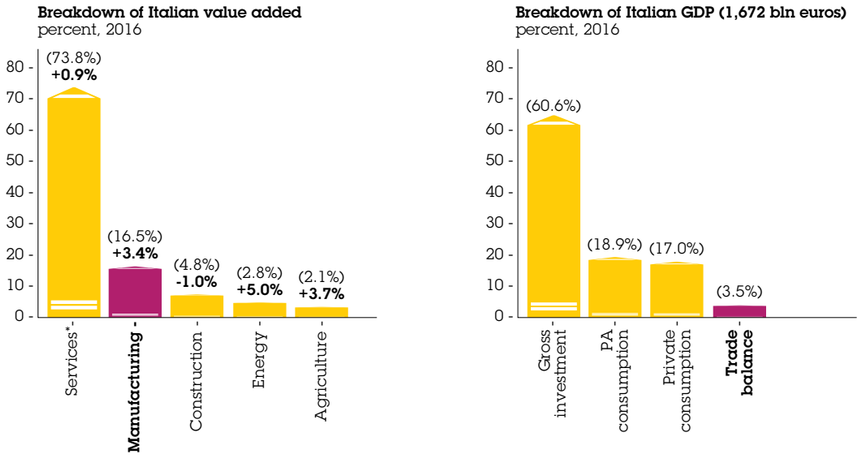


Figure 2.11. Composition of Italian value added, percent, 2016 (left) and composition of Italian GDP (1,672 billion euros), percent, 2016 (right).
Source: The European House – Ambrosetti elaboration of COMEXT data, 2017.

Looking at the components of GDP, the potential drivers are, above all, **private sector consumption and investment** which, currently, continue to experience difficulties and are unable to find the propulsive force they should have to allow for a rapid and decisive growth in Italy and its economy.

13 - Variations calculated using COMEXT data (August 2017 vs. August 2016). Source: The European House–Ambrosetti elaboration, 2017.
14 - ISTAT estimates, 2017.

Without a strong impulse in investment and creation of new jobs, a relaunching of private sector consumption—which accounts for over 60% of GDP—will be difficult.

In fact, despite the positive trend over the last two years, domestic consumption has had difficulty taking off, with a quarterly trend that limps along and reflects the overall uncertainty that still pushes Italians to prefer savings[15] to consumption.

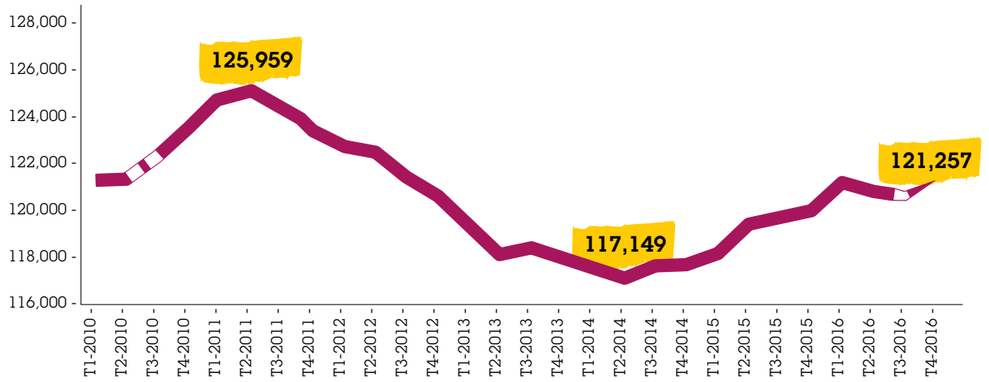


Figure 2.12. Final consumption expenditure of families, millions of euros, seasonally adjusted quarterly figures, 2010(T1)-2016(T4).
Source: The European House – Ambrosetti elaboration of COMEXT data, 2017.

Consumption trends also reflect the North-South gap.

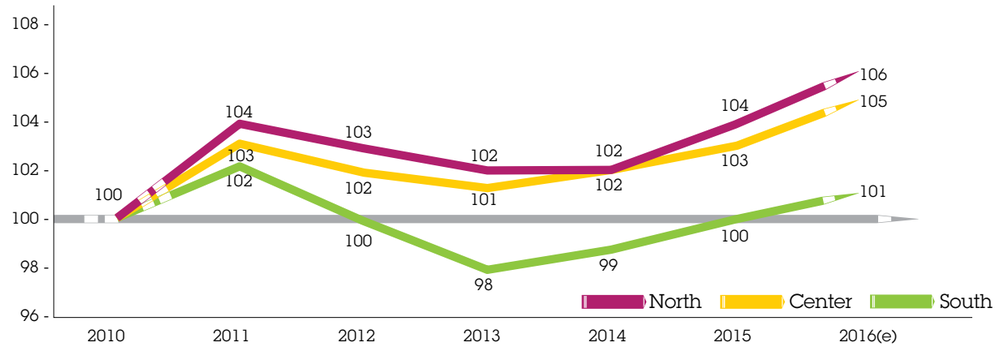


Figure 2.13. Consumption of Italian families, local macro-areas, indexed 2010=100 2010-2016(e).
Source: The European House – Ambrosetti elaboration of ISTAT data, 2017.

In addition, the **high debt/GDP ratio** (132.6% in 2016) makes it impossible to rely on publicly-funded investment which, together with consumption, are not providing support for growth.

15 - According to the data of Assogestioni, the association of wealth management firms, the overall patrimony of savings managed in Italy is 2,032 billion euros, a figure nearly equivalent to Italian public debt (2,300 billion euros).

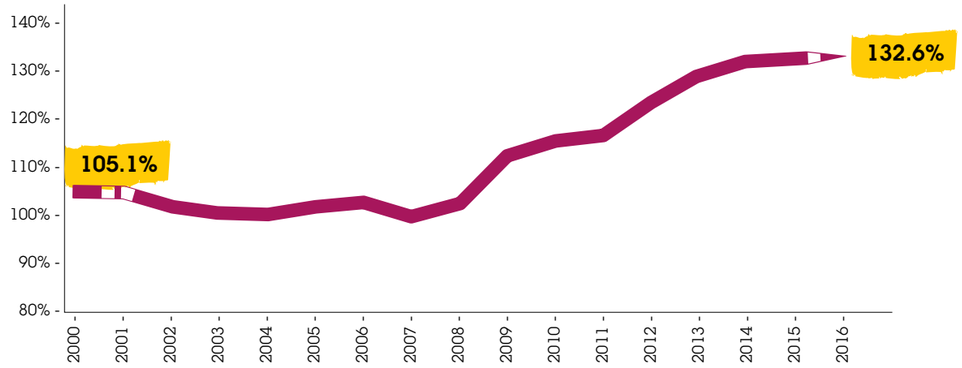


Figure 2.14. Trend in public debt in Italy, percent of GDP, 2000-2016.
Source: The European House – Ambrosetti elaboration of Eurostat data, 2017.

In fact, public sector investment in Italy **has decreased in recent years**, from 3.4% of GDP in 2009 to around 2.2% in 2016 (and a further drop is expected). This translates into lower accrued investments in the period 2000-2016 of about **100 billion euros**.

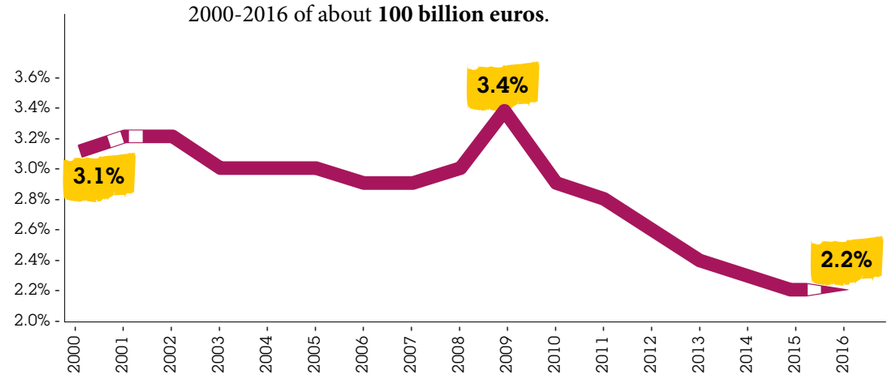


Figure 2.15. Trend in public investment, percent of GDP, 2000-2016.
Source: The European House – Ambrosetti elaboration of Eurostat data, 2017.

Private sector investment has also **decreased significantly**, specifically with lower accrued investment of about **390 billion euros** compared with 2008.

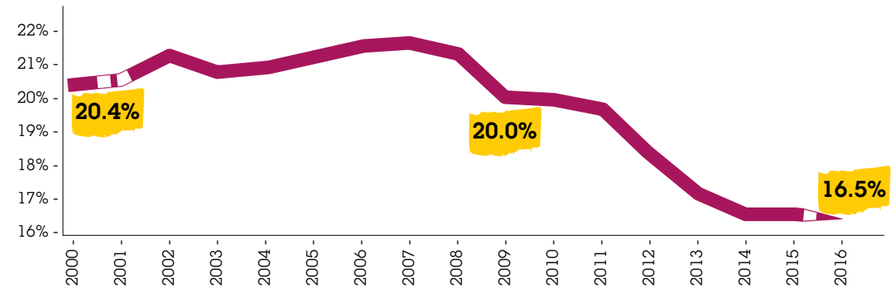


Figure 2.16. Trend in private investment, percent of GDP, 2000-2016.
Source: The European House – Ambrosetti elaboration of Eurostat data, 2017.

Among the major European economies, Italy is the only one that has not returned to pre-crisis levels of investment.

Given this critical situation, the Italian government has focused the nation's growth strategy over the coming years on more structured support for regions in the south of the country and the relaunching of public and private investment. For example, the **2017 and 2018 national Budget Laws** introduced a number of expansionary measures to relaunch private investment, especially in the Mezzogiorno.[16] It is fundamental that this direction is maintained unabatedly.

2.2. New consumption trends

If we compare consumer confidence (as measured by the Consumer Confidence Index[17]) for the fourth quarter of 2016 with the same period in 2014, there has been an increase in Italy from 45 to 58 points. However, the Italian situation is not actually that rosy if compared with its main European peers, further confirming that the trend in this area is weakened by uncertainty regarding the future.

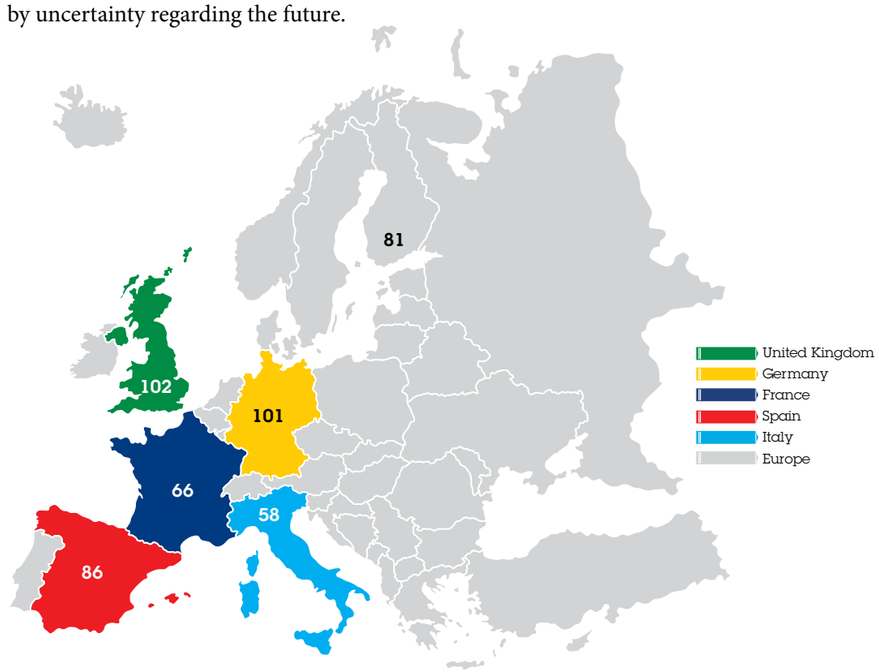


Figure 2.17. Consumer Confidence Index, comparison of Italy and its main European peers.
Source: The European House – Ambrosetti elaboration of Nielsen data, 2017.

16 - These include tax measures aimed at reducing the fiscal burden and promoting corporate capitalization (reduction of IRES–corporate income tax from 27.5% to 24%; introduction of the corporate income tax at a rate of 24% on corporate income for individual owners and general partnerships and limited partnerships with ordinary accounting, to replace IRPEF; extension of the super- and maxi-depreciation measures) and initiatives aimed at promoting the establishment and growth of small companies (a guarantee fund and public guarantees for bank loans to promote access to credit, extension of the benefits envisaged by the New Sabatini Law to December 31, 2018, and tax credits for R&D expenditures). In addition to the already-implemented measures, the National Industry Plan 4.0 and the 2018 Stability Pact contain additional measures, involving especially tax credits and resources for the south..
17 - Source: Nielsen and CONAD data, 2017 (www.nielsen.com).

This basic uncertainty could be considered one of the motives pushing Italian consumers to prefer savings to consumption. In addition to the tendency to increase savings, **new phases/types of consumption** can also be seen throughout the country, from north to south: from savings due to budget restraints to consumption that reduces the preference for discount products in search, instead, of wholesomeness, service and quality, thus increasing volume (with a close eye on the quality/price ratio) and only marginally showing a preference for the special offers of major brands.

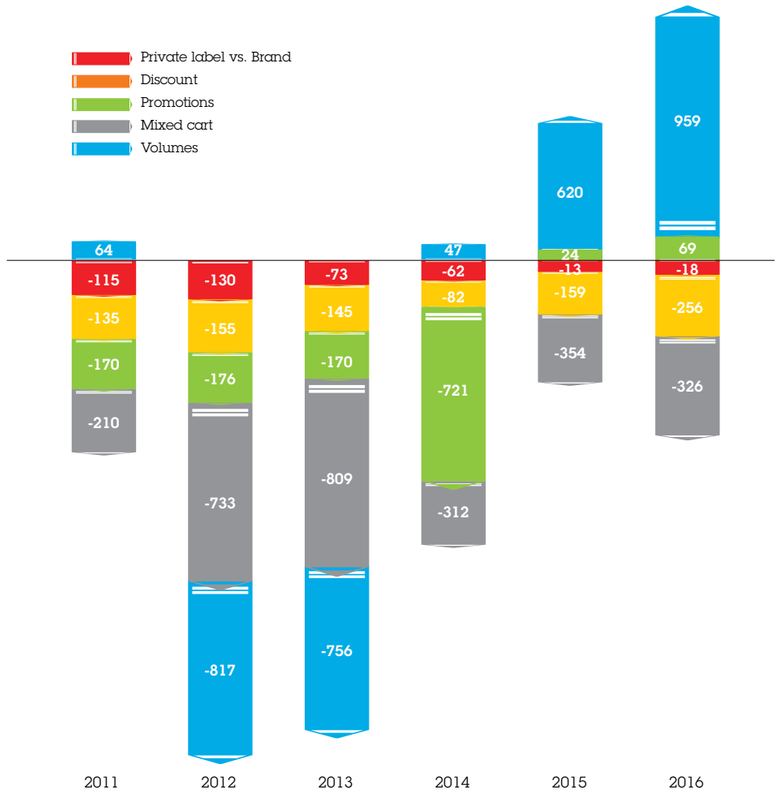


Figure 2.18. Variation in shopping cart value, 2011-2016.
Source: The European House – Ambrosetti elaboration of Nielsen and CONAD data, 2017.

In fact, the market share continues to drop for all those brand products which were market leaders in the pre-crisis period, and which decided to "place all their bets" on following the consumer saving trend: **by focusing on strong promotional pressure rather than investing in marketing and advertising to defend their market position**. These brands "opened the way" for private label products (+5.6% of consumption in 2016 compared with 2015) which, offering high quality and competitive prices, have succeeded in positioning themselves as an excellent choice in consumer shopping cart.

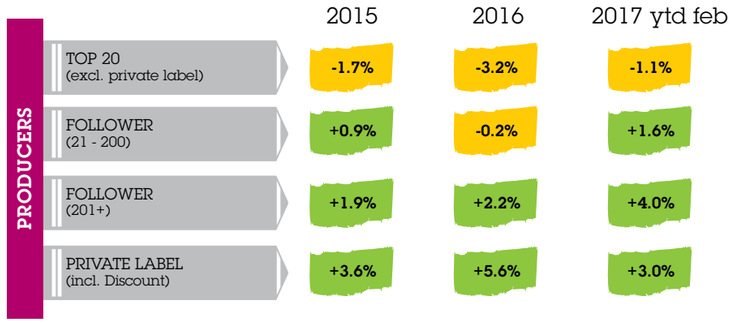


Figure 2.19. Year-on-Year (YoY) variation in brand vs. private label consumption, 2015-2017
Source: The European House – Ambrosetti elaboration of Nielsen and CONAD data, 2017.

A slightly different trend can be seen, once again, in the south where as shown previously, **large-scale distribution chain consumption** has dropped (in value), a sign that lower-cost, more-frequent shopping is preferred.

The situation is exactly the opposite in north and central Italy where families shop less-frequently, but at the same time the annual value of purchases increases.

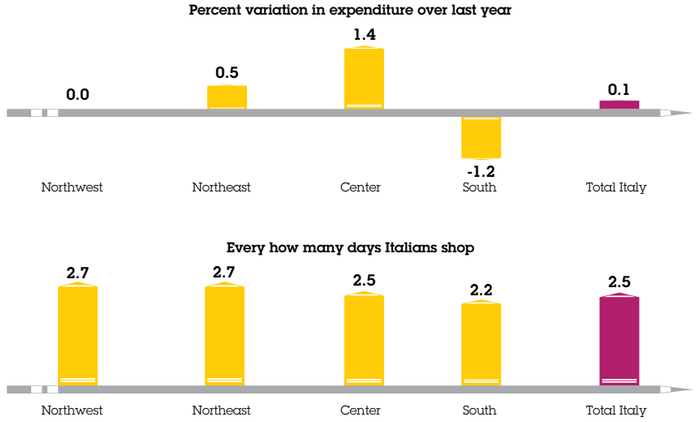


Figure 2.20. North and south: consumption and purchasing frequency. S
ource: The European House – Ambrosetti elaboration of Nielsen and CONAD data, 2017.

Looking at emerging consumption trends, types of purchasing can be subdivided into 6 macro-categories:

PREPARED AT HOME: I like to cook and prepare fresh, wholesome food for my family and this way I also save;

BASICS: A good breakfast in the morning and a nice first course at lunch or dinner;

READY-TO-SERVE: I don't have time to cook and/or I'm not a good cook, so I buy things that are already prepared;

ONE COURSE: Today just a sandwich or pizza;

TRENDY EATING: No dining out tonight! An aperitif and a gourmet dish with friends and relatives at home;

HEALTH AND WELLNESS: I like to eat healthy food because I care about my physical well-being and health.

On the basis of these categories, **concentrated in the south are more basic consumption models and emphasis on gratification, while prevalent in the north are those choices related to wellness, service and trendy eating.**

	Northwest	Northeast	Center	South
Breakfast	90	96	101	118
Basic first courses	93	90	101	119
Typical eating out consumption	99	102	96	105
Prepared at home	98	104	99	112
Gratification	96	100	94	96
Well-being	103	106	98	91
Wellness	108	105	101	82
Gourmet	115	89	114	72
Easy Food	115	99	100	77
Served first courses	129	118	94	45
Served second courses	112	96	94	93

Figure 2.21. Index of grocery share vs. total in Italy, 2017.
Source: The European House – Ambrosetti elaboration of Nielsen and CONAD data, 2017.

Finally, looking at the qualitative purchasing data of the large retail distribution chain, emerging behaviors can be seen throughout the country that are a clear signal of the consolidation of an extremely rational purchasing process that sees private label products as perfect substitutes for brands, as long as their quality/price characteristics are competitive and are well-placed in terms of wellness and sustainability attributes which are among the most sought-after in purchasing.

Figurea 2.22. Emerging consumer behaviors, 2017.
Source: The European House – Ambrosetti elaboration of Nielsen and CONAD data, 2017.

2.3. The communications sector in Italy: role and outlook

In line with the rest of the country, the communications sector finds itself in a new cycle of moderate expansion. For the end of 2017, total communications investment is expected to be **475 billion euros**, up +3.0% on 2016 and this growth trend is also confirmed by the initial forecasts for 2018: 495 billion euros (+4.3% on 2017).

This is a very positive sign within a context in which the forecasts for global GDP growth are +3.5% in 2017 and +3.7% in 2018[18].

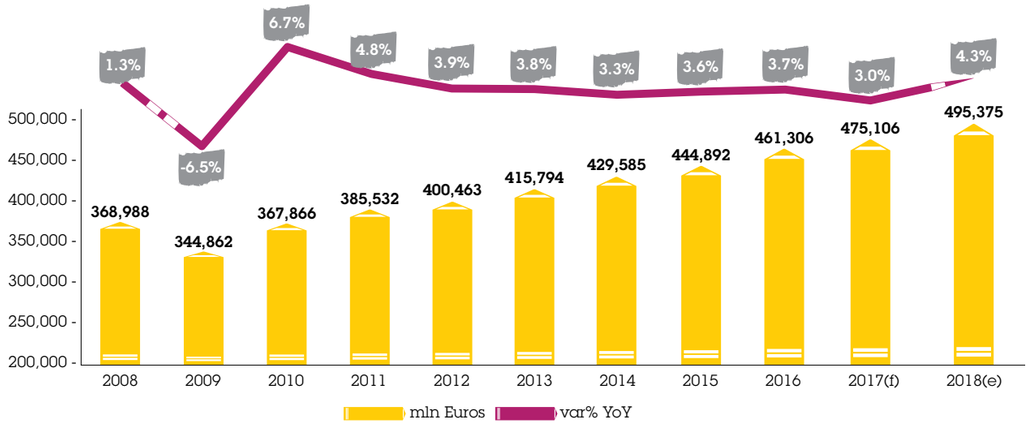


Figure 2.23. Global trends in the communications market, 2008-2018(e).
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight on This Year Next Year data, September 2017.

In 2017, **Europe is the third largest market in the world** with 21.1%, behind Asia-Pacific with 33.6% and the United States with 36.4%. This ranking will remain unchanged for 2018, a year in which the western markets of Europe and the United States are expected to decrease slightly by -0.2% and -0.3% respectively, while Asia-Pacific will further shorten the distance from the no. 1 global market with an increase of +0.4%.

18 - Source: OECD Economic Outlook, 2017..

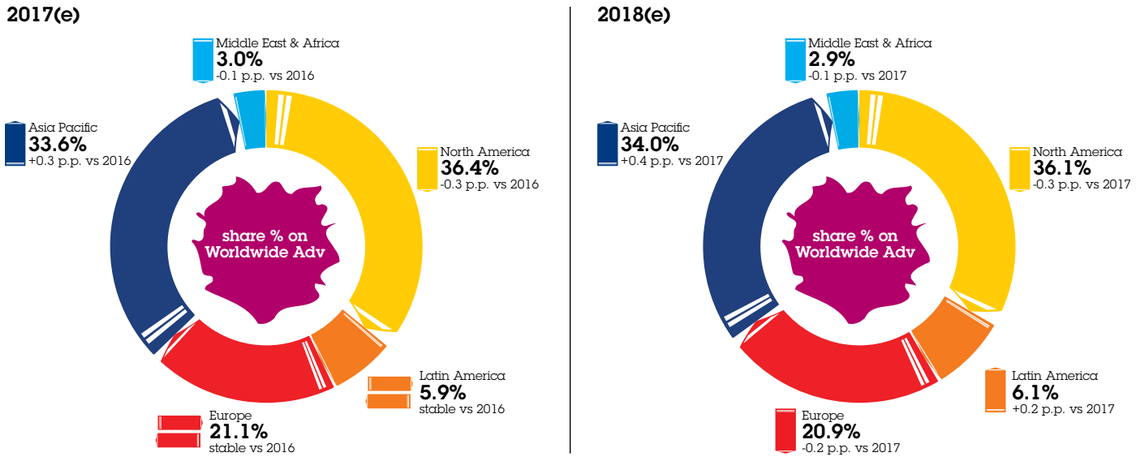


Figure 2.24. Communications market shares, percent, 2017(e)-2018(e).
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight on This Year Next Year data, September 2017.

Focusing on the European market, the forecast for end-2017 is over **100 billion euros in communications investment** (+3.2% compared with the 97 billion in 2016). However, this positive figure must be contrasted with the initial estimates which forecast a rise of +3.7%. The difference can be explained essentially by the **drastic fall in the previsions for the United Kingdom market** (from +7.2% to +4.1%), the result of major uncertainty deriving from the post-Brexit scenario.[19]

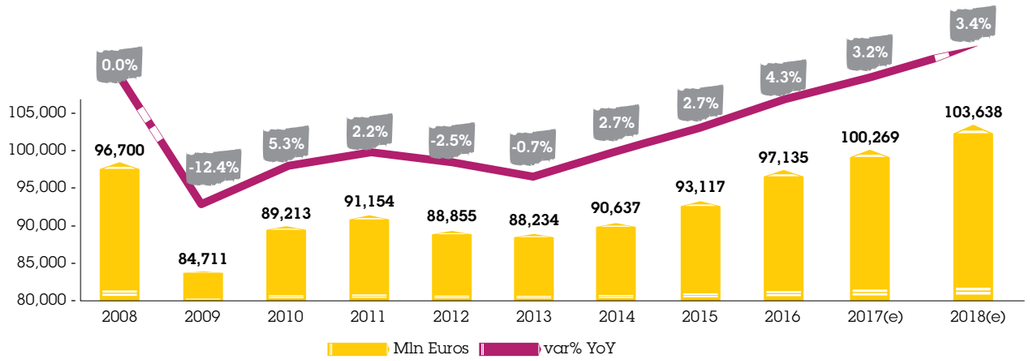


Figure 2.25. European trends in the communications market, 2008-2016.
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight on This Year Next Year data, July 2016..

In terms of total communications investment, **Italy is in fourth place in the European market**. This ranking indicates a major market potential that has still to be realized.

If the estimates of the **gap in absolute value of per capita communications investment** in the different countries are taken into consideration, despite the forecasts for growth over the next two years (+0.2% 2017 vs. 2016 and +2.8% 2018 vs. 2017), Italy ranks thirteenth in Europe, with per capita investment communications around 130 euros.

19 - For additional information refer to Chapter 3.

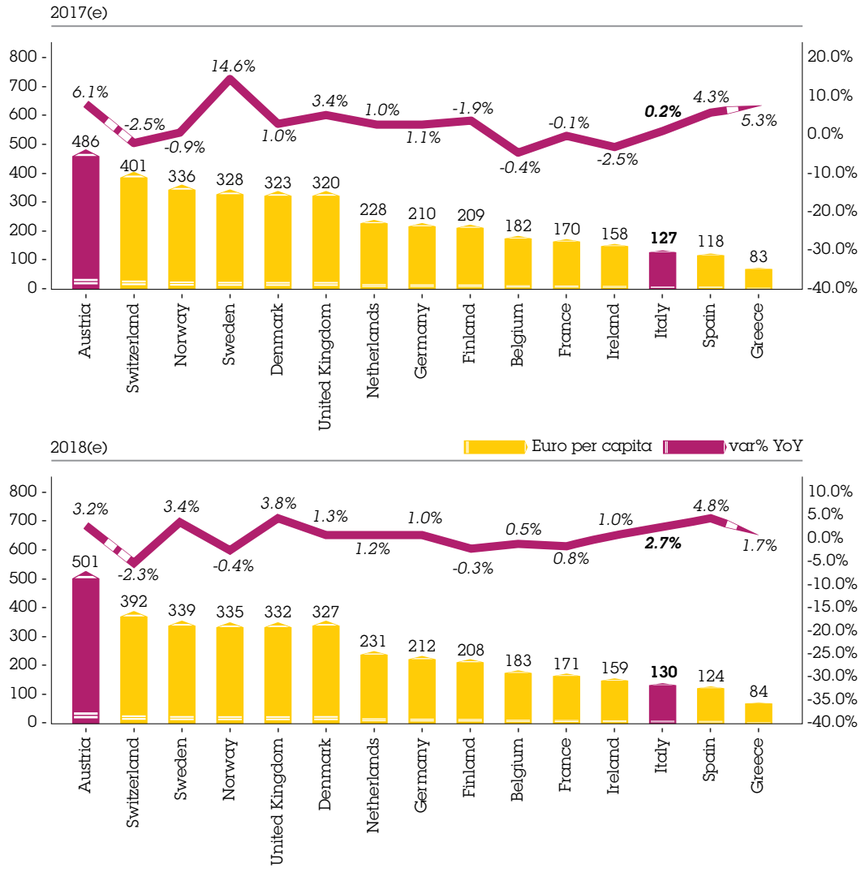


Figure 2.26. Top 15 European countries in terms of per capita communications investment, 2017-2018.
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight on This Year Next Year data, September 2017.

At end-2017, a level of **7.69 billion euros** is expected, with a positive variation (+0.4%) on the previous year which, together with the +2.7% increase forecast in 2018, confirms the reversal of the tendency seen in 2015 (+2.2% compared with 2014).

The drop predicted for end-2017 is largely connected to the **lack of sports events** which in 2016 provided support to market performance (e.g., the European Football Championships and the Olympics) and low performance of Consumer Packaged Goods (CPG).[20]

In 2018, on the other hand, the FIFA World Cup and other major sports events, together with the expected economic growth, will contribute to bringing the rate of growth back into line with recent years.

20 - Products consumed daily by the average consumer. The products in this category are those which must be replenished frequently, compared with those that have a longer use duration.

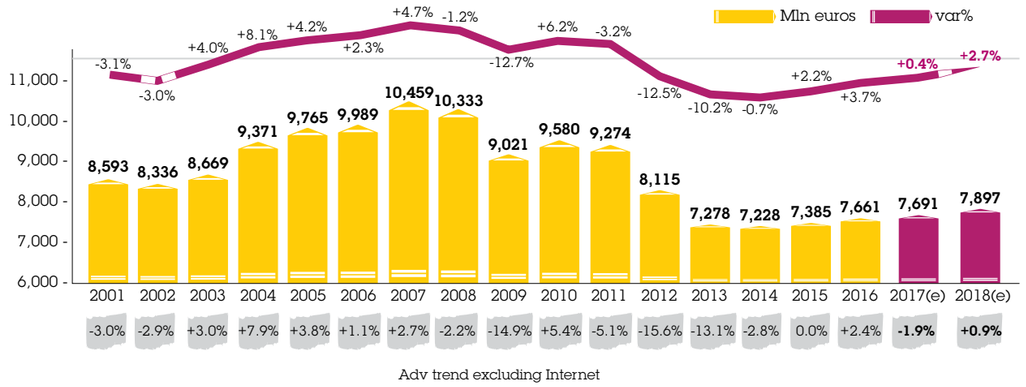


Figure 2.27. Trend in communications investment, Italy, 2001-2018.
Source: GroupM Research & Insight, September 2017.

Comparing the communications market performances of the United Kingdom, Germany, France, Italy and Spain from 2007 to 2016, it is clear that only Italy and Spain are still quite distant from the numbers registered prior to the economic-financial crisis.

In addition, the trends foreseen for 2017 and 2018 place Italy—surpassed by Spain—in **last place among these five economies in terms of distance from the market values** in 2007.

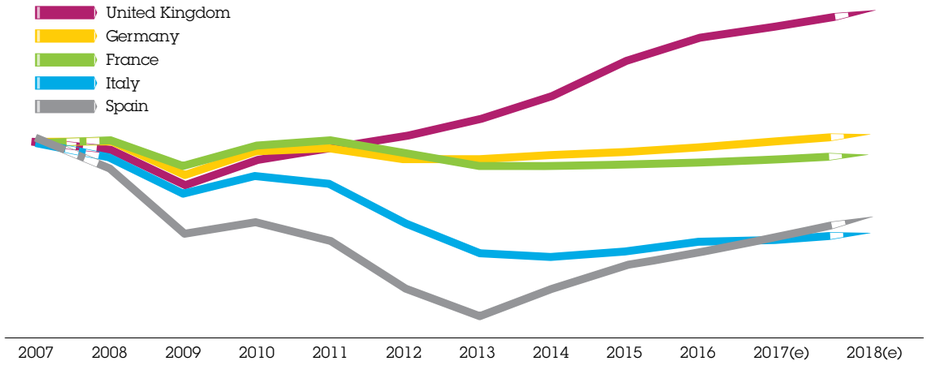


Figure 2.28. . Communications market value in the post-crisis period, United Kingdom, Germany, France, Italy and Spain, 2007-2018(e) .
Source: GroupM Research & Insight, September 2017.

Within this cautiously-optimistic framework for the sector, it is interesting to highlight that, starting in 2003, investment in **Internet communications** sustained the overall sector trend, reducing the effects of the downturn and enhancing growth. In addition, taking into consideration the market growth rate in 2016 and those forecast for 2017 and 2018 in the various communications channels, the estimates confirm the important role played by the Net as a driver in the recovery of communications investment, with growth rates much higher than those in other channels and the market overall (+8.0% vs. +3.7% in 2016, +7.5% vs. +0.4% in 2017 and +7.8% vs. +2,7% in 2018).

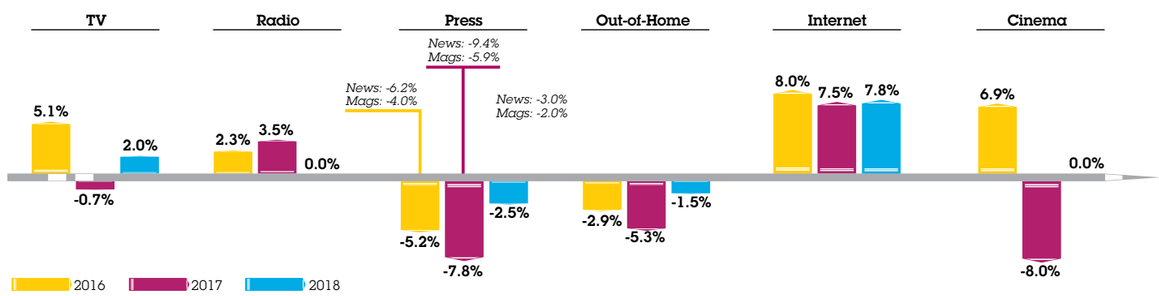


Figure 2.29. Breakdown of the rate of growth in communications investment by channel utilized, 2016-2018.
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight data, September 2017.

The overperformance of the online channel cannot guarantee that Italy will achieve growth rates high enough to allow it to get back into line with pre-crisis market values in the short term and at the recovery and growth speed of the benchmark countries (United Kingdom, Germany, France and Spain).

The contribution of the Internet to the communications market is limited, in fact, by its low share in terms of the total number of channels utilized. In Italy, the largest remains television with over **50% of investments in 2016** and for which the forecasts are basically unchanged in the near future.

Comparison with the European and global averages reveal a situation in Italy which is out of alignment and where a **radical change in the communications channel hierarchy** has yet to be taken on.

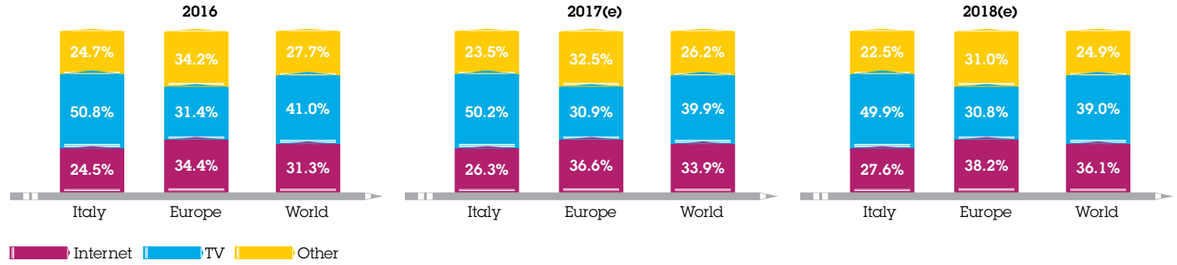


Figure 2.30. Comparison of communications investments subdivided by channel, Italy, Europe and the world, 2016-2018(e).
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight data, September 2017.

This change, however, has already affected the hierarchy of the most-used formats in the communications sector. Thanks to the contribution of television, videos are the most popular method with companies for communicating with Italians and, since 2015, its growth is supported almost exclusively by the online channel. It is expected that in 2018 videos will account for 58.3% of total communications expenditure.

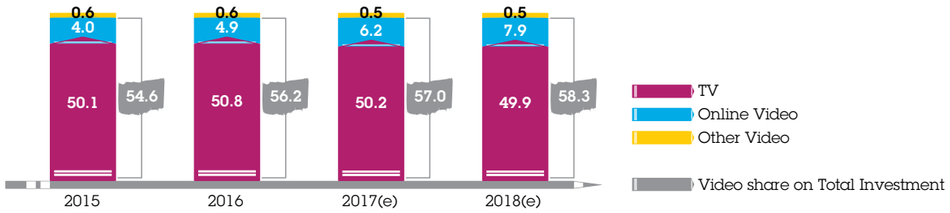


Figure 2.31. Investment in video communications, 2015-2018.
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight data, September 2017.

In terms of the sectors which invest most in communications in Italy, in 2016, food is no. 1 (representing 15% of total investments), followed by cars (11.3%).

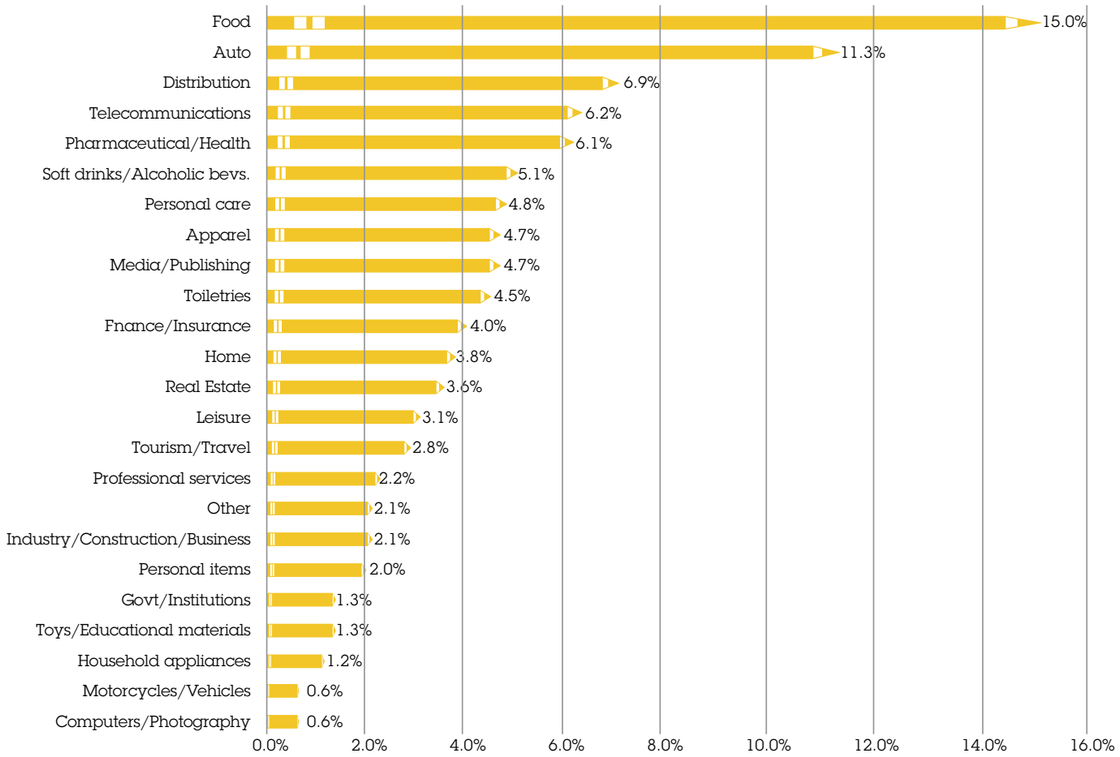


Figure 2.32. Investment in communications by sector, percent, 2016.
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight data, September 2017.

Ranked top in terms of growth from 2007 to 2016 (years in which the communications market declined at a compound annual rate of -3.9%) were pharmaceuticals (+3.4%), leisure time and entertainment (+2.4%) and distribution (+2.2%).

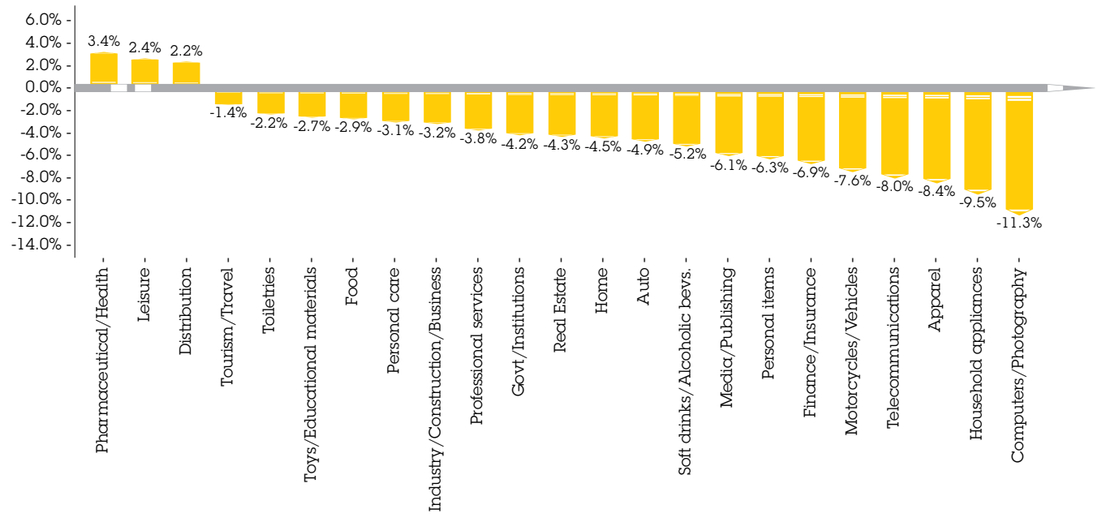


Figure 2.33. TCompound annual rate of change in the communications market by sector of investment (excluding the "OTHER" sector), 2007-2016.
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight data, September 2017.

Finally, comparing the performances of the various sectors over the January-to-August period (2017 vs. 2016), the most significant variations were seen in the sectors of household appliances (+51.2%), toys and educational materials (+40.3%) and computer and photography (+19.9%).

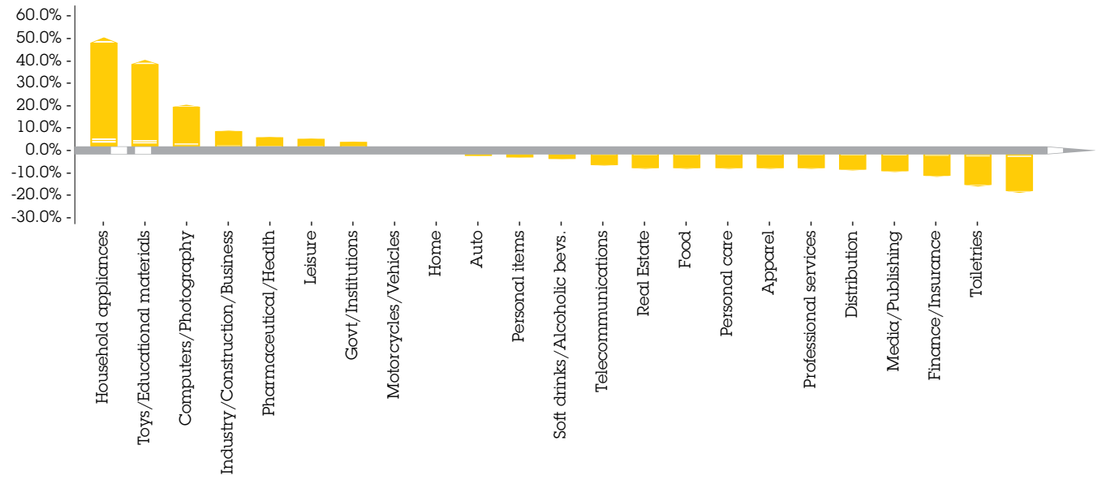


Figure 2.34. Variation in communications investments by sector (excluding the "OTHER" sector), Jan/Aug 2016–Jan/Aug 2017.
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight data, September 2017.

Turning to those companies which invest most in communications, in 2016 on the podium of the 15 Top Spenders are the Volkswagen Group (122 million euros), the Procter & Gamble Group (107 million euros) and the Fiat Group (104 million euros).

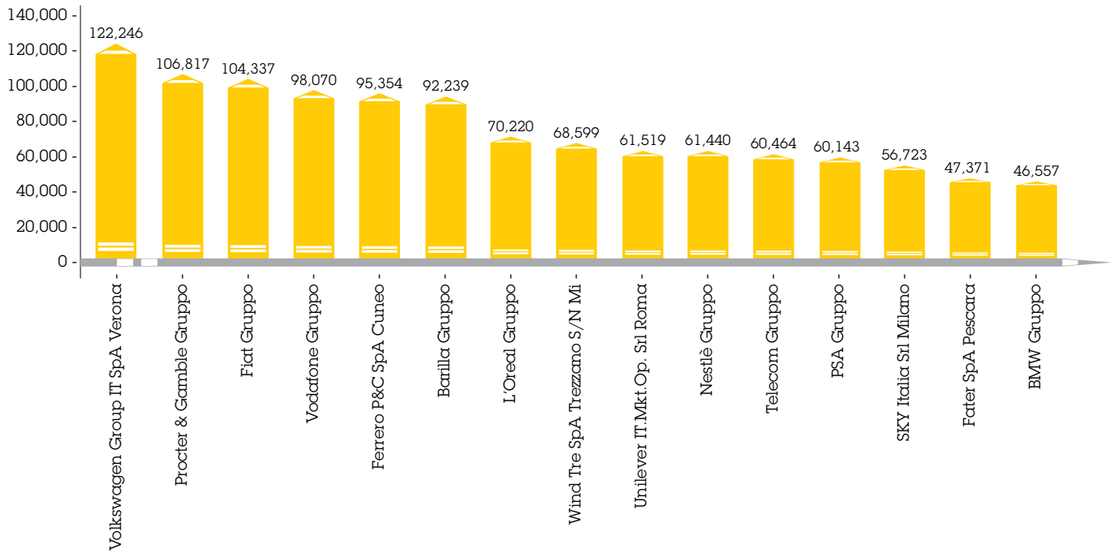


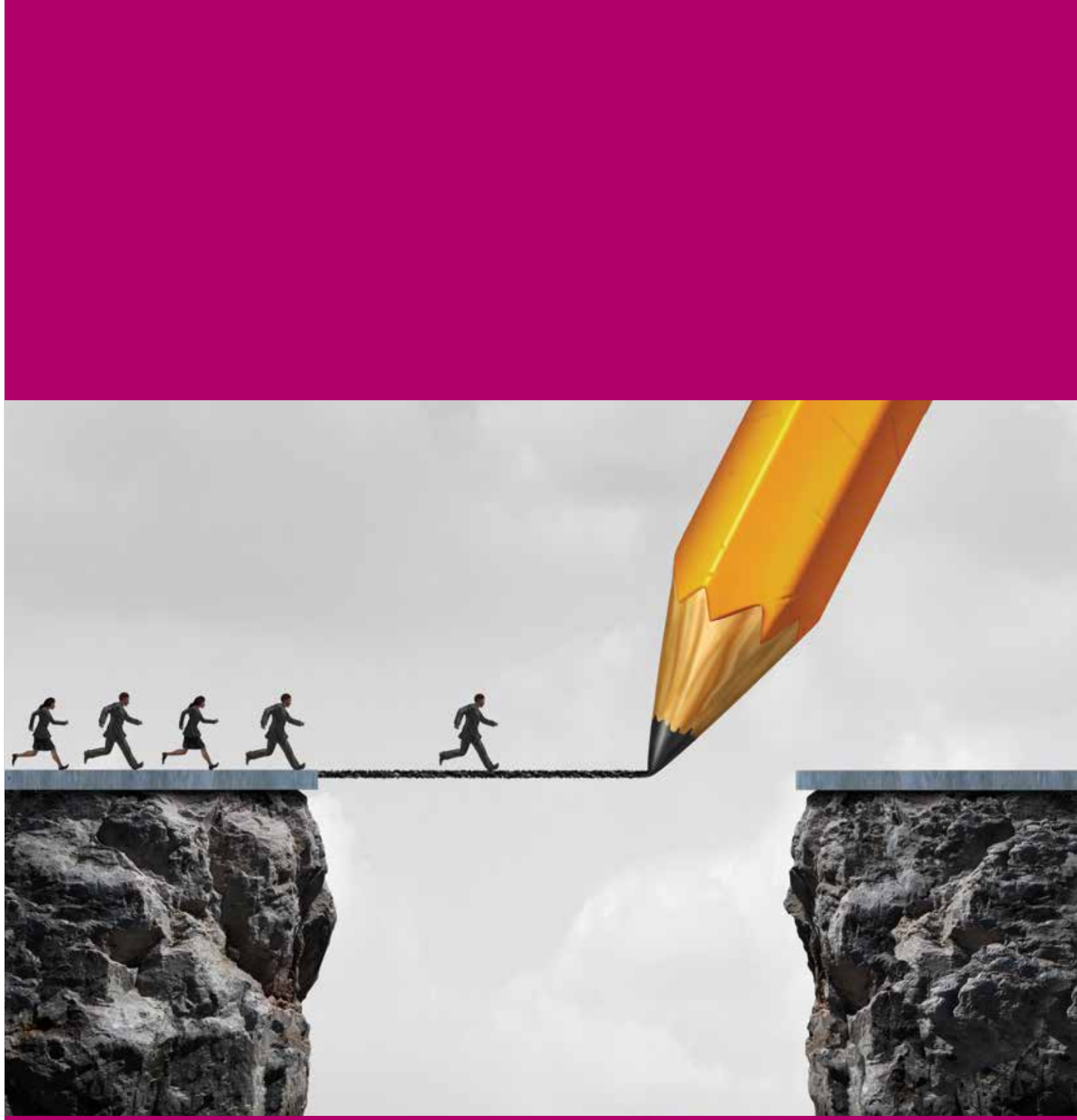
Figure 2.35. The 15 Top Spenders, thousand of euros, 2016.
Source: The European House – Ambrosetti elaboration of GroupM Research & Insight data, September 2017.

As can be seen from the above data, the economic crisis and new trends in the market have structurally changed the way of investing in communications. As a result, the strategic role of communications must be re-thought to foster economic growth in the country which, currently, is still limited by a number of factors, including the gap between the north and south of Italy (seen first-and-foremost in the overall consumption trend), low public- and private-sector investment, including in innovation and research,[21] and the level of productivity which is still too low.

In defining their **growth and communications strategies**, companies must take into account the discrepancies and uncertainties connected with the global context. In particular, the changes in consumer behavior and new consumption trends are a direct consequence of the economic crisis and are influenced not only by a different level of purchasing power, but also by demographic and technological changes (see Chapter 4).

This means, above all, recognizing that the communications sector **creates value for companies** and for society in general through its contribution to increasing consumption and employment.

21 - For additional information refer to Chapter 3.



3

ITALY'S COMPETITIVENESS IN THE NEW INTERNATIONAL CONTEXT

3.1. Risks and uncertainties of the current geo-political and economic scenario

As highlighted in Chapter 2, ten years after the onset of the crisis, the world's economies have begun to grow once again, albeit at different rates. In 2017, global GDP will grow at a rate of **3.6%**, driven above all by developing economies, which are expected to register an overall growth of +4.6%[1].

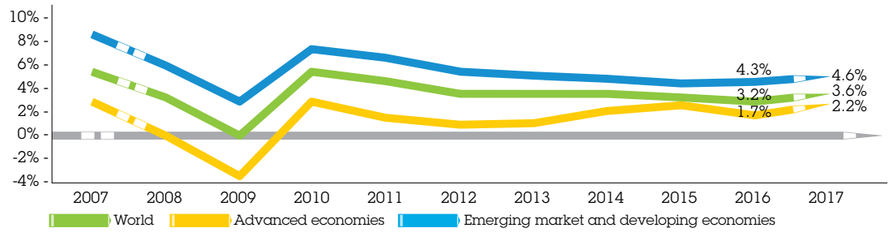


Figure 3.1. Trends in real GDP growth rates - world, advanced and developing economies, percent, 2007-2017
Source: The European House – Ambrosetti elaboration of International Monetary Fund data, 2017.

Though in 2017 global growth has been revised slightly upwards compared to 2016 (3.2%) - and the economies of the United States, Europe and Japan appear to have embarked on the path of more stable and sound development - the BRICS[2] have not yet reabsorbed the lull caused by the slow-down in the global economy.

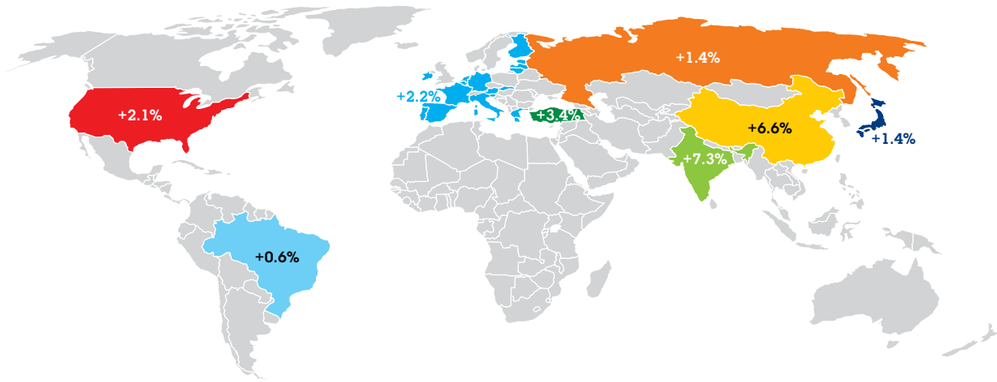


Figure 3.2. Real GDP growth estimates for 2017.
Source: The European House – Ambrosetti elaboration of OECD data, 2017.

1 - Source: The European House – Ambrosetti elaboration of International Monetary Fund data, October 2017.
2 - The acronym BRICS identifies the five countries that constitute the major emerging economies (Brazil, Russia, India, China and South Africa).

Moreover, general recovery is weighed down by the current geo-political scenario, made up of a **number of risk factors** which, primarily in Europe, cast a shadow of uncertainty over the future. In particular, the crisis in the Middle East that is linked to large migratory flows towards Europe, has generated **economic and social tensions among member states of the European Union**, and within the states between the various political movements which are having to face a deep humanitarian crisis.[3] Added to this there are numerous areas of instability in countries such as Turkey, China and North Korea.

Other threats to Old World cohesion have also been generated by the election of the new US president, Donald Trump, who promotes **protectionist policies** that could result in further economic problems for a Europe already having to manage delicate and unprecedented internal stability issues. In actual fact, if it is true that Europe has been able, through its history, to strengthen its own mechanisms of democracy and integration starting from primarily "economic" issues, today **the international scenario lays down new challenges** that call for clear, effective responses (above all if the intention is not to create still further political instability) to three main macro issues:

- the threat to **security** from serious attacks that are striking the capital cities of Member States;
- the **humanitarian crisis** associated with migratory flows;
- the need to guarantee **equal work and life opportunities to all European citizens**, given that the burden of unemployment is still high in some countries (in Italy in September 2017 unemployment stood at 10.9%).

Within this context, if it is true that Brexit and the election results in the United States could have represented the spark for triggering a process of European disintegration, some movements that greatly support nationalist forces have nonetheless experienced a lull in recent elections in different Member States:

- Spain – *June 2016:* Rajoy's People's Party remained the largest party, ahead of the PSOE, Podemos and Ciudadanos;
- Austria – *December 2016:* Alexander Van der Bellen beat Norbert Hofer, of the Freedom Party;
- Netherlands - *March 2017:* the Liberal, Mark Rutte was the winner, whilst the loser was the Party for Freedom of Geert Wilders.
- France - *May 2017:* victory went to Emmanuel Macron's En Marche! movement, whilst Marine Le Pen's National Front was defeated.

Against this backdrop of lights and shadows, Italy is called upon to continue along its path of stabilization also in 2018, consolidating the budget and not hindering growth[4].

3 - According to data from the Italian Interior Ministry, in 2016 the total number of those seeking asylum in Italy was 123,600 (+47% compared to 2015). In 2017, however, there has been a drop in migratory flows into Italy. Between January and October, 110,412 people landed in the country (-25.5% compared to the same period in 2016). This drop could be attributable to some specific measures introduced by the institutions, such as the new NGO code of conduct and recent agreements with Libya.

4 - For additional information refer to Chapter 2.

3.2. The factors that can accelerate Italy's growth and competitiveness

Relaunching Italy's economy as well as its competitiveness and attractiveness is one of the major issues of the WPP/The European House – Ambrosetti Advisory Board. With the goal of increasing Italy's attractiveness (and therefore its competitiveness), some "worksites" can be identified on which it will be important to focus specific actions in the near future. In particular, these concern:

A. Strengthening the ecosystem for innovation and research.
B. Fostering growth for small- and medium-sized enterprises.
C. Exploiting the potential of Metropolitan Cities as places where the best talents and businesses aggregate.
D. Managing and communicating the country's image.

It should be noted, furthermore, that there are other urgent issues for Italy, such as the relaunch of consumption (as part of a broader framework of narrowing the gap between the North and South), productivity growth, the enhancement of service efficiency - all of which will be examined in this position paper. What follows, on the other hand, is designed to provide some idea on the crucial areas of the strategy for Italy's growth that, directly and indirectly, also influence the **competitive capacities of the communication sector.**

3.2.1. Innovation and research as drivers for development

Nowadays all countries are focusing on innovation and research as factors for competitiveness. The effort in **strengthening the innovation ecosystem involves all economies** (developed, developing and emerging) and involves an overall redesigning of the political-economic measures.

The knowledge economy - that bears at its core the link between innovation, training and competitiveness - is in fact profoundly and irreversibly changing the factors of competitive advantage in different countries, resulting in greater centrality of research, innovation and technological transfer in influencing the dynamics of growth and productivity.

Without ignoring the multiple cause and effect relations that have to be considered when carrying out analyses of correlations between more variables, we can state that **higher rates of growth are associated with high performance in research and innovation**.

In other words, those countries which were the first to grasp the importance of the positive cycle of innovation/productivity/growth are those that are best positioned in terms of long-term systemic competitiveness and have demonstrated greater resilience in current crises.

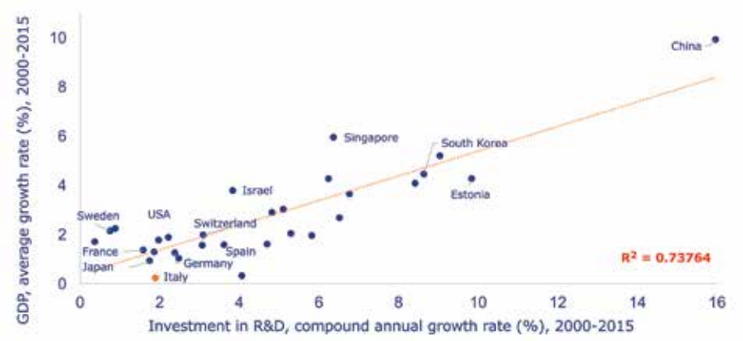


Figure 3.3. Correlation between research and development (R&D) spending and GDP growth in 30 world economies, in constant billion dollars adjusted to 2000.
Source: The European House – Ambrosetti (Technology Forum) elaboration of OECD and IMF data, 2017.

As we continue our analysis, what emerges is a **positive relationship between investment in R&D and company performances**. Taking into account the first 1,000 European companies for investment in R&D and focusing our attention on manufacturing companies, what emerges is a positive correlation between the average amounts invested in R&D in the two-year period 2011-2012 and the turnover of the same companies in 2015.

The decision to use the average of the amounts for 2011-2012 was based on an acknowledgment of the existence of a time delay between when the R&D investment is made and when this investment can actually have an impact on company turnover.

There is also an important positive relationship between R&D investment - average investment for 2011-2012 were taken into account - and the number of employed (in 2015), as well as between the average investment in R&D for 2011-2012 and profits in 2015.

In short, **as investment in R&D grows, so do turnover, profits and the number of employed**.

Figure 3.4. Correlation between R&D investment and turnover in European manufacturing companies (left); correlation between R&D investment and profits in European manufacturing companies (center); correlation between R&D investment and workers in European manufacturing companies (right).
Source: The European House – Ambrosetti (Technology Forum) elaboration of European Commission JRC data, 2017.

In support of the role of innovation investment in the competitiveness of companies is a further element emerging from the comparison between the growth in total turnover of manufacturing companies which invest most in R&D and the growth in turnover of the manufacturing sector as a whole for the period 2012-2015.

Despite a slight growth in turnover for the manufacturing sector (+2%), during the same period R&D top spender manufacturing companies saw a significantly greater growth in aggregate turnover (+16%), in confirmation of the fact that investing in innovation is a driver for the growth of companies.

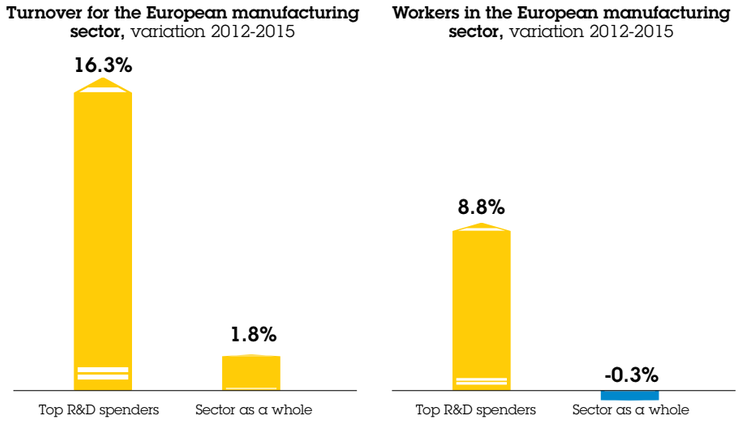


Figure 3.5. Comparison between turnover and employed in top spender companies and on average in the European manufacturing sector.
Source: The European House – Ambrosetti elaboration based on European Commission and Eurostat data, 2017.

It therefore seems clear that innovation is a strategic issue for every country.

It is for this reason that, over time, some countries (or territorial macro-areas) have committed themselves to producing innovative outputs on higher qualitative and quantitative levels than others and to favoring progress in the different fields of science, research and business, in the knowledge that this could produce overall greater future economic growth.

Precisely as was noted concerning the growth rates of the different economies, even the amount of investment in innovation, which can be approximated by R&D expenditure, varies enormously. While countries such as Israel and South Korea invest more than 4% of their GDP in research, in Europe the goal has been set of achieving 3% investment in R&D by the year 2020. It is in this context that Italy lags significantly behind other countries, spending only 1.3% of its GDP on R&D which is unchanged compared to the previous year.

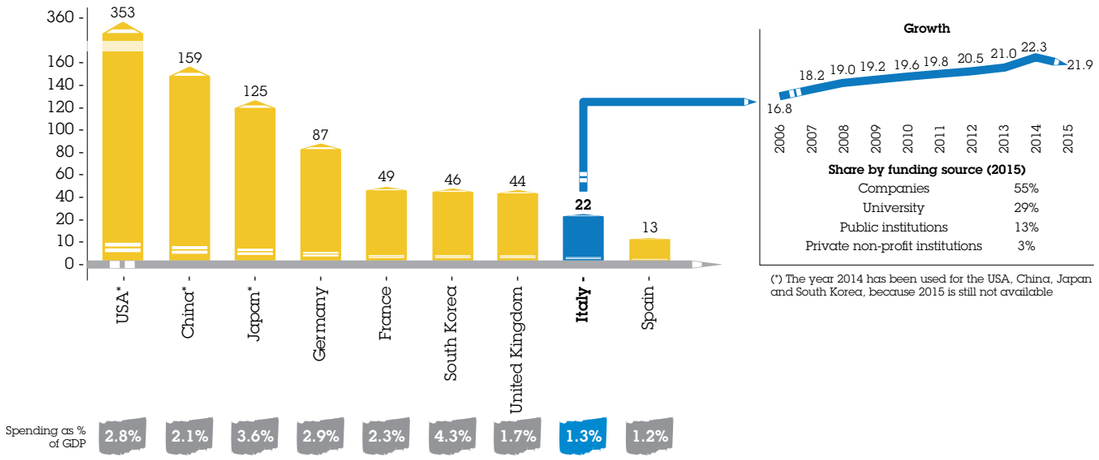


Figure 3.6. R&D investment in some reference country and their economies, billions of euros, 2015. Source: The European House – Ambrosetti (Technology Forum Life Sciences) elaboration based on European Commission and Eurostat data, 2017.

This awareness must drive Italy, where the dynamics of growth still remain too slow, to focus on innovation so that it can return to being fully competitive. To this end what is required is an innovation ecosystem that:

- allows an efficacious and efficient use of the "deposits" of resources that currently exist (human, know-how, financial, tangible and intangible capital);
- increases the "critical mass" of financial resources available and guarantees a meritocratic assignment of funds for research;
- reduces the north-south gap[5] that is also to be found in the field of innovation and research.

Innovation, as an essential condition for economic and social progress, must be managed through a medium to long-term "**national action program**".

This is what has been done by the major advanced countries in recent years, by launching comprehensive strategies aimed at the overall optimization of their innovative ecosystem and research. Italy has yet to complete this process and, even with widespread excellence in the field of research and industry, it struggles to produce, on a structural and continuous basis, substantial innovations and a true ecosystem for innovation and research, that is attractive at an international level.

5 - For additional information refer to Chapter 2.

To improve the current situation it is necessary to act on certain priorities that involve, in a comprehensive action, policy makers, companies, the research system and the financial institutions.[6] Among these are:

1. **Defining a clear governance for innovation**, formulating a national innovation strategy for the medium to long-term that links the choices for industrial development to those for research and training with an across-the-board approach, identifying a single governmental reference point, with a permanent role and the power to orient, coordinate and fund.
2. **Increasing resources intended for Research & Development**, and in particular providing incentives for investment by companies. In this sense, it is necessary to continue along the path undertaken in recent years, with a view to creating an efficient system of innovation incentives on a national level, with stable mechanisms and measures for promoting equity investment and venture capital.
3. **Reducing regional discrepancies**. The gravity and breadth of the problems that Southern Italy is having to cope with make it necessary to have a varied approach on many fronts at the same time. Reducing the gap in comparison to the other areas of Italy is only possible as a result of the implementation of a serious **Relaunch Plan for the South**[7] which, from an innovation standpoint must be aimed at:
   - boosting industrial specialization in some supply chains of excellence and reducing the gaps that restrict the capacity to transform the outcomes of research;
   - limiting the loss of human capital and promoting the attraction of talents and new professions from all over the world, in order to enrich the territory;
   - stimulating the launch of large research projects that are useful for concentrating local resources on concrete initiatives for regional socio-economic development.
4. **Speeding up the establishment of the 4.0[8] paradigm**. The government is doing a great deal on this front and it is important to continue along this path, building the enabling conditions for a real transition that also involves:
   - the re-orientation of the corporate culture, with a guiding role for top management;
   - the adaptation of the organizational structure of companies and the decisive accompanying of the transformation of roles and functions;
   - the renewal of productive assets and the review of internal processes, as the enabling factors for new business models.

6 - The European House – Ambrosetti, that has for some time been involved in specific activities and initiatives aimed at strengthening Italy's innovation ecosystem and in 2011 founded the Inno Tech Community, that gathers the contributions of a myriad of public and private players in Italy, giving voice to those with actual experience, while pooling solutions and approaches and sharing the areas and ways in which action can be taken, within a positive and constructive approach. Every year the work of the Community is discussed at the Technology Forum (www.technologyforum.eu), an international-level event for players in the innovation ecosystem.

7 - A response to this goal has been the approval by Italy's Chamber of Deputies - in August 2017 - of the conversion into law of the Mezzogiorno Legislative Decree, which envisages incentives for the Regions of Abruzzo, Basilicata, Calabria, Campania, Molise, Apulia, Sardinia and Sicily. For additional information refer to Chapter 2.

8 - For additional information refer to Chapter 4.

5. **Providing incentives for Open Innovation at all levels**. The spread of Open Innovation practices calls for the creation of a critical mass of people and skills that, without adequate support, would struggle to take hold. From this standpoint it is necessary to:
   - use incentives and enabling actions (as the region of Lombardy has done with its Open Innovation platform) to support the spread of company networks focused on the production of innovation, that bring together large and small innovative companies;
   - create Open Innovation online platforms and carry out a full census of the national innovation ecosystem to create connections;
   - construct and disseminate specific open innovation professions and skills within the entrepreneurial fabric;
   - create poles of excellence in strategic fields, within which skills and resources can activate contamination and spin-out mechanisms.

3.2.2. The Metropolitan Cities as drivers for creativity and relaunch

All over the world we are witnessing a **phenomenon of gradual urbanization** producing increasingly larger economic and social agglomerations that also grow in importance: the **metropolitan cities**.[9] Since 2007 the global urban population has exceeded that residing in extra-urban areas and, projecting the situation forward to 2050, the gap is destined to widen still further. Today, metropolitan cities take up less than 3% of the world's surface, nevertheless they contain 54% of the world population, **produce around 80% of GDP**, generate **85% of innovation** and consume approximately 80% of natural resources.

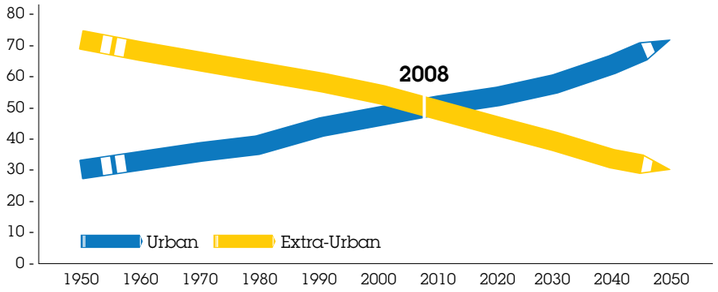


Figure 3.7. World population divided by area of residence (urban and extra-urban), 1950 and projections to 2050.
Source: The European House – Ambrosetti elaboration of UN and World Bank data, 2017.

Metropolitan cities are **centers of aggregation of population and economic activities** that stand out because of specific characteristics of the surrounding territory, and act as drivers for a country's innovation, growth and competitiveness.

9 - The definition of the word 'city' (technically, an urban area) varies from country to country, according to different criteria linked to population size, housing density, the level of infrastructures and type of economic activity. On an international level, one of the most used definitions (in 101 countries) takes into account a minimum population of 5,000 or more inhabitants. When it comes to metropolitan cities, the criterion used by the OECD is a population of over 500,000 inhabitants.

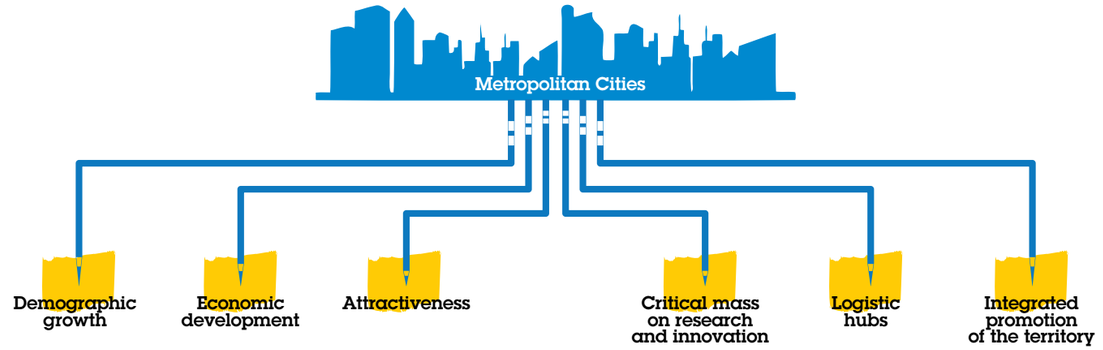


Figure 3.8. The multiple advantages of metropolitan cities.
Source: The European House – Ambrosetti data elaboration, 2017.

In general, the population of metropolitan cities grows at far higher rates than nationally, and the gradual increase in the size of the social aggregate always sets new challenges for administrations for managing the great issues of urbanization and developing new service models for citizens. In this sense metropolitan cities also distinguish themselves as 'centers of experimentation' in order to tackle social and demographic dynamics in a sustainable way and with innovative solutions that will be then be extended to the remaining portion of the country.

A second distinctive element of metropolitan cities is the **close correlation found between the presence of organized forms of strategic management of vast urban areas and local productivity levels**.[10] The effect on productivity is generated by better division of labor, greater specialization within each productive sector, the creation of specialized supply chains and districts, access to the non-specific services for the sector in which a company operates and the circulation of ideas, talents and technologies. Finally, metropolitan cities show higher average levels of per capita income compared to the national figures (approximately 80% of metropolitan areas fall fully within this statistical scenario).

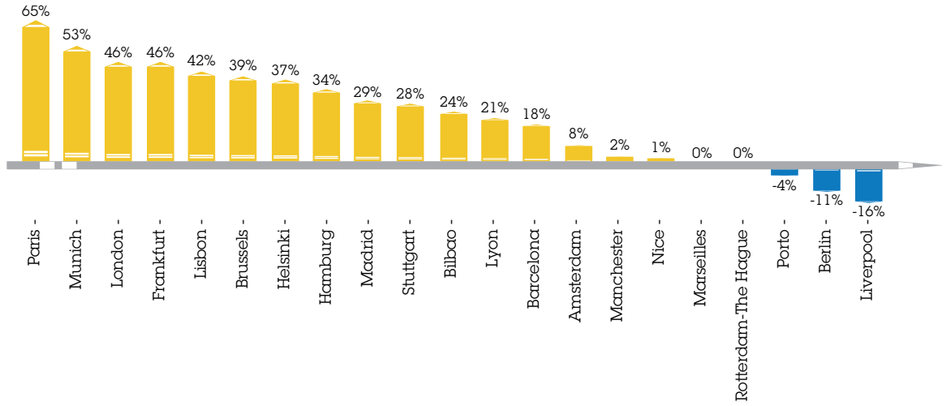


Figure 3.9. Delta in per-capita GDP between metropolitan cities and the respective country, percent, average 2010-2013.
Source: The European House – Ambrosetti elaboration of OECD and Brookings Institute data, 2017.

10 - According to the OECD, when the population of an urban area doubles, productivity levels rise between 2% and 5%.

Fourteen Metropolitan Cities have been established in Italy (Milan, Venice, Turin, Bologna, Florence, Genoa, Rome, Naples, Cagliari, Bari, Messina, Palermo, Catania, and Reggio Calabria), and they account for:

- about 36.4% of the national population;
- over 40% of national value added;
- over 30% of exports;
- over 35% of the national total of those employed;
- 35% of all Italian companies and 56% of foreign multinational companies operating in Italy;
- about 50% of the innovative start-ups;
- over 50% of universities and 100% of polytechnic institutes.

In Italy too, the metropolitan cities are a lever for development and they distinguish themselves as 'centers of accumulation' of human, economic and financial resources, accelerating the dynamics of growth that benefit the areas of reference and the national economy as a whole. On an aggregate level and for the period 2007-2014, they registered an average annual growth rate of value added of +1.2%, compared with the Italian average of +0.7%.

Overall, trends higher than the national average are also seen for attractiveness, especially on an international level. The majority (56%) of foreign multinational companies (roughly 7,000 out of 12,400) based in Italy, are concentrated within the country's metropolitan areas, and 65% of them are based in the metropolitan cities that also are regional capitals, with a trend that varies greatly in the various individual cases. Overall, approximately 70% of foreign direct investment (FDI) towards Italy is catalyzed by the metropolitan cities, to demonstrate that any area's international attractiveness is closely linked to the presence of large urban hubs, capable of positioning themselves in a clear and recognizable way on the international scene. Metropolitan cities also have a significant impact on a territorial level on the attraction of FDI: in the cases of Milan, Rome and Genoa, in the period 2003-2009, the metropolitan cities attracted almost all foreign investment entering their home region.

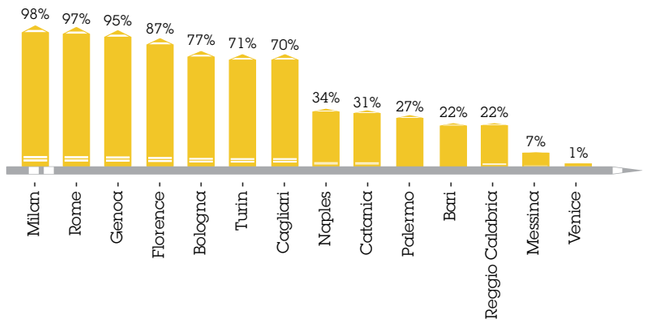


Figure 3.10. Share of FDIs in metropolitan cities compared to those in the respective regions, percent, average 2003-2009.
Source: The European House – Ambrosetti elaboration of Bank of Italy data, 2017.

Metropolitan cities are catalysts for innovation and research, thanks to the concentration of universities, research centers, start-ups and business incubators, that make them hubs of important economic, productive, technological know-how and scientific assets. In particular, an average of almost 5% of those working in metropolitan cities are employed in the high-tech manufacturing and services sectors, and it is from these areas that 50% of the patents registered with the European Patent Office (EPO) originate.

From an Italian perspective, particular attention should be paid to **the macro-area of North West Italy** (comprising Lombardy, Piedmont, Liguria and the Aosta Valley), that includes three of Italy's most important metropolitan cities: Milan, Turin and Genoa.

The Northwest of Italy has for years represented an economic driver for the country. These 4 regions alone generate 32.3% of Italy's GDP and they are proof of how the Northwest is the country's richest and most competitive area. This, in fact, is the macro-region in which 29.3% of Italian companies is concentrated, pooling 32.6% of those in employment, and the major hub for attractiveness for Foreign Direct Investment (64.9% of the country's total). A comparative analysis highlights how this area can be compared to Europe's other major economic drivers: Nordrhein-Westfalen; the Île-de-France; Baden-Württemberg.

	GDP	Per capita GDP	Population
Nordrhein-Westfalen	Euro 647 bln	Euro 36,500	17.9 mln
Île-de-France	Euro 660 bln	Euro 54,600	12.1 mln
Baden-Württemberg	Euro 462 bln	Euro 42,800	10.9 mln
Northwest of Italy	**Euro 537 bln**	**Euro 33,300**	**16,1 mln**

Figure 3.11. Europe's major economic drivers compared.
Source: The European House – Ambrosetti elaboration of ISTAT and Eurostat data, 2017.

The results for the Northwest can be better understood if we analyze the potential synergies of Lombardy, Piedmont and Liguria and in particular of the **three metropolitan cities that represent the "old industrial triangle" that also are the linchpin and the footing on which the macro-area is based**. Beginning with the farming sector, in fact, this area has a total concentration of 109,000 people in employment and generates 17.5% of the value added of Italian agriculture. The share of the manufacturing sector's value added that is attributable to these three regions is, on the other hand, 39.7%. With more than 30 intermodal logistics hubs, the three regions, and Liguria in particular, have 55.2% of Italy's container traffic concentrated within their area. Moreover, when it comes to innovation and research, the Northwest of Italy, thanks above all to the contribution of the Lombardy region, is where 32.3% of all of Italy's researchers and 30.7% of startups are based and where 36.5% of Research and Development expenditure is generated.

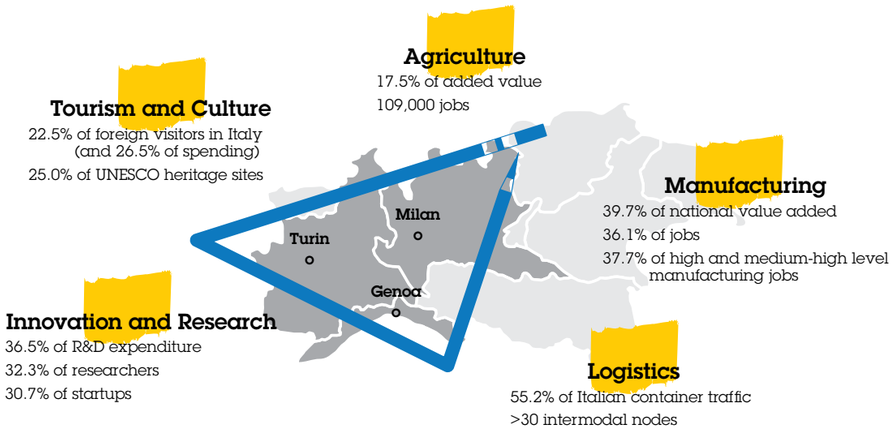


Figure 3.12. The complementary characteristics of Lombardy, Piedmont and Liguria.
Source: The European House – Ambrosetti elaboration based on ISTAT data and other sources, 2017.

If we focus on innovation we discover the primary role played by Lombardy: 28.0% of scientific publications; 12 National Research Councils; over 30% of the patents registered in Italy; 14 universities; 26% of the value of the arts and culture sector nationwide.

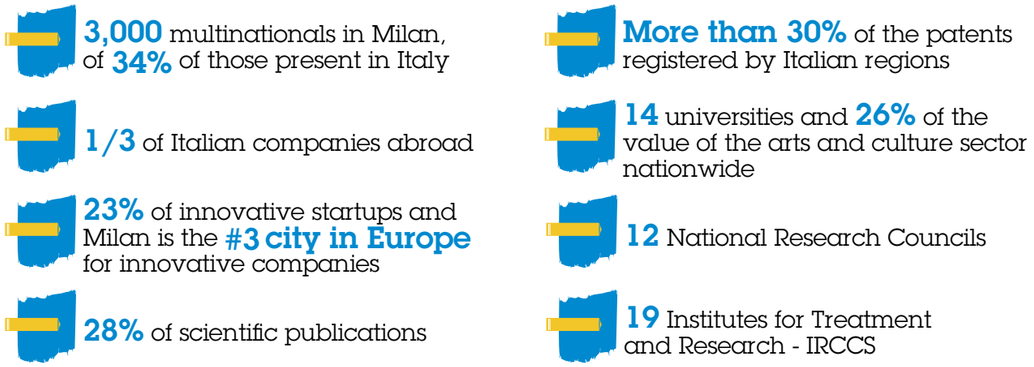


Figure 3.13. Lombardy asserts itself as the true hub for innovation in Italy.
Source: The European House – Ambrosetti data elaboration, 2017.

In Milan, moreover, there is an example of successful collaboration between public and private players for boosting research and the positioning of the area among the scientific excellence on an international level: the **Science, Knowledge and Innovation Park**. This is a science and technology park, the impact of which goes beyond the economic sphere, and includes all those aspects tied to defending and safeguarding health, the environment, to cultural progress, social integration and to developing a sense of belonging to a wider international community.

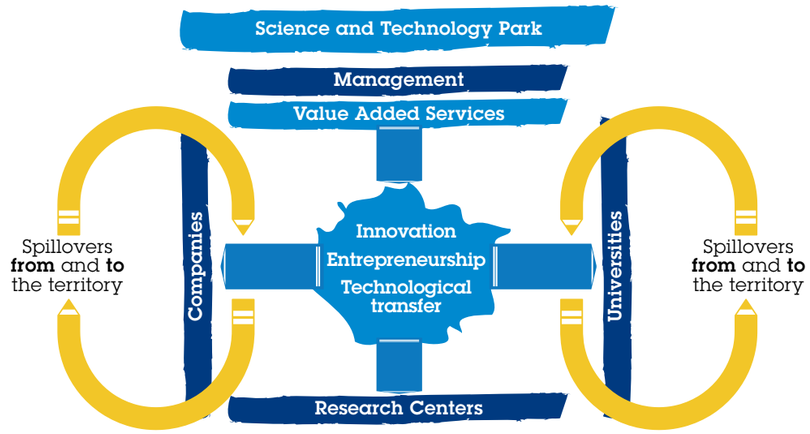


Figure 3.14. "Socio-economic impact of the first facilities in the Science, Knowledge and Innovation Park".
Source: The European House – Ambrosetti data elaboration, 2017.

All of these elements draw everybody's attention to the role of 'urban centers' and cities as catalysts for talents and young people and as places in which sectors with a very high creativity component - such as that of communications - can find fertile ground for development, as well as important business opportunities.

3.2.3. Growth for small-and medium-sized enterprises

As already illustrated in the previous chapter, Italy's economic growth is not benefiting from the public-sector investment component.

With reduced public investment, the economic recovery must come from an acceleration in private investment, without which there can be no growth or work. One of the variables that can boost this component is a company's size. Italy, however, must become aware of having a structural problem of "dwarfism" that prevents it from freeing the potential of the private sector in full. Growth in size for small- and medium-sized enterprises is a priority for Italy and its economy.

By dividing Italian manufacturing companies into 5 turnover classes, what emerges is how the structure of the sector appears very skewed towards the smaller size (companies with turnover of less than 10 million euros), that is a characteristic of more than 90% of the capital companies examined.

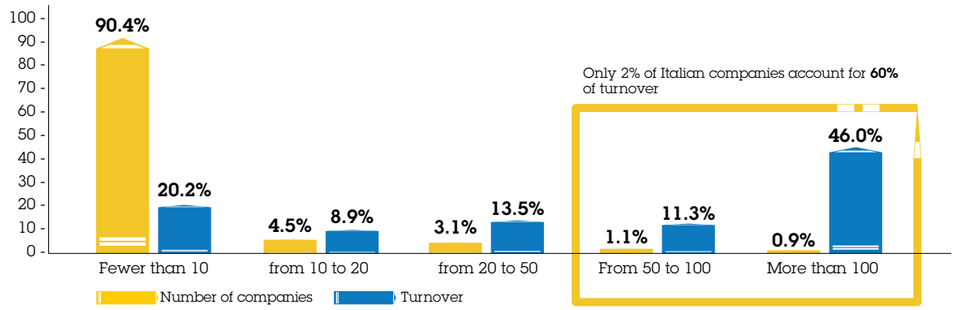


Figure 3.15. Number of companies and contributions to turnover per size cluster (percent), 2015. The analysis takes into account 140,000 Italian manufacturing companies (with ATECO codes from 10 to 32).
Source: The European House – Ambrosetti elaboration of Aida Bureau Van Dijk data, 2017.

The peculiar aspect of Italy's entrepreneurial fabric is highlighted still further by the comparison with Europe's Big 5: the number of manufacturing SMEs in Italy (403,000) is twice that of France (207,000) and Germany (204,000).

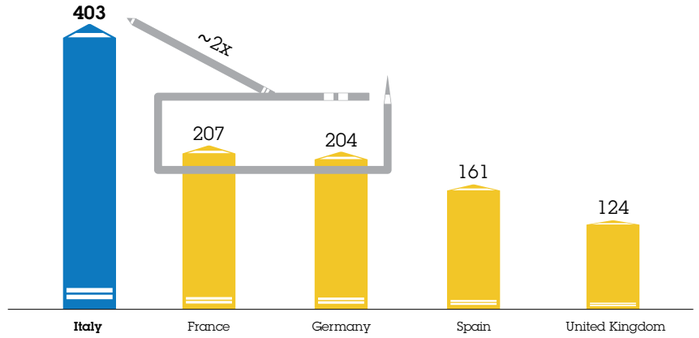


Figure 3.16. Number of manufacturing SMEs within the EU Big 5 (thousands), 2014.
Source: The European House – Ambrosetti elaboration of Aida Bureau Van Dijk data, 2017.

An increase in the average size of companies could lead to structural benefits in as much as larger companies have obvious competitive advantages over small to medium-sized enterprises. In particular they are characterized by a **greater ability to service foreign markets**, given their greater efficiency in developing alternative sales channels and their greater attractiveness for the best talents and skills, which makes it possible for larger companies to have an efficient management structure and the capability of managing scenarios characterized by greater complexity. A competitive entrepreneurial and productive fabric must be made up of different-sized companies, with the smaller ones being in support of the success of national champions, that have in turn the responsibility of **creating conditions in the country for guaranteeing long-term sustainability** and adequate returns to the former.

Analyzing profitability (EBITDA/turnover) by size class reveals that larger-sized companies (with a turnover of more than 500 million euros) are almost three percentage points ahead of companies with a maximum turnover of 20 million euros.

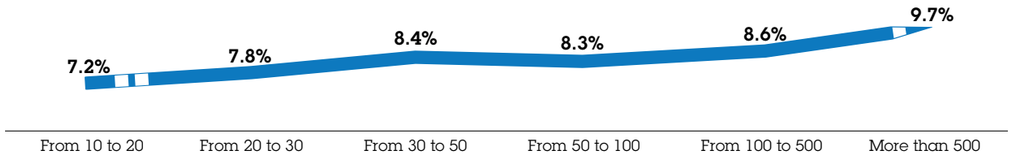


Figure 3.17. EBITDA of Italian companies by turnover class (millions of euros, % of turnover), 2014.
Source: The European House – Ambrosetti elaboration of Aida Bureau Van Dijk data, 2017.

Larger-sized companies are also linked to a greater ability to structure efficient and optimized business models that are capable of:

1) producing profits on investment, with greater efficiency;

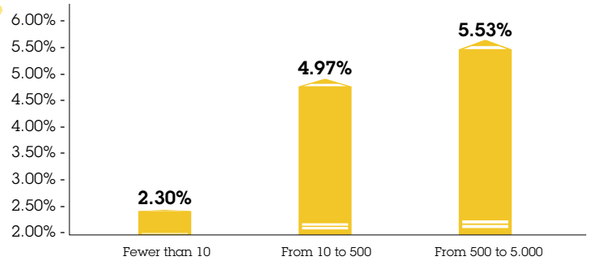


Figure 3.18. Return on Assets (ROA) of Italian companies by turnover class (millions of euros, % of turnover), 2015.
Source: The European House – Ambrosetti elaboration of Aida Bureau Van Dijk data, 2017.

2) obtaining a profile of better financial stability;

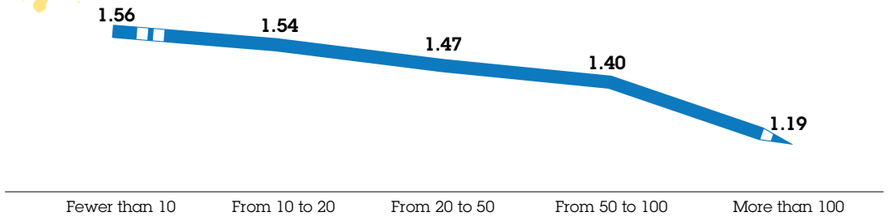


Figure 3.19. NFP/EBITDA of Italian companies by turnover class (millions of euros, % of turnover), 2015.
Source: The European House – Ambrosetti elaboration of Aida Bureau Van Dijk data, 2017.

3) generating profits and returns on equity.

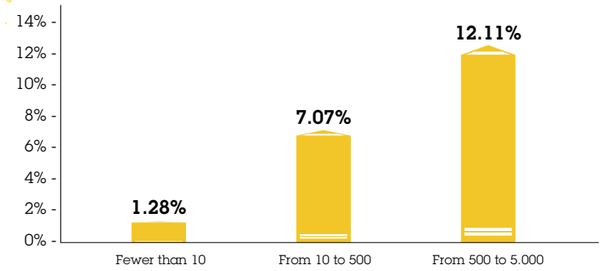


Figure 3.20. Return on Equity (ROE) of Italian companies by turnover class (millions of euros, % of turnover), 2016.
Source: The European House – Ambrosetti elaboration of Aida Bureau Van Dijk data, 2017.

Because of these results, larger-sized companies are considered more attractive by investors.

The result of a comparison in the growth (CAGR) of the net equity of companies belonging to the different size classes during the period 2010-2015, is that larger-sized companies, on average, recorded double the rates of the rest of the sector.

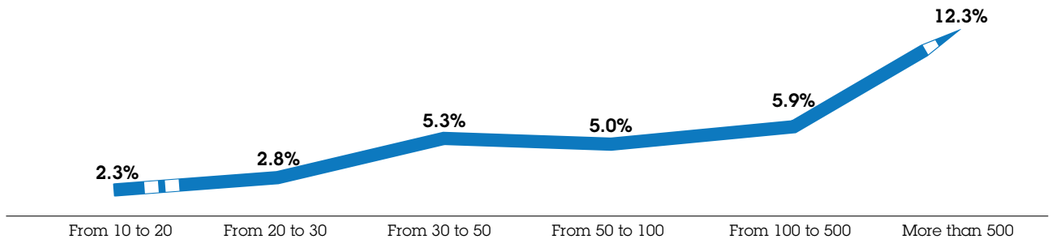


Figure 3.21. CAGR Equity of Italian companies by turnover class (millions of euros, % of turnover), 2010-2015.
Source: The European House – Ambrosetti elaboration of Aida Bureau Van Dijk data, 2017.

This vocation towards growth places at the disposal of large companies a greater quantity of financial resources for supporting competitiveness over time. Also the propensity to invest is, in actual fact, a variable which, if analyzed, appears closely linked to the size factor: while smaller companies re-invest on average only 1.2% of their turnover, in larger companies this figure can be almost as high as 3.0%.

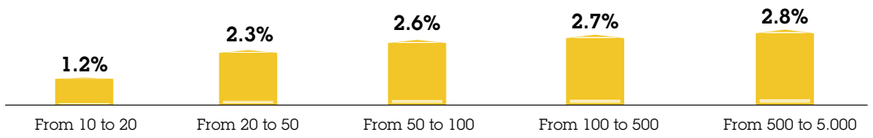


Figure 3.22. Overall investment of Italian companies by turnover class (millions of euros, % of turnover), 2014.
Source: The European House – Ambrosetti elaboration of Aida Bureau Van Dijk data, 2017.

In conclusion, from the analyses it is evident how focusing on both industrial and fiscal measures, that can provide an incentive for the size growth of Italian companies, would make it possible to increase the performance of the country and its economy in the long term, and it would also trigger a positive cycle of investment by companies, sustaining the competitive momentum of the country over time, with positive spin-offs in terms of employment and attractiveness.

3.2.4. The management and communication of the country's image abroad

Italy has a strong brand and one of excellence in many areas of the industry and service sectors (see figure below) but at the same time it has to cope with common stereotypes that have become entrenched in the perception of those abroad. Over time, these have become embedded and tend to distort the overall perception of the country from an institutional, economic and social perspective.[11]

For example, Italy is depicted with reference to fashion, food and cultural heritage, in the same way as it is often associated with the underworld, corruption, illegality, and little ability to manage complex events.

In order to improve the perception of Italy and to maximize the country's brand value, it is necessary to activate a **national branding strategy**.

The formulation and implementations of this strategy should include:

- a "national brand steering committee" with a **strategic-political orientation**, under the guidance of the government leaders (e.g. the Italian Prime Minister or President of the Republic);
- a **multi-disciplinary technical task force** that designs the image of Italy and its distinctive attributes, in line with the country's vision for industrial, economic and social development, that in turn are to be defined.

With regard to this last point, the following (essential elements) should continue to be carried out:

- a structured analysis of the perceptions (and stereotypes) associated with Italy's current image and of what one expects (or would expect) from the country;
- a verification of the coherence between Italy's current image and the image of the leading brands and 'Made in Italy' products;
- the preparation of the value system associated with Italy's new image, building on its traditional components (history, culture, creativity, design, tourism, wellness and lifestyle), but in an innovative key, engaging national stakeholders of reference (industry, business, media etc.);
- the promotion of a coordinated image that takes account of the different initiatives promoted at an international level (attracting investment, supporting research and innovation, tourism strategy etc.).

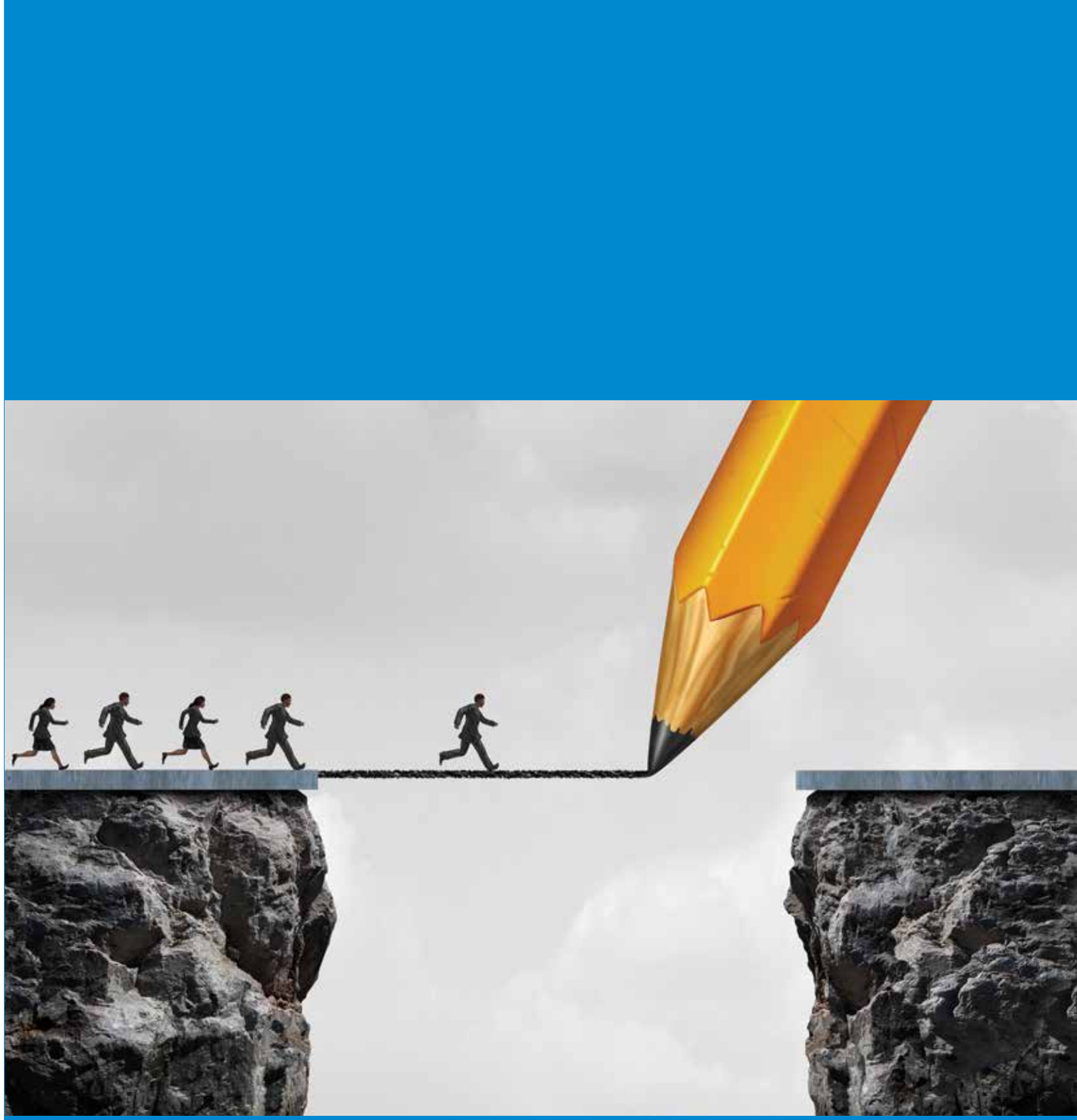
11 - A more detailed discussion can be found in the Global Attractiveness Index 2017 report by The European House – Ambrosetti.

In this sense, some useful actions could be:

- the **hiring of communication agencies to identify the elements on which to act and that are capable of shifting the perception of citizens**, both in Italy and abroad, from the elements that have historically characterized the country towards more modern elements;
- the creation of **perception analyses of the Italy brand in the major export markets**, both current and potential, in order to understand what type of message to spread and how to do so;
- the creation of **advertising campaigns launched and conducted globally** with capillary actions, and the intensification of international public relations;
- the **promotion of Italy's people and its success stories**, leveraging the fact that the national brand must incorporate, first and foremost, the values and the spirit of the people that live it and amplify its success;
- the launch of intensive campaigns on social networks, not just to carry out promotional activities, but also for sounding out the feelings and the perceptions of citizens.

Institutions have already begun a process aimed at promoting the distinctive features of Italian know-how - for example, with the launch of the *Vivere all'Italiana* (Living the Italian Way) campaign[12] - but more still needs to be done, coordinating the actions and proposals of all the major stakeholders that can have an impact on the perception of Italy, and this includes the representative associations of the various sectors and businesses.

Communicating the country's streneths, both in Italy and abroad, must in synthesis represent a key component in strategies for future growth.



12 - *Vivere all'italiana is the integrated promotion strategy developed by Italy's Foreign Ministry, the Ministry for Education, Universities and Research (MIUR), the Ministry of Cultural Heritage and Activities and Tourism (MiBACT) and the Ministry of Economic Development (MiSE), for relaunching the Italian culture around the world, thus fostering the country's economy.*

4

THE IMPACT OF TECHNOLOGICAL INNOVATION ON BUSINESS AND THE COMMUNICATIONS SECTOR

4.1 Technology and employment: implications for the communications sector

4.1.1. The opportunities created by technological progress and automation

The social-economic and cultural progress of the major world economies was historically distinguished by a number of major revolutions whose effects were translated into a general increase in well-being and wealth. For example, analysis of the impacts of the three industrial revolutions[1] on the per capita Gross Domestic Product (GDP) of the world's major economies confirmed the positive implications deriving from technological innovation.

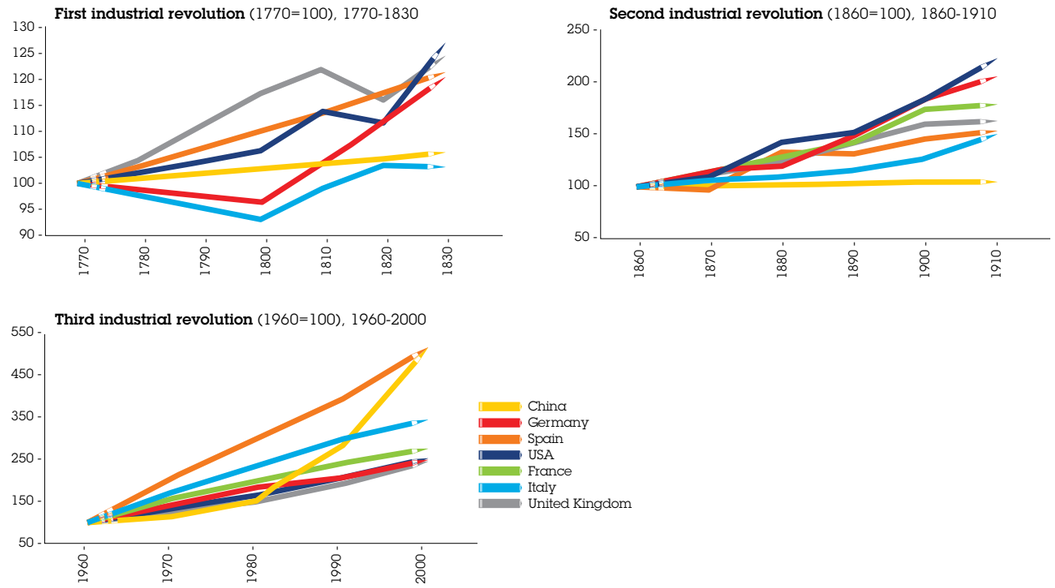


Figure 4.1. Trend in per capita GDP during the three industrial revolutions, index numbers, 1770-1830, 1860-1910, 1960-2000.
Source: The European House – Ambrosetti elaboration of Clio-Infra data, 2017.

1 - The advent of the three industrial revolutions coincided with the introduction of a number of key technologies and innovations that generated major discontinuities in production, selling and lifestyles:
- First industrial revolution (1770-1830): introduction of the first steam engines which affected the textile, metallurgic, transport and communications sectors.
- Second industrial revolution (1860-1910): introduction of electricity, petroleum, chemical and pharmaceutical products.
- Third industrial revolution (post-World War II): introduction of electronics, telematics and informatics.

Focusing on the most recent revolution, the one closest in time to us that saw the spread of the Internet and ICT technologies and launched the automation of production processes currently in progress, GDP is between 2.5 and 5 times higher than in 1960.

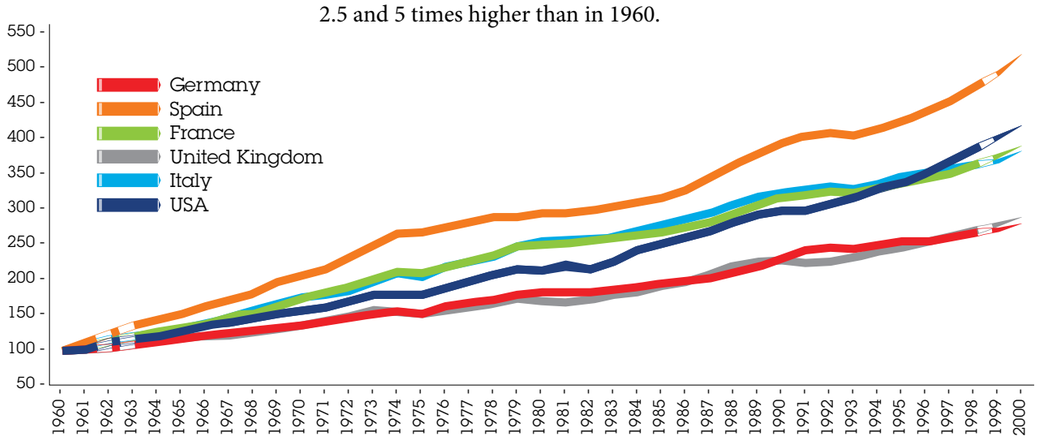


Figure 4.2. Trend in GDP, real values (index number 1960=100), 1960-2000.
Source: The European House – Ambrosetti elaboration of Clio Infra data, 2017.

Poverty also decreased by 37 percentage points from 1960 to 2000 and by a further 20 percentage points from 2000 to 2016.

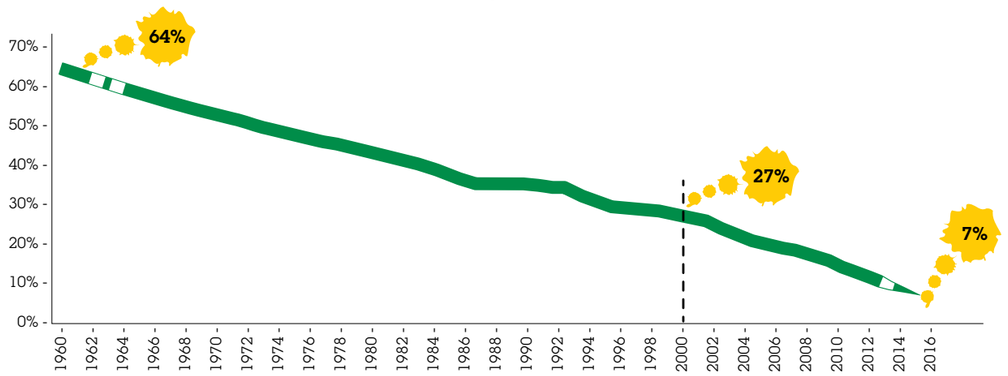


Figure 4.3. Population below the poverty line ($124/month) out of the total world population, percentage value, 1960-2016.
Source: The European House - Ambrosetti elaboration of World Bank data, 2017.

What we are experiencing today is the fourth development cycle of capitalist economies, dominated by technologies connected with the Internet of Things (IoT), Robotics, Big Data Analytics tools and Additive Manufacturing. The **fourth industrial revolution**, also known as **4.0 Industrial Revolution** (4IR), is based on the development and diffusion of a series of digital technologies, which, although not necessarily completely new, have undergone significant evolution thanks to the availability of data that is unprecedented in history.

The technological innovation generated by the fourth industrial revolution differs from that of the previous ones in a number of ways:

- it does not merely aim to reduce development and production costs, but to bring about a complete transformation of the organizational framework in which the new paradigms of production and how work is organized lie in the concepts of the smart factory, flexibility, agility, mass personalization and one-to-one relationship with customers;
- it involves all market sectors and the various organizational areas. It is completely horizontal and involves, without distinction, business, government, individuals, etc.;
- in companies, it is no longer enough to simply promote the adoption of digital technologies. What is needed is a change of approach by entrepreneurs, managers and workers who must develop in themselves a powerful capacity of foresight, interpretation and anticipation of trends, as well as continuous attention to and management of customer relations.

The technologies of the digital revolution[2] have a **potential impact in terms of workforce substitution** and, therefore, their implementation must be handled in a way that the opportunities created at least compensate for any related negative impacts. This holds true for all sectors and, therefore for those in the communications sector who must react proactively to the transformation processes underway to avoid passively suffering their consequences.

In a recent study,[3] The European House – Ambrosetti estimated the impact of automation on the job market in Italy.

Automation of work

Automation includes all those technologies capable of managing mechanical systems and physical or logic-related processes with varying degrees of complexity, thus reducing the need for human intervention. These innovations began to spread within companies during the third industrial revolution (1960-2000), first as mechanical tools and, subsequently, in the form of integrated systems with software devices and systems of objects connected via networks (Internet of Things). Over the years, automation has become a part of the lives of all. It has become a phenomenon tied not only to the sphere of work, but has also contributed to increasing the amount of leisure time people have (for example, the functions performed by modern-day household appliances).

Source: Ambrosetti Club Study "Technology and Employment: Governing the Change", 2017.

2 - There are eight technologies that can be linked to the 4IR: Internet of Things (IoT); Big Data Analytics; Cloud Computing; Additive Manufacturing; Robotics; Augmented Reality; Cognitive Computing; Cybersecurity.
3 - The Ambrosetti Club study "Technology and Employment: Governing the Change" was presented during the 43rd "Intelligence on the World, on Europe, on Italy" Forum (September 1, 2 and 3, Cernobbio - CO).

Automation has become one of the most important **drivers for the development and competitiveness of enterprises** because it can increase efficiency and productivity, factors that are also relevant to the rise of salaries and the quality of life.

Conversely, the spread of automation in organizations has led to a **growth in the demand for expert personnel** able to interface with the digital language and technology, resulting in a reduction in the demand for untrained workers. In coming years, this change could cause a gradual polarization of skills and wealth only towards some individuals or privileged sectors of society, leading to an increase in the social and economic disparity already extant. In addition, given the spread of technologies that are ever more advanced and capable of performing complex activities, this phenomenon could increasingly involve also more-specialized and higher-paid personnel (i.e., white-collar workers).

According to The European House – Ambrosetti estimates, the percentage of jobs lost associated with automation[4] is **14.9% of the total Italian workforce** (corresponding to 3.2 million individuals).

Figure 4.4. Workers at-risk vs. workers not at-risk from automation (left) and workers at-risk from automation by gender (right), percentage value, 2017.
Source: The European House – Ambrosetti elaboration of Istat data, 2017.

We estimated the impact on consumption associated with this loss of jobs by assuming that losing one's job does not immediately result in the loss of consumption expenditure thanks to the possibility of drawing on savings and social safety nets. According to the estimates, the **drop in consumption is about 60%** (43.1 billion euros).

4 - The CP 2011 job classifications used in the study involve 5 hierarchical category levels: Level I - 9 professional categories; Level II - 37 professional categories; Level III - 129 professional categories; Level IV - 511 professional categories; Level V - 800 professional categories. Data with statistically significant samples is available for Level III, which maps 129 professional categories. Source: Istat, 2017.

Base Scenario: 14.9% of jobs at risk				
5 year periods	Jobs at risk *(jobs/year)*	Reduction in consumption *(Mln di euros/year)*	Reduction in GDP *(Mln di euros/year)*	Reduction in tax revenues *(Mln di euros/year)*
2018-2023	128,491	1,685.5	2,804.5	1,217.2
2024-2028	224,859	2,949.7	4,907.9	2,130
2029-2033	289,104	3,792.4	6,310.2	2,738.6
Total over 15 years	**3,212,270**	**43,138.2**	**70.113.4**	**30,429.3**

Figure 4.5. Jobs at-risk and drop in consumption, GDP and tax revenues for the given scenario.
Source: The European House – Ambrosetti elaboration of ISTAT data, 2017.

A significant drop in consumption would also affect the country's GDP. The impact on this variable in 15 years is about **70.1 billion euros**.[5]

After obtaining this general result, we then examined more deeply by analyzing the automation risk for each sector (based on the ATECO 12 classification). The sectors in which the risk of automation is greater are agriculture and fishing (25%), commerce (20%) and manufacturing (19%). Among the sectors with the lowest percentages are **education and healthcare services** at 6% (-19% compared with agriculture and fishing and -9% compared with the average percentage risk for Italy as a whole) and the **information and communication services sector** (9%).

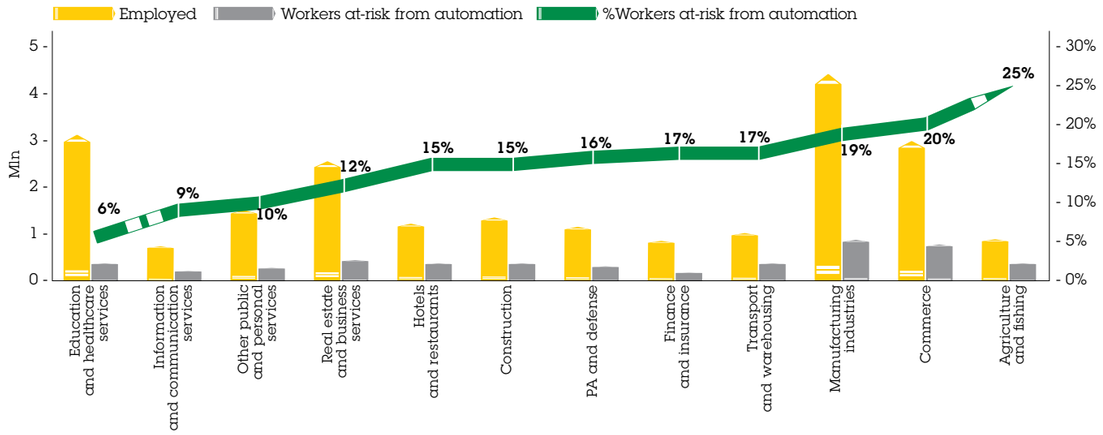


Figure 4.6. Workers at-risk from automation, divided by sector (left) and workers at-risk from automation, percentage value of employed (right).
Source: The European House – Ambrosetti elaboration of data from Frey et al. 2016 and Istat, 2017.

The explanation of the differences between sectors is due to the variance in composition of the workforce from the standpoint of types of professionals. It is more likely that professionals in the education and healthcare sector (doctors, nurses, psychotherapists, etc.) perform **complex tasks for which substitution is difficult and with a high level of personal interaction** compared with manufacturing (workers, technicians, etc.).

5 - Private consumption was more than 60% of GDP in 2016. Source: The European House – Ambrosetti elaboration of Istat data, 2017.

Another variable which would seem decisive for reducing automation risk is **education level.** Specifically, workers with a diploma in fine arts or from a conservatory of music (about 242,600) have the lowest risk over all (5%). Conversely, those without any academic qualification (about 106,900 individuals) have the highest risk at 21%.

High risk levels are seen for those with only a middle-school education (18% risk level) or high school diploma (16% risk level) which number, respectively, 6.0 and 8.5 million individuals (67.8% of the employed population).

Analyzing the linear correlation between academic qualification and automation risk results in a negative value of (ρ=- 0.88), therefore the two variables have an inverse relationship: as one increases, the other decreases.

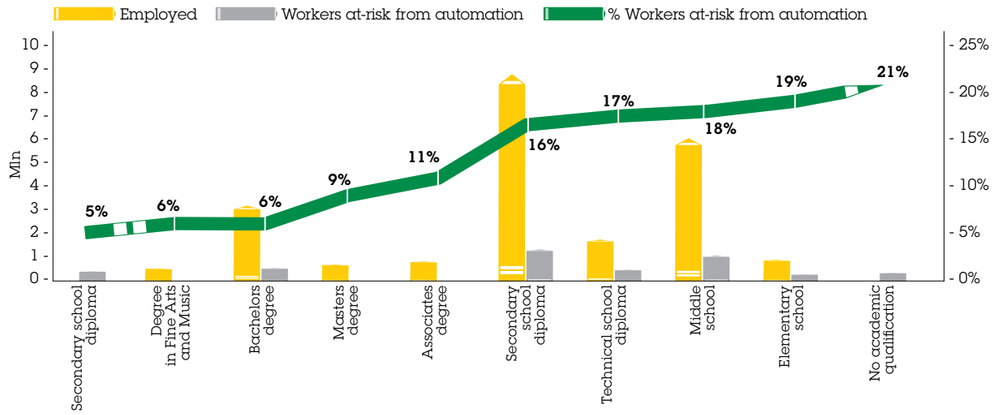


Figure 4.7. Workers at-risk from automation, divided by academic qualification (left) and workers at-risk from automation, percentage value of employed (right).
Source: The European House – Ambrosetti elaboration of data from Frey et al. 2016 and Istat, 2017.

The fact of being least at-risk those with a degree in fine arts or from a conservatory of music indicates the **relevance of creative ability** in determining a lower level of replaceability. By its very nature, the communications sector has a very high creative component including personalization and interaction, thanks to which, as noted in the next section, professionals whose core tasks have a higher value added should be less subject to the effects of man-machine substitution.

Examining the geographical area of residence, there is a lower automation risk (14.6%) in central Italy and the north-west, which represent, respectively, 21.4% and 30.1% of the currently employed population in Italy. Conversely, the highest automation risk by macro-region is in the south, Italy's South, (15.5% risk, nearly a percentage point higher than central and north-west Italy), in which 26.4% of those employed reside.

Methodological note

The European House – Ambrosetti estimates were developed based on the data in the study, "The Future of Employment: How susceptible are jobs to computerisation?" (C. B. Frey and M. A. Osborne, Technological Forecasting & Social Change, 2016) in which the authors estimate the susceptibility to automation of tasks involving 702 professions classified according to the Standard Occupational Classification of the U.S. Bureau of Labor Statistics.

These values were then paired with the professions supplied by ISTAT (129 professions), subdivided according to the CP 2011 classification and subsequently re-elaborated using a proprietary algorithm to identify the percentage of risk from automation for each job. Following this, a database was prepared with employment data provided by ISTAT for 67,229 trackings representing 21.5 million employees that included multiple variables (profession, sector, education level, gender, geographical area, etc.).

The analysis period was selected by researching the peak points in the previous three industrial revolutions, where by peak point is meant the moment in time in which the revolution exerted its maximum effect before beginning to recede.

What we noted was a shortening in the time required to reach the peak point, from 30 years for the first revolution, to 20 for the third, which led us to hypothesize that for this most recent revolution the peak point will be reached in 15 years.

Source: Ambrosetti Club Study "Technology and Employment: Governing the Change", 2017

On the basis of the analysis of the results of The European House – Ambrosetti study, it can be stated that all the variables utilized represent proxies that allow to outline a fairly accurate and precise profile of characteristics which lead to a lower risk of man-machine substitution for a job:

- work that is **non-repetitive**;
- **creativity and innovative ability** required in performing tasks;
- **intellectual and operational complexity** of the tasks performed (team resources and management involving different goals);
- **relational and social skills** such as empathy and ability to persuade and negotiate.

All these characteristics are applicable to professionals in the creative and communications sector.

4.1.2. Main findings for the communications sector

The sample of the analysis performed by The European House – Ambrosetti on the communications sector involves 3 categories of professionals (out of 129), which include specialists in the creative, arts, entertainment, advertising, design and events sector:

1. **Specialists in artistic-expressive areas**: these include professionals who apply artistic knowledge and skills in providing services, and who conceive, create and provide artistic performances in a range of fields (image and communication management; creation of communications content, logos, brands, designer products; painting; theater, film, radio-TV, music performances, etc.).
2. **Entertainment services experts**: these include professionals who are radio or television presenters and who are involved in the organization of artistic and entertainment performances in theaters and public venues and events of other types; professionals involved in radio-TV programming and who are MCs and entertainers.
3. **Experts in commercial distribution and related professions**: the professionals included in this category are involved in media and advertising, offer marketing consulting services, represent artists and athletes, control and follow the corporate sales organization, work for them and represent them with wholesale and retail distributors.

According to our estimates, over the next 15 years, **4%** of the specialists in the creative, arts, entertainment, advertising, design and events sector are at-risk of losing their jobs as a result of automation.

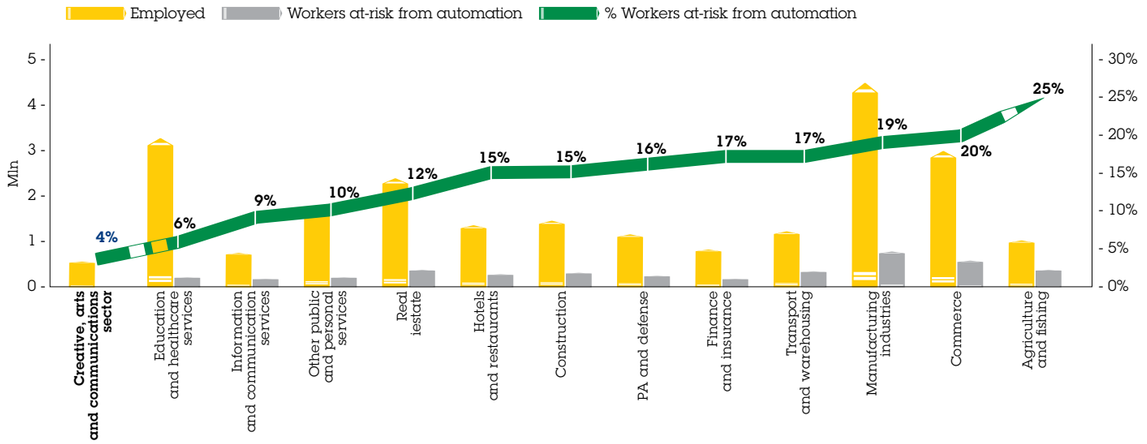


Figure 4.8. Focus on professionals in the creative sector. Employed and workers at-risk from automation (left), and workers at-risk from automation as a percentage of total employed (right).
Source: The European House – Ambrosetti elaboration of data from Frey et al. 2016 and Istat, 2017.

Although this percentage is very low compared with that calculated for other industrial sectors, a number of aspects should be stressed:

- the professional categories considered in this study of the communications sector do not include those in **administrative support and back office functions** that are present in all activities and economic sectors and which, on the other hand, are at high-risk from automation;
- these (cautiously optimistic) findings should not lead us to consider the sector exempt from the need to undertake the necessary **investment in training** within a context in which knowledge and skills are becoming obsolescent at an increasingly rapid rate;
- the digitalization of companies (and the consumer) imposes ever-new rules and forms of customer engagement and fidelity which imply an **in-depth knowledge of the digital tools and solutions available** for acquiring and managing data, profiling customers, and also measuring with enhanced precision the accuracy and efficacy of the investments made in marketing and communications;
- the possibilities for creating new jobs in the creative, marketing and communications sector are extensive, in particular regarding a number of new professional functions required, such as that of the data scientist, to be able to know consumers and their latent needs in order to formulate the right strategies to engage and keep them.

Therefore, even in the communications sector, the possibility of exploiting and applying digital technologies—many of which have a broad potential for replacing the labor force also in this sector—must be handled in such a way that the opportunities created are at least directed towards **compensating any potential negative impacts associated with the digital revolution**.

For this to occur, public sector policy-makers must commit themselves to creating favorable conditions (especially in terms of context and culture), to recognizing the **potential contribution of some sectors** (such as those at a medium/high technology level and high creativity level) and to developing a medium- to long-term plan which:

- creates incentives for investment in innovation and 4IR;
- promotes training and life-long learning in areas connected with new technologies;
- reorients educational paths, not only on a degree level, but also pre-university.

Italy is being asked to accelerate this phase of transformation in order to become **an active part of a process of change that appears to be irreversible**, and threatens to broaden the productivity and technology gap between Italy and its benchmark neighbors, Germany and France. Regarding this, it should be noted that the drop in productivity remains one of the critical nodes in Italy.

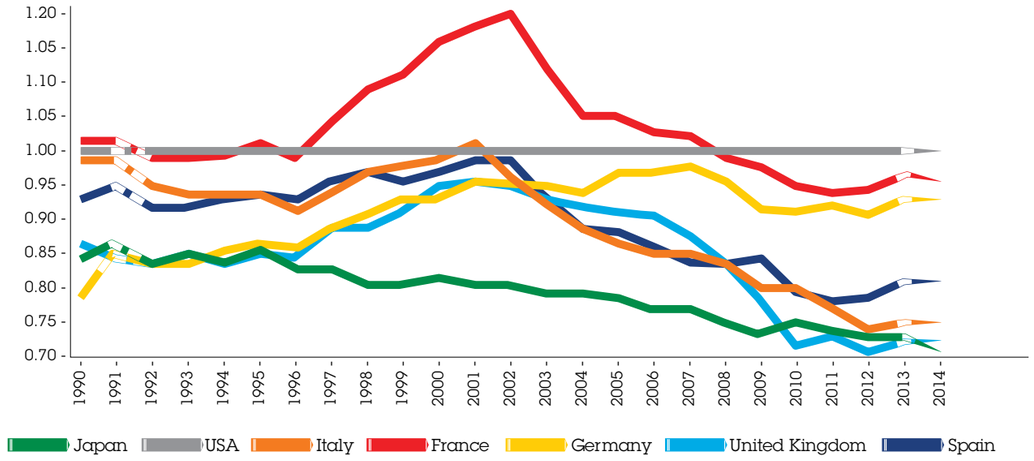


Figure 4.9. Total Factor Productivity, United States, Japan and the EU "Big 5", 1990-2014.
Source: The European House – Ambrosetti elaboration based on Federal Reserve Bank data, 2017.

Technological innovation creates the conditions for relaunching productivity (and therefore competitiveness), as long as workers and companies are adequately prepared to reap the benefits.[6]

From this standpoint, an essential aspect is the need for Italy to be one of the "early adopter" countries of new technologies to become a hub that can attract investment and talent, but also return to Italy, through reshoring, production that is currently being performed abroad by focusing on Made in Italy know-how.[7]

For Italy to become an early adopter, it must create an appropriate regulatory and cultural context that would be the ideal framework for applying new technologies to economic activity.

The National Industry 4.0 Plan unquestionably represent a major step in this direction, but more needs to be done to create greater **cultural commitment towards digitalization in Italy**.

4.2. Competition in our global and digital world: challenges and implications for business

In a world in which geographical boundaries are disappearing, the development of e-Commerce has become a common phenomenon. An immediate, global market of digital customers exists and these elements have a profound effect on the competitiveness of nations and companies. This is why e-Commerce cannot be considered apart from the broader phenomenon of digital transformation.

6 - *For example, 4.0 technologies and related fully-automated and interconnected industrial production processes can have a positive and significant impact on productivity by increasing work efficiency and accelerating production processes.*

7 - *The plans for Industry 4.0 not only position the various countries within the geography of the digital world, but in many cases also provide for reshoring activities because the use of technology makes it possible to reduce production costs, thus rendering advanced countries productive once again within the global scenario. For a more detailed discussion of reshoring see the WPP/The European House – Ambrosetti 2015 position paper.*

Forecasts involving the **value of digital transactions in 2020** show substantial growth (+72.5%) in e-Retail revenues (sales to end consumers), with an increase from the current $2,400 billion to $4,100 billion, equal to 15% of total retail sales.

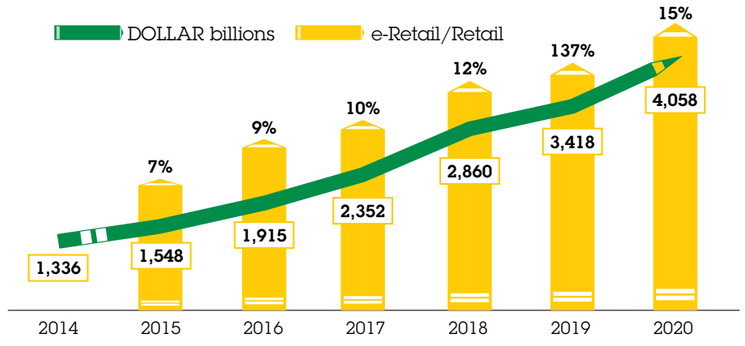


Figure 4.10. Estimated growth in global e-Retail, billion DOLLARS and percent, 2014-2020.
Source: The European House – Ambrosetti elaboration of Netcomm and Statista data, 2017.

Nonetheless, to-date Italy does not seem to be a star player in the European digital market. With a market share of 3.1% it is behind other countries such as the United Kingdom (29.4%) and Germany (17.4%).

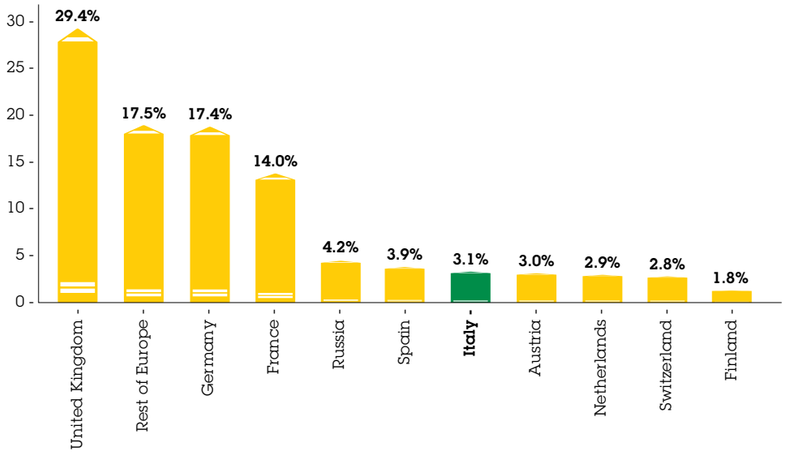


Figure 4.11. Market share of European countries active in e-Retail, percentage value, 2013.
Source: The European House – Ambrosetti elaboration of Netcomm and Ecommerce Europe data, 2014.

Considering that around the world there are approximately 2.5 billion Internet users, and that more than half of these purchase regularly online, companies in Italy are missing a major market opportunity and **the current negative online sales balance** (-2.5 billion euros) is the clearest symptom of this.

The revolution is even more deep-seated than would appear. While in 2020 it is estimated that 15% of all retail sales will be made utilizing digital channels, it is also true that the same technologies that make this phenomenon possible will profoundly change the modes of contact in carrying out the remaining 85%.

However, it is not only a question of how Italian companies can conquer shares of the global digital market. The challenge also involves their ability to stay in business by creating and defending their own competitive space. To attain this objective, first they must realize that the dynamics and processes involved in purchasing are changing radically with **consumers who are "always connected"** and constantly exposed to new points of contact with companies, brands and products ("onlife retail").

The types of relations among market players, the ways these relations can be established and the processes for managing them are evolving hand-in-hand with the advances in the potential of technologies, and only those capable of interpreting the phenomenon rapidly and correctly will remain in the market without being disintermediated.

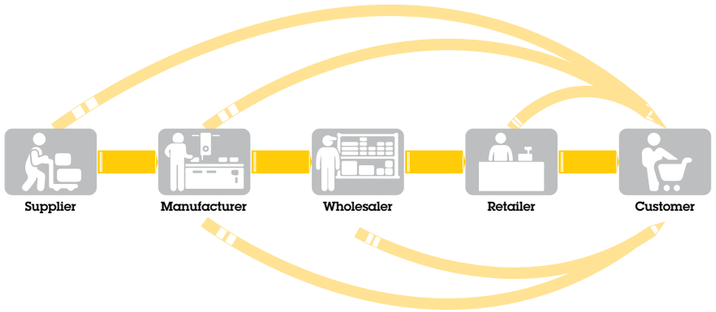


Figure 4.12. The new technologies available to market players break down the barriers between the supply chain and final consumer. Source: The European House – Ambrosetti data elaboration, 2017.

The market is increasingly comprised of **digital consumers** who have their own rules of engagement and do not respect the traditional spatial and temporal limits in their purchasing approach. This is possible thanks to technological innovation and analytical potential that show no sign of abating, including wearables, Big Data, IoT, multichannel, social and real-time marketing, adaptive pricing and real-time inventory management.

The change is deep-seated and significant with an economic paradigm that disrupts the classical conceptions of market players. Among the critical factors of success, a fundamental role is played by enabling technologies and the creation of online platforms thanks to which the share of products and services exchanged continues to grow. This results in a **redistribution of value along the purchasing supply chain** with higher margins registered in the accounts of final intermediaries, a lower concentration of players in downline phases (over time numerous niches open that are not

covered by larger companies) and, at the same time, a greater push towards disintermediation among supply chain players looking for direct contact with the end user.

Within this new competitive context the **regulatory framework** in which companies and countries operate is fundamental. Confirming this are the numerous regulatory changes involving the European Union that have been proposed, are being evaluated or have already been implemented:

- Revision of the consumer rights directive.
- Proposal for a new copyright directive.
- Proposal for regulating geoblocking.
- Directive on payment services (PSD2).
- Proposal for regulating parcel delivery.
- Proposal for revising VAT regulations.
- New data protection regulations.
- Proposal for revising the e-Privacy directive.
- ADR directive/ODR regulation (Alternative and Online Dispute Resolution).

Italy still has a long way to go along the road to **digitalization of its business fabric**. A survey of the "Digital Entrepreneurship Scoreboard" databases[8] revealed that companies making up Italy's entrepreneurial framework have scores below the European average in all criteria used to evaluate the "Digital Readiness"[9] of a company.

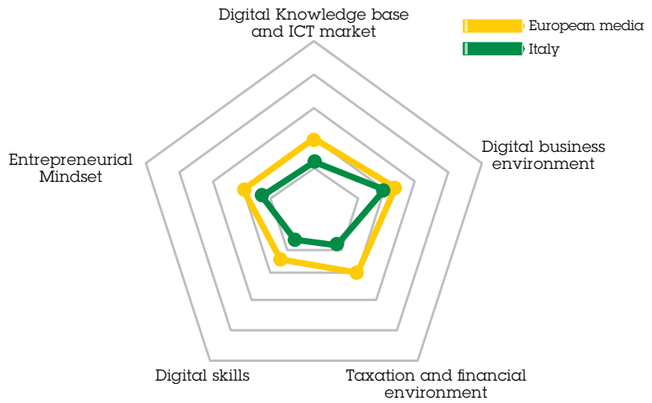


Figure 4.13. Comparison of the average "Digital Readiness" of Italian and European companies. Source: The European House – Ambrosetti elaboration of Digital Entrepreneurship Scoreboard data, European Commission, 2015.

8 - The goal of the survey performed by the European Commission was to measure the progress of companies in the European Union (EU-28) in all areas involving Digital Transformation.

9 - "Digital Readiness" measures mastery of the digital skills and know-how of individuals.

Tra i "Big 5" europei, l'Italia è lo **Stato Membro con la minore quota di aziende** – nelle diverse classi dimensionali (in particolare, nelle imprese con meno di 50 occupati) e nel settore manifatturiero – che erogano corsi di aggiornamento e formazione in campo ICT per i propri dipendenti. Il divario del nostro Paese rispetto alla media UE-28 e alla Germania emerge con forza con riferimento alle aziende di maggiori dimensioni e all'industria manifatturiera (in cui, nel 2016, solo 12% delle imprese ha fornito corsi di ICT ai dipendenti contro il 21% medio europeo e il 31% della Germania).

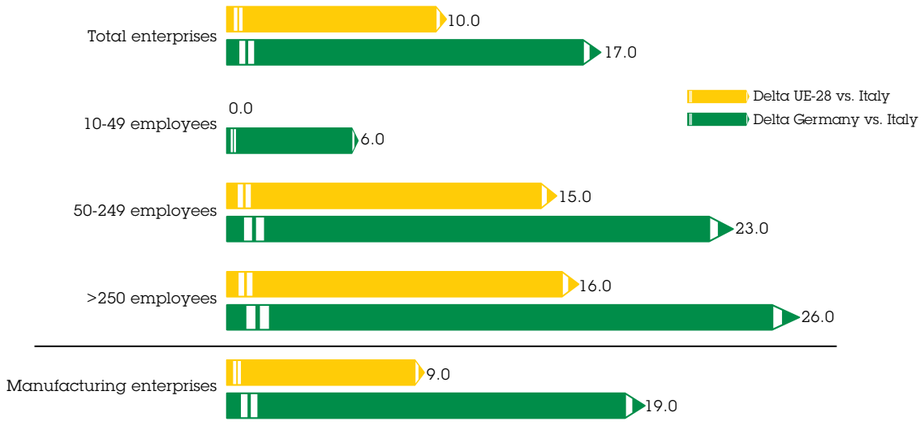


Figure 4.14. Share of companies that offer ICT courses to develop and update the skills of their employees, the gap between Italy and the EU-28 and Germany, percent, 2016.
Source: The European House – Ambrosetti elaboration of Eurostat data, 2017.

In Italy, the number of **ICT specialists** in the job market increased between 2007 and 2016 at an average annual compound rate of 2.4% (from 472,000 to 585,000) compared with 3.3% in the EU-28, 6.4% in Germany (where the increase has been 75% in 10 years, from 884,000 to over 1.5 million) and 7.4% in France (+90%, from 527,000 to over one million). Nonetheless, **ICT specialists account for 2.7% of those employed in Italy**, compared with 3.7% in Germany and the EU-28 and 3.8% in France. Among the 28 EU countries, Italy is the one with the highest share within this job category of individuals over 35 years of age (75.5% of the total compared with an EU average of 63.8% in 2016) and without a university degree (67.2% compared with the European average of 38%).[10]

Among the aspects further penalizing Italy is also the **lower "technological education"** of its population (only 16% of Italians are in-line with the European average), with very alarming scores in some basic areas such as Digital Skills and e-Leadership[11].

10 - Source: IDC, "European Data Market Monitoring Tool", June 2016.

11 - Digital Skills are all those skills required for full participation in a knowledge society. They include knowledge, skills and behaviors that involve effective use of digital devices such as smartphones, tablets and portable and desktop computers for purposes of communication, self-expression, cooperation and advocacy. E-Leadership is a process of technology-mediated social influence that aims at producing a change in attitudes, feelings, thinking, behavior, and performance in individuals, groups and organizations to orient them towards the attainment of a specific goal. It involves enhancing the relationships among organizational members in a context in which work is mediated by technology.

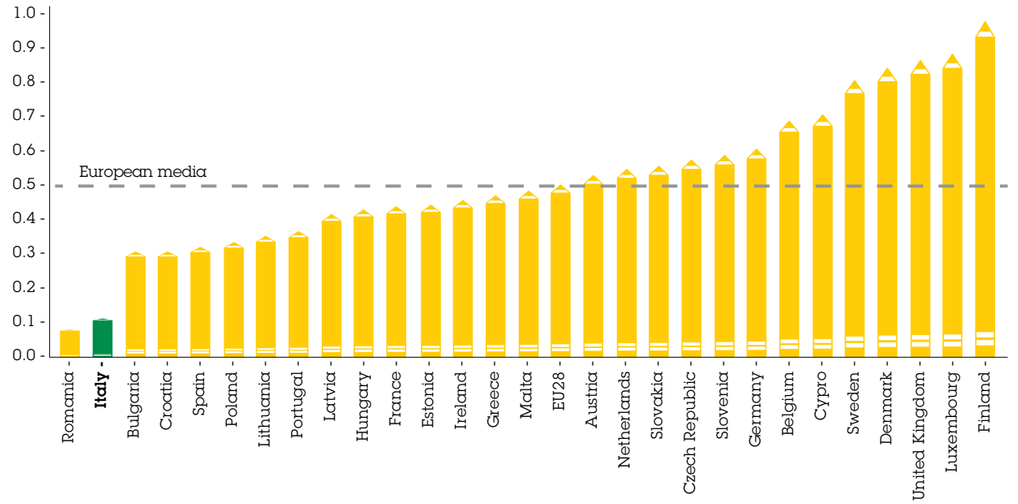


Figure 4.15. Comparison of performance levels of European countries in the key areas of Digital Skills and e-Leadership. Source: The European House – Ambrosetti elaboration of Digital Entrepreneurship Scoreboard data, European Commission, 2015.

The context described above impacts directly on the level of digital maturity of a country's companies, with a ranked comparison of Italy, the United Kingdom, France, Germany and Spain in which, once again, Italy finds itself at the bottom.

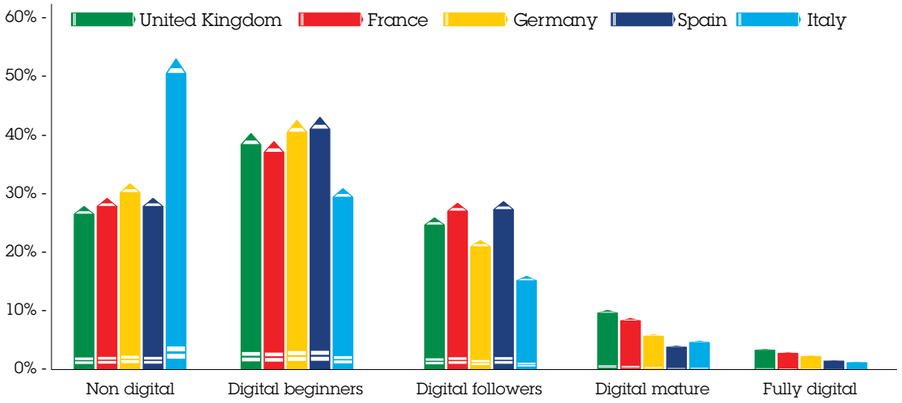


Figure 4.16. Comparison of the level of digital maturity of companies in the "Big 5" countries of the European Union. Source: The European House – Ambrosetti elaboration of Digital Entrepreneurship Scoreboard data, European Commission, 2015.

To bridge the gap with the rest of the European Union countries, Italy must work quickly in a number of key aspects involving **Digital Transformation**, including:

1. Development, from the very earliest phases of the educational system, of the competencies required to create a broad-based digital culture within companies in terms of processes, assets and mindsets.

To date, the number of professionals who collect, process, manage and analyze data, stands at around 6 million in the EU-28. It's estimated that the gap between demand and supply of such workers will increase from the 6% of 2015 to **6.6% in a base scenario, in 2020** (that's **487 thousand unfilled posts** compared to the 396 thousand in 2015).[12]

Consequently, it is necessary to rethink and reorganize the entire work chain, beginning with how many are coming out of higher secondary education and university. Companies indicate their **need to have available managers and workers that are more highly qualified** in terms of characteristics and types of specialization that do not currently exist. Manufacturing and industrial companies tend to use those with a secondary school diploma in lab analysis and testing, while university graduates tend to work in operations planning and control. Still lacking are **individuals to cover intermediate functions** who can analyze and evaluate test data and understand how it can be applied to the market or correct problems within the production cycle.

2. Assistance in the transformation of roles within companies by improving skills in some areas, such as:

- design, production and logistics which require expertise in cybersecurity, design engineering, additive manufacturing, etc.;
- information systems, in which the most-requested skills involve data analysis as well as data management and control;
- administration, marketing and sales, where the skills connected with business intelligence and data management, search engine optimization techniques and blog and social network management have strategic importance.

At the same time, alongside specialist skills, more "soft"-type skills are required throughout the production chain. From this perspective, top management must also develop a "digital culture".

3. Upgrade of infrastructure, first and foremost wideband and ultra-wideband.

Recognizing the importance of creating a context favorable to innovation development, the Italian government has launched a strategy to upgrade the physical infrastructure, especially in the southern regions of the country.

For example, the National Industry 4.0 Plan calls for 10 billion euros in public financing (2 billion in 2017 alone), to which 32 billion is to be added from the private sector, to implement the "accompanying" guidelines, including investment in the ultra-wideband.

12 - Source: IDC, "European Data Market Monitoring Tool", June 2016.

4. Spread of a digital skills culture among consumers and the public at-large.

In April 2016, with the goal of promoting the implementation of the new 4.0 model among member states, the European Commission announced a program of strategic initiatives for digitalization.

In addition to efforts for enhanced synergies within the EU and specific initiatives to strengthen digital competencies in industry,[13] the Commission planned the drawing up of a European agenda for **technological competencies** to be provided to the public at-large, given the higher level of digital skills required to best take on the new digital revolution.

4.3. Post millennial marketing: opportunities generated by the current changes underway in society and business

The rapid evolution in technology is accompanied by an equally radical revolution in the **characteristics of the final consumer** in terms of tastes, preferences, reachability and consumption processes.

This is a direct consequence of the change in the generations to which global and Italian consumers belong. Although today in Italy consumers born prior to the 1980s still account for 65% of the total, the global average is only 42%.

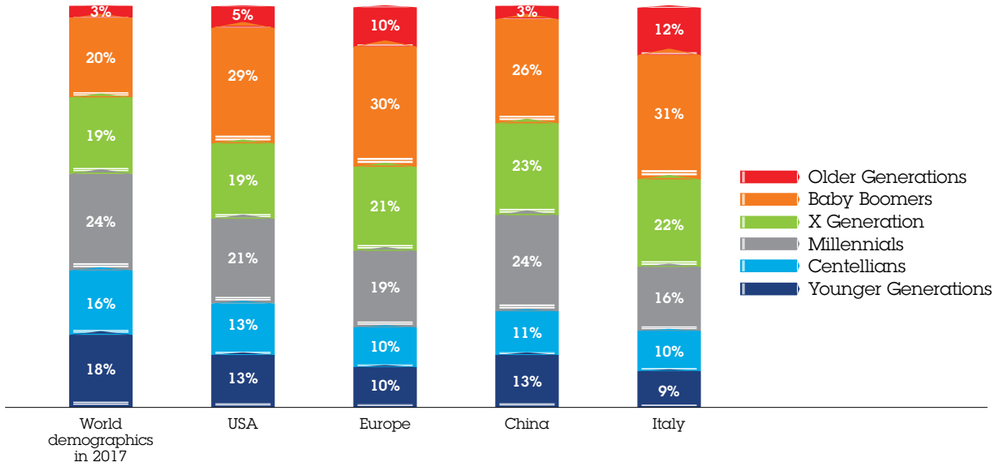


Figure 4.17. Generational break-down of the population of the United States, Europe, China, Italy and the world.
Source: The European House – Ambrosetti elaboration of Kantar data, 2017.

13 - Among the measures envisaged are:
- *Allocation of 500 million euros in funding to create a network of digital innovation hubs ("centers of technology excellence") in support of companies.*
- *Launching of pilot projects on a large scale to upgrade the IoT and advanced production and automation processes.*
  Adoption of a regulatory framework for the free flow of information and data proprietary rights generated by sensors and smart devices, and a review of the norms involving the security and reliability of autonomous systems currently on the market.

The competitiveness of a company operating on a global level and its ability to create and manage a relationship with its customers are, therefore, already profoundly influenced by the trends in the younger generations which soon, including in Italy, will account for more than 70% of the population.

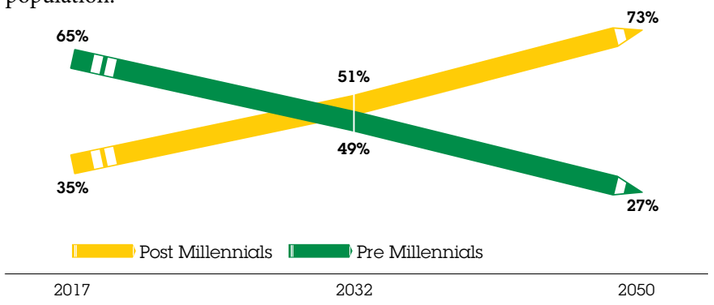


Figure 4.18. Evolution of the percentage of the population belonging to the Post Millennials in Italy, 2017-2050. Source: The European House – Ambrosetti elaboration of Kantar data, 2017.

The concept of "generation" does not refer to an age bracket (which is a criterion for subdividing the population characterized by a high level of change in individuals belonging to each bracket), but rather a range of years (with Millennials, for example, from the 1980s to the year 2000), within which individuals were born with a **vision of the future and specific buying habits** (children of disruptive technological, social and/or economic events) that distinguish them from earlier and later generations. From this standpoint, Millennials are a generation with its own specific characteristics that have their origin in a set of values which cannot be superimposed on those of previous generations. To cite just some of these characteristics, this generation involves individuals who:

- are social but not sociable, i.e., more inclined to interact on intermediation platforms rather than in person;
- tend to ignore details and are more attracted by dynamic situations and contexts;
- are not loyal to brands, but are attentive to what they communicate (89% of Millennials access content that is produced by or pertinent to brands3). This aspect makes investment in communications strategic for all companies;
- are unpredictable in that they are characterized by a value system that is not so much changeable, but rather able to take into consideration values which sometimes appear to contradict each other.

Millennials were **born and raised in the era of digitalization**, expect that everything can be performed using software, and are attracted to digital-friendly companies that utilize the latest generation in high-tech and digital devices. They are also used to cohabiting with social networks and they expect the companies they work for to be inclined towards the use of these platforms.

Generational implications have a strong impact on the life of the companies for which these individuals are the consumers. The fact that the hierarchy of media fruition has been in a process of change for some time now is not a new phenomenon, but it is directly correlated to the generational shift underway. All those born subsequent to the 1980s have a very high level of daily media penetration from desktops and mobile devices (up to 66.5%) and the mobile channel has the greatest reach.

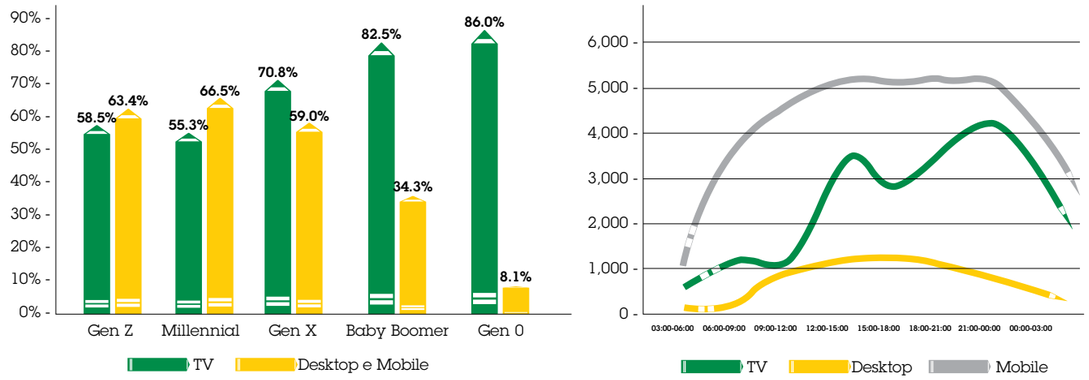


Figure 4.19. Comparison of penetration, percent (left), and reach with Millennials of the main media channels, thousands (right), 2016. Source: The European House – Ambrosetti elaboration of GroupM data, 2017.

Brand attitude is also changing radically based on the different set of values through which Millennials interpret their experiences. A summary of these values offered by Kantar[14] organizes them using the acronym STYLE:

- S.ocial: collaboration, networking and sharing.
- T.ransparency: dialog, assessment and trust.
- Y.es, now!: responsiveness, volatility and instantaneousness.
- L.iberty: accessibility, variety, infidelity.
- E.xperience: immersion, personalization and experience.

14 - Kantar is a member firm of the WPP Group specialized in the gathering, re-elaboration and interpretation of data to produce market- and consumer-related intelligence.

Figure 4.20. Overview of the Millennials' set of values.
Source: The European House – Ambrosetti elaboration of Kantar data, 2017.

In light of the above, a brand must know how to interact properly with the target it wants to reach or with which it wants to create a relationship and, with reference to Millennials, this means:

- generating content designed to be shared;
- being open to being assessed, compared and co-created;
- being able to react in real time to every new trend;
- providing customers with alternatives;
- amuse.

Finally, it is important to stress that the entrance of Millennials into the workforce changes the organization itself. In general, this generation of workers has needs that are specific and different from those of other age brackets, including:

- receiving frequent feedback and working in close contact with leaders to learn from them;
- receiving other than monetary benefits, for example, more tied to the possibility of "experimenting" with different work approaches;
- working in a group, interacting with colleagues and feeling part of a community (this also implies having the opportunity to spend "informal time" with colleagues).

Working with technological and digital tools appropriate to their needs.

Millennials also change the recruitment process. Specifically, in order to guide the digital transformation process in the company, talent management plans must be developed to **attract, select and motivate talent**. From this standpoint, the new technologies make it possible to:

- reinforce employer branding through social network campaigns and the gamification of the selection process;

- comprehend more precisely candidate profiles thanks to Big Data Analytics, machine learning systems and sophisticated predictive skill models;
- offer personalized training services with digital technology and platforms, including by remote means.

In conclusion, companies must be able to manage and monitor the co-existence of various generations in the company that are different not only in terms of age, but also in their lifestyles. There are two main challenges connected with age management: understand the needs of more senior employees and promote the mutual transfer of knowledge between generations, highlighting their experience and complementarity.

Developing a policy of age management for the company can make use of training courses in digital skills and the activation of web-based platforms for self-upgrading of skills and interactive exchange of information among colleagues.