CETRA Case Studies

WP1

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Case study “Multimedia District”

Introduction and methodology

Analyzing the present case study, for confidentiality reasons, we will only make generic references to the ways in which the project that is the object of our analysis is being realized and to the actors involved in it. From our description it is nonetheless possible to understand the reasons for which the expectations of the involved actors have not been fulfilled.

This case study concerns an initiative, promoted by local and associative organizations, directed at creating a new market system in a high technology sector. This attempt has been carried out through the setup of a research and development centre in the field of multimedia and virtual reality.

Methodologically, the development of the case study relies mainly on three sources. First an interview to a manager of one of the project’s partner organizations (the story is, therefore, mostly told from his point of view) who is very familiar with this story, even though not directly involved in it. Second on some documents produced by the organization in order to introduce itself to possible partners for the project. Finally, upon strategic documents produced at different stages of the project’s relatively short story.

Research on public sources, carried out after the interview, has been useful in order to complete the information framework upon which this case study is based.

The case is developed by analysing a series of “photographs” of the situation, taken at different times – in particular at moments that have emerged as being crucial for the evolution of the story - with the objective to understand the changes that have occurred:

1. in the competitive environment;

2. in the organization.

Specifically, we use the following documents, which also correspond to the moments at which we take our "photographs":

- the presentation of the project, produced in 2001 - before the venture's kick-off - by an important Italian consulting company, in order to scout for potential partners for the initiative;
- the business plan drawn up in 2004, referred to the 2004-2010 time framework;

To these "photographs" we then add an account of the situation in 2005, as described by the interviewee, when the organization is portrayed as being in a very difficult situation.

Description of the organization and innovation history

The project consists in the development of a "competence centre" in the field of multimedia and virtual reality, in order to stimulate further activities and innovations in these sectors, in a specific area of an Italian region.

The objective is to re-launch the region's main city and its role in the world. This city, in fact, has been suffering from the crisis of the main sector that characterizes its economic structure and which, in the course of the last few decades, has represented the main source of income and employment in the area. The sectors that are the object of the attempt at building an industrial district have been chosen starting from historical considerations about the area, which in the past has been an important centre in the start up of the same sector in Italy. In fact, the organizers of the initiative, thought that the development of new technologies and their use in cinematographic productions, could give the region the opportunity to regain a central position in this field.

The fact that they made this decision shows that they had a series of assumptions in mind:

- that the past experience and competence in the field, which in the past allowed for a considerable development of the movie industry in the area, make it likely that these characteristics can be recreated today, in a completely new context, with extremely different market conditions;
- that it is possible to create an industrial district - a market structure characterized by the presence of many small companies that operate with an interweave of competition and cooperation (that allows them to overcome the limits inherent in their small size) -

through the hierarchical imposition of a relatively large organization, with access to the relevant financial and technological instruments that are necessary in order to effectively operate in this sector.

The idea to create a technological district in the multimedia field can be traced back to the early 90's when some old dismissed plants were saved from demolition and destined, by the urban development plan, to the development of innovative projects. The practical implementation of the project, however, began only in 1999, a time when the "new economy" speculative bubble had reached its peak; the project was then funded and implemented.

The organization is composed of two companies with complementary roles:

- the technology park, set up with public funds in 1999; it is participated by the municipality, the region, the chamber of commerce, the universities of the area, and the regional development agency. The start-up expenses, those for starting the park's operations as well as all the investments for land acquisition, refurbishing of real estate and acquisition of the expensive equipments needed for the activity, have been consistently supported by European and regional funds. This company's objective is to manage the promotion and development of the park's activities, as well as all the training and research activities that take place there;
- the managing company (MC), set up with private funds, created through a tender for competition put forward by the technology park and won by a little group of Italian companies. The company, incorporated in 2001 has the objective to devise, develop, produce, co-produce and commercialize high technology products and services for television, cinema, commercials and multimedia in general using the infrastructure owned by the park.

The partners of the MC can be grouped into two types: some of them operate in sectors that can be considered similar to multimedia productions, while some other operate in the field of engineering (from the share point of view they are controlled by a public controlled holding). The latter's participation to the project can be traced back to their willingness to invest in simulation and prototypation through virtual reality, rather than as an expression of their interest in the multimedia sector.

In 2001, the managing company was positioned in the value chain primarily as a producer of innovative contents (produced internally with its own competences or acquired from third parties in order to maintain control upon the copyrights on the ideas produced). Only in second place the company was expected to be active in the field of productions and post-productions of high technology contents; finally, a marginal role was attributed to the segment of distribution, where the MC wanted to enter only the niche of internet distribution market. Mainly for this reason, a special role among the partners was taken on by the provider of broadband network infrastructure for the distribution of multimedia products.

The technological park on the contrary wanted to become a “catalyser” for the use of virtual reality tools, in the fields of both mass-media communication and industrial applications (starting from the creation of virtual scenarios through advanced human-machine interaction, and simulation for fast object prototypation).

One of the primary objectives of the MC, from the commercial point of view was to become a part of the large worldwide circuit of the multimedia and special effects producers, by setting up global relationships, assuming that, thanks to the great data transfer speed allowed by Internet, it would be no longer necessary for a producer to be located near its customers (typically big movie producers).

In the technology park project, priority was assigned to the research sector (at first position in the initial management documents); in a second place the training and, in the last position, the prototypation that is, for sure, the field nearest to the production. But the latter sector was described as useful in order to develop best practices and to promote the development of other initiatives rather than to realize profits through traditional productions.

In its role of scaffolding structure for the diffusion of training and innovation in the field, the technology park intended to rely on workshops, conferences, seminars, lessons and communication opportunities in general.

The financial forecasts of MC, whose start-up plan goes back to 2001, expected positive results after a brief period of time. Considering that the majority of the forecasted investment were sustained by the public investor in the first year, the plan predicted that a positive cumulated cash flow would be realized already in 2005.

The financial forecasts, optimistic also in the light of the positive performance of the economic cycle at the moment in which they were formulated, presented a negative EBIT only for the first year of activity and foresaw it being positive starting from 2003.

The MC is active in a large number of sectors. In the following we discuss the state of the art of each of them in 2001:

- the market for the creation of special effects was dominated by USA players with turnovers of tens or hundreds million dollars; in particular, there were three big companies that controlled the American market. In Europe, the most relevant actors were, with much more limited turnover, British. In Italy there were many small operators in this sector, but besides the MC, none of them was capable to create and manage projects that require a massive use of special effects for the creation of digital contents. This probably depends on the fact that Italian productions, given their small budgets and their limited capability to sell outside Italy, usually need very little digital technology;

- the market for production, post-production and animation has shown, since 2001 heterogeneous performances in the different geographical areas; in fact there has been rapid growth in the United States, relatively moderate growth in Europe, and substantial stagnation in Italy where, on one hand, the productions - especially cinematographic ones - use only few special effects, and on the other, the cinema industry, strongly dependent upon public support, suffers from the lack of a regulatory law. On the structural side, the American market is dominated by a few majors, while the European market is divided between a large number of small operators and it is notably conditioned by the supporting policies implemented by the different governments;

- the markets for television productions (both national and international) and for commercials (only in Italy, since linguistic and cultural specificities limit this market at the national level) are mainly controlled by the majors, although a the progressive growth of independents producers can be observed;

- in the sector of restoration of old movies the main operator, in Italy, is a public agency; but the market, also at the European level, has gone through a period of strong growth since the early 90's, supported by the interest of cultural associations and national institutions, that have allowed for other private operators to be created;

- for the sector of "technology based" training, in 2001, a medium-high grow rate was forecasted, as like for the theme-park market (so called Edutainment) that was developing all around the world, and in particular in Italy, where many new parks and attractions were being developed;

- finally there was a fairly rapid growth in the market for videogames, especially in

Europe, although with important differences in the single segments of the value chain. In this sector however the vast majority of productions come from American and Japanese companies.

The latter three sectors are not dominated by large operators, rather they are very fragmented, especially with respect to the segments of the value chain to which the MC is interested in.

In the period from 1999 to 2001 the technology park completed the activities of organization and consolidation of the company's structure, and acquired and refurbished the real estate and the equipments needed for the MC to become operational.

Despite the fact that its activities was distributed among a great number of sector, the intention of the MC was to produce the contents that could grant added value and to focus its activity on them, avoiding to squander energy on many different parts of the value chain.

In fact, if we take a closer look at the business areas in which the company initially intended to be involved we can observe that the group wanted to enter many sectors: videogames, TV, cinema, cinematographic restoration, edutainment, training, R&D; but the largest part of the turnover was expected only from the first three segments.

In the initial company plans the warning signs of a shift in the core business of the company can already be discerned. In comparison with the initial presentation made by the public company, which emphasized the role of education and research activities, in this second phase these activities were placed in the background.

The company plans about the funds that the MC would need in order to carry out its activities are also very interesting. In fact, the company forecasted to finance the development and production of contents for 95% through external funds (in particular, development would be co-funded by the EU as an innovative activity), while only 5% of the production was expected to be financed internally. Excluding external funds, the main source of income was forecasted from the collection of the reproduction fees on the realized productions.

Since the vast majority of the turnover was expected from the productions and since these are partially co-financed, it can be stated that in the view of the creators of this structure this form of income was more important that the generation of profits (an approach that is correct for an innovative R&D structure, but which is not economically sustainable as a business model for a production structure).

As we have seen, at the time of the MC's launch, the goals, in terms of turnover and development perspectives, were that a positive balance sheet would already appear in 2003. This optimistic result however has not been achieved. On the one hand, in fact, the entire European market has slowed down and with it the production of commercials and videogames (the two sectors on which the MC counted in order to obtain good results). On the other hand this organization has shown difficulties in finding customers for its new contents activities and for high-tech productions and post-productions. The organization has not been able to access a market system coherent with its advanced resource dotation, nor to create a new one.

This difficulty in creating a reference market can be explained partially by the effective non-existence of a market for these services, and partially by the fact that the structure has been created and put in its environment "exogenously"; it has not be generated from market demand, but from the large public funds that it has been able to intercept. In fact, despite the peculiar nature of its founders (mainly local public institutions, endowed with large networks of connections), the company has not been able to develop a sufficient number of relations, needed to access the costumers or "insiders" operators of other related sectors .

The organization has reacted to the persistent scarcity of customers mainly in two ways:

- it search, with greater conviction, international customers that need to use a very up-to-date structure for the creation of special effects and multimedia services, securing some contracts, many of which thanks to the fact that the MC can benefit from EU co-funding for its production and post-production projects, by presenting them as research projects;
- it moved its operational focus (but not the strategic focus, as demonstrated by the 2004-2010 business plan which envisages that the organization would still be involved in the same sectors and segments of the value chain indicated in the 2001 plan) and it began to offer traditional productions and post-productions services with very low margin, with the purpose to saturate its high-tech structure (since it has not been able to create a local market or to enter in the global high-tech productions market).

The need to maintain an adequate level of saturation of its structure rises from the fact that, a clear failure of the initiative, is a risk for the company's survival due to the particular kind of funding by which the initiative is supported.

But by providing this new kind of offer, the MC is rapidly beginning to erode a market space that is already occupied by other operators, local and global, some of which are partners of the MC.

The movement towards traditional sectors, and the aggressive pricing policies (allowed, as we have seen before, by the fact that the financial needs of the organization are largely covered by EU grants for innovative enterprises) have induced some of the partners of the MC that already operate in the sectors invaded by the new entity to show dissatisfaction for the low compliance with the original agreements, and to ask themselves if clashing interests are being generated. In particular a reason of dissatisfaction is the fact that an organization that was intended to be an incubator for a new business sector is de facto becoming a traditional operator, which is able to offer low margin products and services only thanks to its "peculiar" cost structure.

At present, both the MC and the technology park are going through troubled times. This is underlined by the fact that the public shareholder is in difficulty, because on the one hand it does not intend to finance an enterprise that does not enjoy the hoped-for success, and on the other hand it does not want to lose the investments in the advanced training school that is a relative success (We will discuss about this later).

An extremely negative effect of the core-business shift described above is that a relevant part of the orders realized by the MC comes from the public sector. These, usually anti-cyclic, are performed to sustain private firms, during market crisis. By acquiring the majority of these orders the MC sensibly distorts the market for traditional products and services; in fact, many of the local companies operating in the same technological area have been expelled from the market or are in trouble due to the presence of an agent capable to intercept many offers of production not because of its better technical or production abilities but thanks to an infrastructure largely funded by the public sector.

The emergent risk from this situation is that, in a modern market system, where it is more and more difficult for an operator with persistent losses to remain active, if the MC closes, no operator will remain in the area.

One of the typical features of complex systems is their performability as networks. Part of the failure of this company depends on the fact that its founders have not been able to construct, around the park and its managing company, a wide network of competences, clients, suppliers, partners and competitors that, operating in synergy with the park, can contribute to construct a new market system. The inability to create a network of relationships can be attributed to the set up given to the organization by its founders. In fact, as it often happens with public organizations, the approach has proved to be too hierarchical, leaving too little space for individual initiative and network interrelations, typical of successful firms and necessary for the creation of an industrial district.

The fact that, after three years, in front of a completely different situation if compared with the initial forecasts, the business plan continues to concentrate on objectives that are similar to the old ones, shows that the relevant actors find it difficult to understand the environment that surrounds the organization and do not perform a reinterpretation of their role as a consequence of the changes that happen in the world.

In fact, if at the peak of the new economy speculative bubble it may have seemed sensible to bet on the virtual reality and multimedia industry in order to obtain high profits also in Italy, just three years later, in 2004 with a totally different environment, a proposal of this kind seems to have few outlet markets.

The role of education

Within the technology park a space has been organized as a school for advanced training, used in particular for the organization of professional training courses and for masters realized in collaboration with the universities of the area and with some internationally recognized professional training institutes.

The initiative has turned out to be a relative success (and it is running courses for more than 100 postgraduate students) presenting, as a point of strength, the possibility for the students to take part in the realization of real projects inside the park in order to create finished products (and services). Besides that, the training is not limited to technical notions but it also includes ethical, legal, economic and managerial issues relative to the creation of digital contents.

Even if, the school can rely on a strong infrastructure (since it is inside the technological park), there is also another reason for the school's success; since its start-up it has tried to construct a large network of relationships with other schools, universities and other organizations in similar sectors.

This has allowed the school, in the first place to improve the teaching methods acquiring best practice at world level, and in second place to increase the number of relations on which the students can rely at the end of the courses in order to find a job.

With respect to this latter issue, the school suffers from the failure in the creation of the district and, as a consequence, from the paucity of job offers for qualified occupations in the sector.

However, given the high level that it has attained, the school can aspire to train professionals who in the future can become entrepreneurs and contribute to the creation of the market system that today is still nowhere in sight.

Gender and Diversity policies

As far as it is possible to know from the available public sources no gender or social policies are enforced in the company, even if the organization claims that the recruitment for both the school and the MC are made following the principle of equal opportunities between genders and a politics of non discrimination.

No public data, on the number of female employees or on the presence of a gender mainstreaming approach in the companies, are available.

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Concluding remarks

If we reinterpret this story in the light of complexity theory, we can note that the public scaffolding structures that founded and financed the technology park and its managing company believed that these organizations were necessary in order to develop a market system that still did not exist, but they did not pay enough attention to the creation of networks of relationships around them.

The relevant actors also forgot that innovations can be created not only with technology but mainly through the construction of generative relationships which allow for the creation of positive feedback dynamics that can decree the success of an initiative, permitting the creation of a new market sector. Thus, it is important to understand, to map and to identify existing competence networks and work to reinforce them creating generative relationships around them, instead of trying to create new networks ex-novo.

In order to realize this project, the public operator has created a public funded infrastructure. But it has not obtained the hoped-for success, inducing the management to make an operative shift towards less innovative sectors, with the purpose to saturate their structures. This has led the park to play the role of a “parasite” competitor for the operators already present in the sector of traditional production and causing a serious distortion of market dynamics, instead of playing the role of a scaffolding structure for innovation.

Since when this organization was founded there was not a reference market, the major failure has been to estimate as high the probability that one would form, while, given the Italian socio-economic environment, this probability was very low.

Besides, the involved actors did not consider the fact that the large US market (which the organization wants to enter), is already largely covered by other operators that have strong relations that allow them to control the market and to prevent the penetration of new competitors.

The MC is active in too many different markets to be a good industrial district incubator; in fact, it operates with a single structure in many different sectors which normally, in a industrial district, are divided in many different companies. A typical feature of the companies that operate in this kind of economic structure is in fact to be concentrated on a limited, sometimes very specific, field of activity.

Finally, in this story it is possible to detect the presence of a series of scaffolding structures at different levels.

From the point of view of the district to be created, the technology park represents a scaffolding structure with the role to promote, through the collaboration of public and private capital, the creation of other companies in the sector.

But the park has been constructed by scaffolding structures at an higher level, the territorial organizations, that have as their objective the improvement of the condition of life in the administered territories. Finally the European Union, the main financing subject of the company, can be defined as a structure of support at a even higher level.

Bibliographical references

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