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Technology, media, and telecom in Europe: The new growth engine or another decade of missing out?

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Europe's TMT companies have stagnated relative to their peers' growth in other regions. But several emerging battlegrounds could be the key to the sector's turnaround.

This report is a collaborative effort by Aamanh Sehdev, Benedict Vanderspar, Davide Schiavotto, and Ruben Schaubroeck, with Ege Caliskan, Jamie Vickers, Luke Jesson, and Marko Pavlovic, representing views from McKinsey's Technology, Media & Telecommunications Practice.

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Executive summary

The massive expansion of the global technology, media, and telecommunications (TMT) sector has been one of the driving and defining forces of the 21st century's digital and economic transformation. Yet amid the critical sector's unprecedented growth, European TMT companies find themselves at a crossroads, grappling with a stark decline in market capitalization and an urgent need for renewal to sustain economic competitiveness.

Even as TMT's global market capitalization soared from around $7 trillion in 2000 to $34 trillion last year, Europe's share of cumulative global TMT market capitalization plunged from 30 percent to 7 percent. This decline in share translates to an $8 trillion missed opportunity—value that would have been generated by 2024 if Europe had maintained its share of market cap.

However, new McKinsey research suggests that the next wave of technological change and digital disruption could lead to a genuine European TMT turnaround. This report identifies five critical battlegrounds emerging in different sector value pools—content and commerce, AI and software, connectivity, data infrastructure, and tech services—that could unlock nearly $800 billion in incremental value by 2030.

The path to seizing these opportunities is not simple. European TMT companies still face significant structural and commercial hurdles, including market fragmentation, insufficient investment capital, and restrictive regulations. Geopolitical complexities, such as tech sovereignty, data security, and supply chain resilience, also loom large, particularly given the unpredictable landscape of tariffs and trade controls.

In spite of such obstacles, this report argues that strategic shifts and targeted investments in these areas could ignite a TMT resurgence. Drawing on comprehensive research, including insights from top European TMT executives, the report examines the five battleground opportunities in depth and delves into the broader economic and geopolitical forces shaping the sector.

Ultimately, the TMT sector's renewal is not just a strategic imperative but a crucial determinant of Europe's long-term economic resilience and prosperity, despite the formidable challenges that lie ahead.

Introduction

A defining economic and financial success story of the 21st century's first quarter has been the massive expansion of the technology, media, and telecom (TMT) sector. Its diversified and dynamic array of companies has fueled unprecedented increases in wealth, productivity, and standards of living around the globe. Yet even as TMT companies in the United States, Asia, and other parts of the world have enjoyed soaring revenues and valuations, their peers in Europe have experienced largely stagnant growth by comparison, causing their share of the sector's global market capitalization to drop dramatically.

Given TMT's centrality to sustainable, ongoing economic growth and competitiveness, the sector's renewal is critical to Europe's long-term well-being. Europe had already been focusing on expanding its domestic technology base and reducing reliance on foreign suppliers, but the sudden expansion of tariffs and trade controls and rising geopolitical tensions have further underlined these goals. Both the public and private sectors are putting greater emphasis on areas such as mission-critical infrastructure, data security, sovereign AI and cloud, supply chain resilience, and business continuity and control. Amid growing macroeconomic uncertainty and inflationary pressures, digital taxation and new revenue models are also attracting more attention.

The region's TMT leaders have some genuine concerns about their ability to pull off a comeback. These include structural constraints, such as the state of European regulation, which companies recognize are largely out of their control. As recently outlined in several public- and private-sector reports, the European economy's future resilience and competitiveness, including that of the TMT sector, may depend on new frameworks and policies that foster greater innovation, access to capital, and scaling.[1]

Still, our research indicates that the sector has a strong opportunity to turn things around. This significant value creation opportunity, which we estimate will be worth nearly $800 billion of incremental value in Europe by 2030, lies in five battlegrounds that are rapidly emerging from several key TMT value pools: content and commerce, AI and software, connectivity, data infrastructure, and tech services.

This report, based on research that includes an in-depth survey of top TMT executives across Europe, examines the current state of the critical sector and the five battleground opportunities that offer a real possibility of economic and financial renewal. It also lays out the broader economic and geopolitical forces that are shaping those opportunities and making a European TMT resurgence an even higher priority.

[1] See Mario Draghi, *The future of European competitiveness,* European Commission, September 2024; Enrico Letta, *Much more than a market: Speed, security, solidarity,* European Commission, April 2024; "Accelerating Europe: Competitiveness for a new era," McKinsey Global Institute, January 16, 2024; "The next big arenas of competition," McKinsey Global Institute, October 23, 2024.

Europe's TMT lost decades

The numbers tell the story of Europe's recent TMT struggles in the starkest of terms. Over the past two and a half decades, TMT's share of the 50 most valuable global companies has risen from 40 to 60 percent, while the sector's total global market capitalization soared from around $7 trillion in 2000 to $34 trillion last year.[2] Technology alone now accounts for half of the top 50 companies, up from 20 percent in 2000, and its market cap has skyrocketed fivefold to $25 trillion.

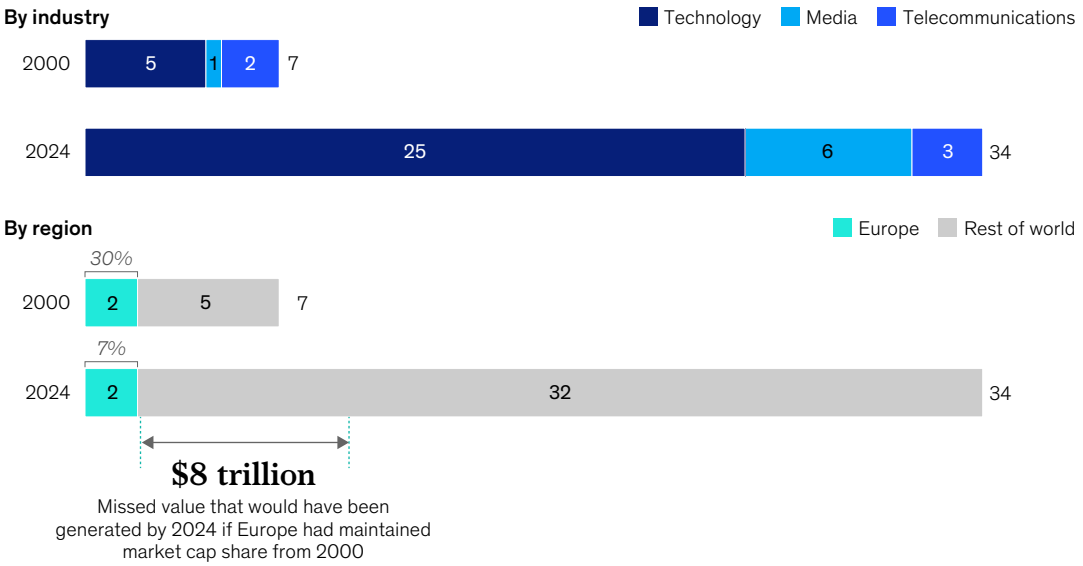
Yet Europe has missed out on much of that bounty. Over the same time period, the region's total representation among the world's 50 most valuable companies has dropped roughly 80 percent (from 22 companies to four), while its share of cumulative global TMT market capitalization suffered a similar fate, dropping from 30 percent to 7 percent (Exhibit 1). This precipitous decline in share

[2] Total market cap based on the top 10,000 TMT companies globally.

Exhibit 1

Even as TMT's global market cap has soared, Europe's share has plunged, representing a multi-trillion-dollar missed opportunity.

Cumulative market cap of top 10,000 tech, media, and telecommunications (TMT) companies globally, $ trillion



Note: Figures may not sum to totals, because of rounding.
Source: S&P Capital IQ; McKinsey analysis

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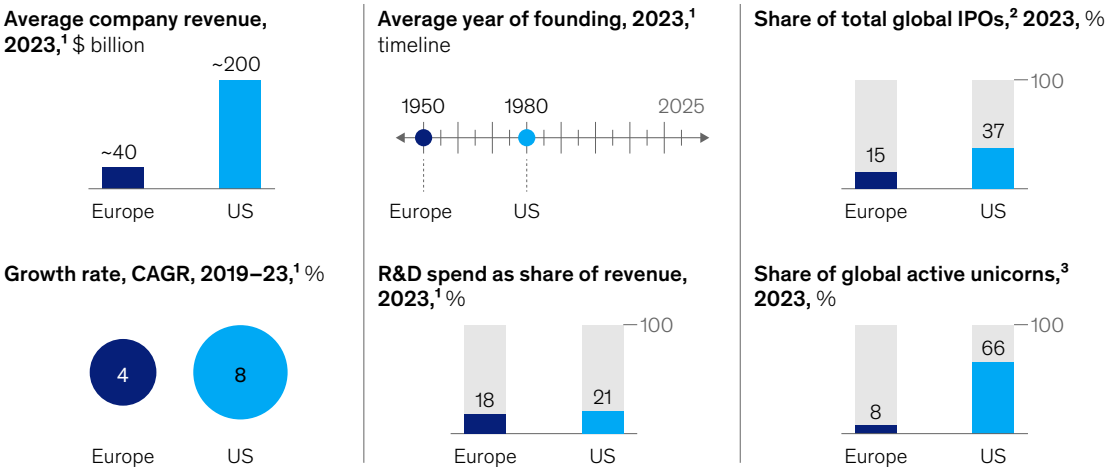
translates to an $8 trillion missed opportunity—value that would have been generated by 2024 if Europe had maintained its share of market cap.

The recent stumbles of European TMT companies have happened while their US peers have made great strides. For instance, even as the number of European TMT enterprises in the 50 most valuable companies fell more than 60 percent (from eight companies to three), the US TMT share more than doubled (from nine to 22).[3] That sharp regional disparity is reflected in several other TMT-related metrics, including revenue, growth rates, share of global IPOs, and share of global unicorns (Exhibit 2).

Exhibit 2

European TMT companies are older, earning less, growing slower, and investing less in R&D than their US peers.

Tech, media, and telecommunications (TMT) key metrics, Europe vs US



[1]Based on top 10 TMT companies by market capitalization.
[2]Based on 4,640 global IPOs in 2023; includes both TMT and non-TMT companies.
[3]Includes both TMT and non-TMT companies.
Source: Mario Draghi, *The future of European competitiveness*, European Commission, Sept 2024; S&P Capital IQ; McKinsey analysis

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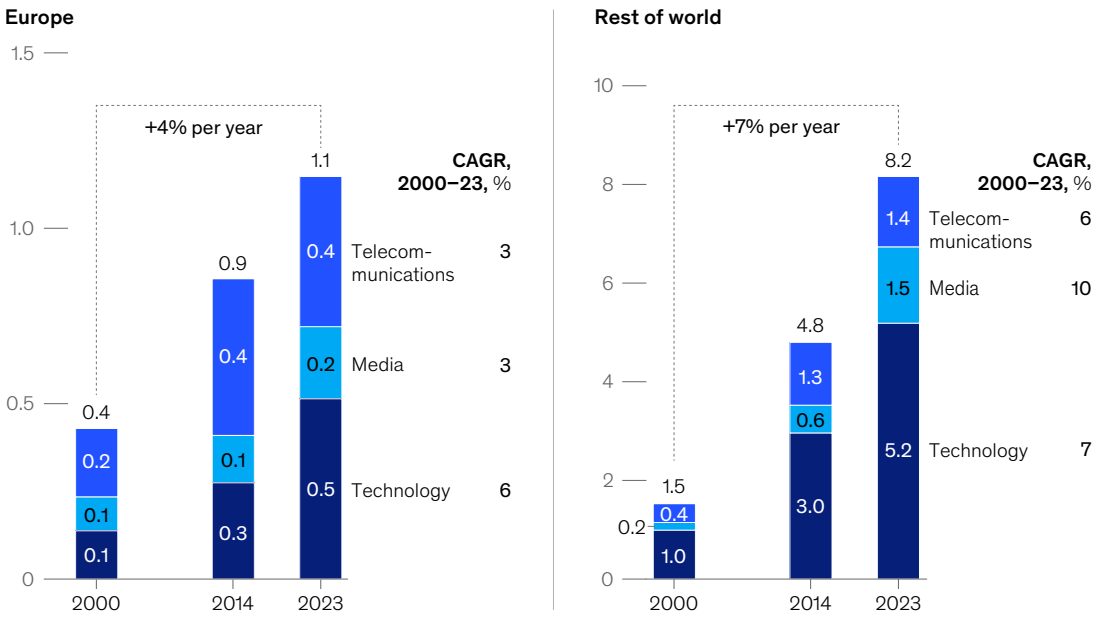
For a global context, consider that European TMT revenue roughly tripled over the past 20 years, whereas the rest of the world saw TMT revenues grow by around five times (Exhibit 3). Put another way, the incremental TMT revenue in Europe during this time made up a mere 10 percent of the sector's total incremental revenue globally.

[3] S&P Capital IQ; McKinsey analysis.

Exhibit 3

TMT is growing slower in Europe than in other parts of the world.

Evolution of technology, media, and telecommunications revenue, $ trillion



Note: Figures may not sum to totals, because of rounding.
Source: S&P Capital IQ; World Bank

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Navigating the new geopolitical reality

The technological transformations that offer Europe's TMT sector the possibility of a resurgence are not happening in a vacuum. On the contrary, economic and geopolitical forces play a key role in shaping the opportunities and the ways the various players and stakeholders approach them. Here is a look at four of the most important factors driving much of the activity around the emerging TMT battlegrounds.

Mission-critical infrastructure

At a time when both public- and private-sector leaders are increasingly focused on data security and economic resilience, the state of Europe's mission-critical infrastructure is attracting growing attention. The European Commission's 2030 Digital Compass initiative includes developing a pan-European, interconnected data-processing infrastructure, deploying 5G corridors, acquiring supercomputers and quantum computers, and establishing a secure quantum communication infrastructure. The commission has estimated it will take more than $130 billion in annual investments to close the infrastructure and skills gap with leading regional competitors and boost economic resilience, competitiveness, and innovation across Europe.[4]

In March, the European Commission allocated $1.4 billion to help deploy critical technologies that accelerate innovation and strengthen Europe's tech sovereignty. Key priorities for the funding, which is part of the 2025–27 Digital Europe Programme (DIGITAL) work program, include advancing AI and gen AI adoption, cyber resilience, digital skills, and interoperable public services.[5]

Geopolitics is also driving shifts in the private sector. For example, semiconductor companies Infineon Technologies and STMicroelectronics recently received state aid from Germany and Italy, respectively, as part of the EU Chips Act initiatives.[6] Each company is expanding its production capacities within Europe as part of a broad regional push to reduce reliance on foreign suppliers in response to growing geopolitical concerns about supply chain resilience and security. At the same time, many companies are expanding their teams that focus on real-world events and factors, with some, such as Merck and Nokia, creating new leadership positions such as chief political officer or chief geopolitical and government relations officer.[7]

[4] "2030 Digital Compass: The European way for the digital decade," European Commission, March 9, 2021.
[5] "Commission to invest €1.3 billion in artificial intelligence, cybersecurity, and digital skills," European Commission, March 27, 2025.
[6] "Commission approves €920 million German State aid measure to support Infineon in setting up a new semiconductor manufacturing facility," European Commission, February 19, 2025; "Commission approves €2 billion Italian State aid measure to support STMicroelectronics to set up a new semiconductor manufacturing facility," European Commission, May 30, 2024.
[7] Cindy Levy, Shubham Singhal, and Matt Watters, "A proactive approach to navigating geopolitics is essential to thrive," McKinsey, November 12, 2024; Maike Asmussen, LinkedIn, April 1, 2024; "Nokia announces changes to its Group Leadership Team," Nokia, Oct. 18, 2024.

Sovereign cloud and AI: Ensuring data sovereignty and driving innovation

The rise of sovereign cloud and AI presents a pivotal opportunity for Europe's TMT sector to stage a comeback partly by focusing on ensuring data sovereignty and leveraging AI for innovation. By 2027, the European public cloud services market is expected to reach around $300 billion, growing at a CAGR of 20 percent.[8] The Schrems II ruling and exposure to the US Cloud Act have highlighted the risks of foreign jurisdiction over European data,[9] especially with US hyperscalers controlling almost 70 percent of the European cloud market.[10] Sovereign cloud (or sovereign AI) solutions enable GDPR compliance and protect sensitive data from extraterritorial access, mitigating risks of service disruption due to forces outside regional players' control.[11] They also provide enhanced business continuity and control, which is crucial for sectors vulnerable to shutdowns, such as defense, healthcare, and critical infrastructure.

The European Commission's emphasis on trusted AI development is also driving a growing sovereign AI ecosystem. This is essential for defense sector clouds that require operational sovereignty and rapid deployment of autonomous or cyber systems. Initiatives like Gaia-X and the Sovereign European Cloud API aim to create interoperable, innovation-friendly ecosystems that uphold European legal and privacy standards.[12] Additionally, AI governance is emerging as a critical focus area with significant implications for European companies. The EU AI Act's requirements have yet to be fully implemented by 95 percent of organizations, and close to 50 percent have yet to allocate any budget for implementation.[13]

As regulatory frameworks tighten, organizations will need to adapt to ensure their AI systems meet stringent legal and privacy requirements. This regulatory environment creates challenges and opportunities for European companies to innovate within the bounds of these new rules.

Digital taxation and revenue models: Boosting economic resilience

Digital taxation and evolving revenue models are central to Europe's economic strategy in the digital age. The EU's long-proposed common system for digital services taxes is expected to generate $5 billion to $6 billion in revenue per year, while individual EU nations are already levying or prepping similar taxes, and the OECD nations have been developing an alternative tax system with similar goals.[14] These new taxation frameworks aim to ensure that tech multinational powers contribute equitably to the economies in which they operate and their customers or users reside, addressing the perceived imbalance caused by traditional tax systems. Revenue will be further fueled by the growing European digital advertising market, which is projected to reach $115 billion to $125 billion this year, with a compound annual growth rate of 7 to 8 percent.[15] The introduction of digital taxes also reflects a broader strategy to enhance economic resilience amid geopolitical uncertainties and inflationary pressures. By enhancing revenue sources, the EU could fund

[8] IDC.
[9] Daniel Mikkelsen, Sebastian Scheurle, Henning Soller, and Malin Strandell-Jansson, "The EU digital strategy: The impact of data privacy on global business," McKinsey, March 3, 2023; Georgia Wood and James Andrew Lewis, "The CLOUD Act and Transatlantic Trust," Center for Strategic and International Studies, March 29, 2023.
[10] "Cloud computing in Europe—statistics & facts," Statista, March 27, 2024.
[11] "AI infrastructure: A new growth avenue for telco operators," McKinsey, February 28, 2025.
[12] "Gaia-X strengthens European digital sovereignty at European Parliament reception," Gaia-X, March 21, 2025; "SECA, for an independent, digital Europe," SECA, March 2025.
[13] "The European Union AI Act: Time to start preparing," McKinsey, November 13, 2024.
[14] Cristina Enache, "Digital services tax in Europe, 2024," Tax Foundation Europe, May 7, 2024.
[15] "Digital ad spend in Europe rose by 11.1% in 2023," IAB Europe, June 17, 2024; McKinsey analysis.

critical digital infrastructure projects, foster innovation, and reduce dependency on foreign technology providers.[16]

Strategic responses to tariff challenges

To address the complexities of tariffs, TMT executives can evaluate their impact on supply chains, customers, and investments to uncover opportunities for value creation. Key actions include assessing supply chain vulnerabilities, exploring alternative suppliers, evaluating demand shifts, and validating strategic adjustments. Leaders should map supply chains beyond first-tier suppliers, calculate total landed costs, and use scenario planning to anticipate disruptions, cost changes, and retaliatory tariffs. Exploring new supply sources, particularly in markets offering subsidies or incentives, can help mitigate risks and reduce switching costs.[17]

Additionally, analyzing how tariffs affect consumer demand and market access enables firms to adjust pricing strategies and operating expenses. Regular market scans can reveal competitors' exposure to tariffs, helping companies identify opportunities to strengthen their position. Any strategic shifts, however, should be grounded in rigorous analysis to ensure long-term value creation despite unpredictable trade policies. By optimizing supply chains, reallocating resources, and leveraging technology, leaders may be well positioned to navigate the shifting global landscape.

[16] See Francesca Bria, "European digital independence: Building the Eurostack," AI Now Institute, October 15, 2024; Christine Knackfuss-Nikolic and Andreas Fier, "Together for a sovereign digital future in Europe," Deutsche Telekom, January 31, 2025; Natasha Lomas, "European tech industry coalition calls for 'radical action' on digital sovereignty—starting with buying local," TechCrunch, March 16, 2025.

[17] Cindy Levy, Mihir Mysore, Shubham Singhal, and Varun Marya, "Navigating tariffs with a geopolitical nerve center," McKinsey, April 11, 2025.

The TMT turnaround opportunities

According to a recent McKinsey survey, European TMT CEOs and other top executives appear cautiously optimistic about their sector's overall chances of recovery.[18] The overwhelming majority (92 percent) acknowledge that Europe has not been a TMT pioneer over the previous decade. Close to 60 percent say they have missed out on digital intelligence such as AI, machine learning (ML), and automation as a growth theme over the past three to five years. However, a large majority (85 percent) also say Europe could take a trend-setting role as a TMT pioneer over the next ten years.

That optimism is not unfounded. Our analysis shows that the next wave of digital disruption and technological change could create significant new value and opportunities for European TMT companies. Based on Mario Draghi's EU report *The future of European competitiveness* and recent research by the McKinsey Global Institute,[19] we conclude that eight major global and European transformations could collectively generate $1.85 trillion in incremental, cross-sector spending in Europe by 2030.[20] Our research and interviews with industry leaders suggest that three of the eight transformations—AI and next-generation software, data sovereignty, and compute and connectivity—are the most fertile paths for renewal, with AI/software widely viewed as the largest transformation growth opportunity of all.

At the same time, success is far from guaranteed. Many TMT executives express a lack of confidence in the region's chances to capitalize fully on these transformations. Less than a quarter say Europe is well positioned to outperform other regions in compute and connectivity. Moreover, they say that some of these transformations pose significant risks to their businesses if not navigated correctly. Indeed, more executives (40 percent) describe AI and next-gen software as the biggest risk over the next decade than say they are confident their sector is positioned to outperform in that domain (32 percent). Almost as many executives (50 percent) identify data sovereignty, privacy, and cybersecurity as the biggest threat going forward as consider it a transformation in which Europe is poised to outpace other parts of the world (55 percent)—the most bullish view of Europe's prospects in any of the three transformations.

Our analysis suggests, however, that these transformations represent a genuine opportunity for a European TMT comeback. The potential resurgence lies in five particularly promising TMT battlegrounds that these transformations are fueling, each emerging as part of a broader TMT value pool or sector. We estimate that in Europe alone, these battlegrounds will be worth nearly $800 billion in incremental value by 2030 as annual TMT spending in the region grows from around $1.9 billion last year to $2.7 billion (Exhibit 4 and table).

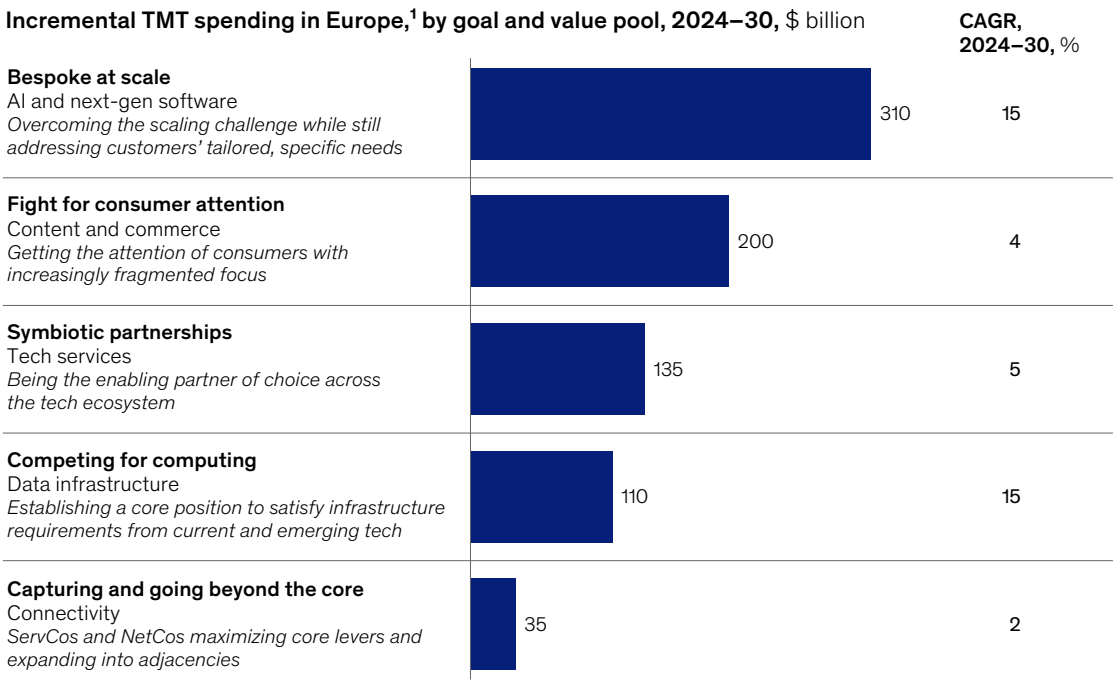
[18] McKinsey 2024 European TMT Growth Survey (n = 241).

[19] Mario Draghi, *The future of European competitiveness,* European Commission, September 2024; "Accelerating Europe: Competitiveness for a new era," McKinsey Global Institute, January 16, 2024; "The next big arenas of competition," McKinsey Global Institute, October 23, 2024. Draghi, an economist and banker, served as prime minster of Italy from 2021 to 2022 and president of the European Central Bank from 2011 to 2019.

[20] The eight transformations are the AI revolution and next-generation software; the bifurcation of consumer behavior; compute and connectivity; cutting-edge engineering and manufacturing; decarbonization and clean energy; data sovereignty, privacy, and cybersecurity; localization of supply chains; and a reemphasis on defense.

Exhibit 4

Five European TMT battlegrounds could create $790 billion in incremental value by 2030.



[1]Technology, media, and telecommunications (TMT) spending by enterprises and consumers in Europe.
Source: Gartner; GS; IDC; Omdia; PQ Media; Statista; McKinsey analysis

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Table

At a glance: The five key European TMT battlegrounds

Goal	Value pool	Incremental spend/growth by 2030	Competitive dynamics	Success factors
Battleground: Fight for consumer attention				
Get the attention of content consumers, whose focus is increasingly fragmented.	Content and commerce	$200 billion with 4% CAGR	— Upwards of 265 million hours of content are uploaded to YouTube annually, compared with just some 15,000 hours of professional film and TV content produced globally every year. Roughly 60% of Gen Z prefer user-generated content over other media options. — Just 5 players (none of which are European) account for 70% of all global video content production spending.	Build deeply relevant, tailored content, leverage partners for wider distribution, drive personalization through advanced technology
Battleground: Bespoke, at-scale				
Overcome the software scaling challenge	AI and next-gen software	$310 billion with 15% CAGR	— Homegrown software companies have difficulty scaling, sales cycles are long and costly, and global software giants have grown their share of the total market from 66% to 76%	Maximize customer retention and expansion, rethink pricing and packaging, identify a large total addressable market, structure operating model for scale, use programmatic M&A
Battleground: Capturing and going beyond the core				
Maximize core levers and expand into adjacencies	Connectivity	$35 billion with 2% CAGR	— Promising opportunities for ServCos in ICT or next-gen connectivity services, increased demand for 5G and IoT fueling growth for tower and fiber-focused NetCos	Maximize traditional value levers, use programmatic M&A to build a consolidated entity for seamless connectivity services
Battleground: Competing for computing				
Establish a core position	Data infrastructure	$110 billion with 15% CAGR	— European market dominated by global hyperscalers, gen-AI-based workloads fueling data center expansion, spurring M&A deals involving midmarket co-locators	To help deal with massive capital requirements, build a consolidated ecosystem through programmatic M&A and partnerships
Battleground: Symbiotic relationships				
Become the enabling partner of choice across the tech ecosystem	Tech services	$135 billion with 5% CAGR	— Growing complexity of tech offerings, increasing spending on vendor-heavy segments, tech architecture becoming more modular, proliferation of possible partners	Focus on outcomes for vendor partners, act as a growth accelerator, enable preferential consumption of partners' products

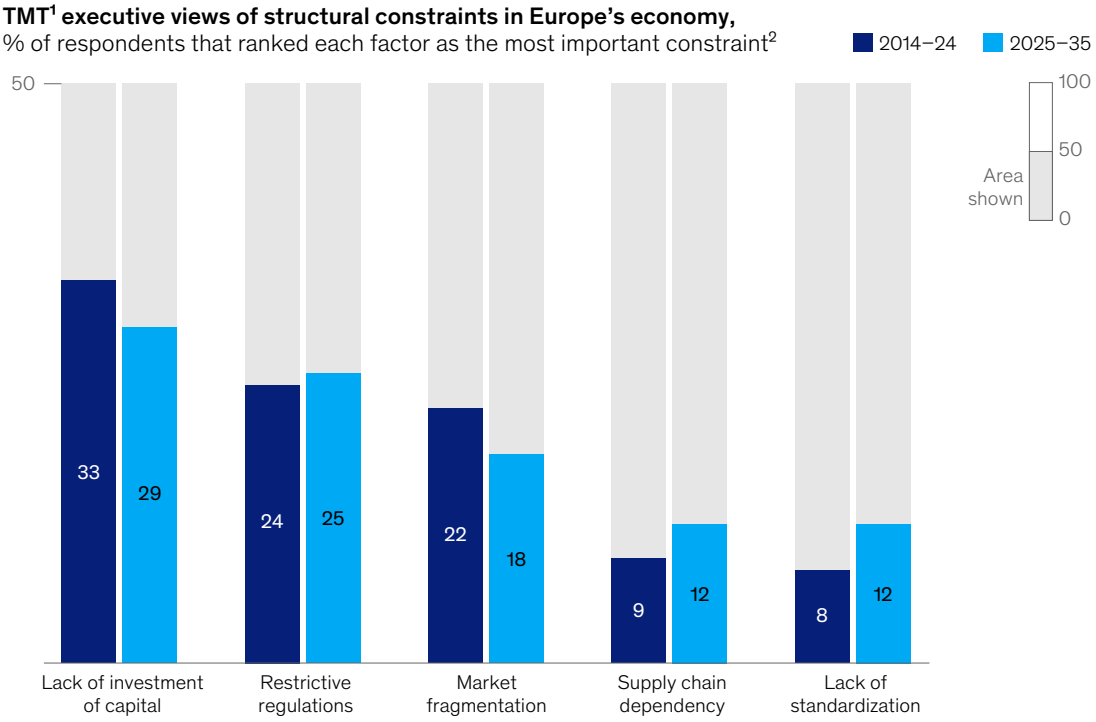
From good to great opportunities? The five key European TMT battlegrounds

To seize the European TMT opportunities, industry leaders recognize that not everything is in their control. As highlighted in the Draghi report, the Enrico Letta report on the future of the single market, and other regional competitiveness reports, the European economy continues to face long-standing constraints, including lack of capital, restrictive regulations, and market fragmentation.[21] A majority of

[21] See Mario Draghi, *The future of European competitiveness,* European Commission, September 2024; Enrico Letta, *Much more than a market: Speed, security, solidarity,* European Commission, April 2024; "Accelerating Europe: Competitiveness for a new era," McKinsey Global Institute, January 16, 2024; "The next big arenas of competition," McKinsey Global Institute, October 23, 2024.

Exhibit 5

European TMT executives say that the constraints holding back growth and competitiveness in the region are here to stay.



[1]Technology, media, and telecommunications.
[2]Excluding "Other" responses (4%).
Source: Mario Draghi, *The future of European competitiveness*, European Commission, Sept 2024; Enrico Letta, *Much more than a market: Speed, security, solidarity*, European Commission, April 2024; McKinsey European TMT Growth Survey, 2024

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TMT leaders say these headwinds will remain as barriers to growth for at least the time being (Exhibit 5). The structural foundation for a European TMT turnaround could include frameworks and policies that incentivize innovation, increase access to investment capital, and enable companies to scale.

As important as such policy shifts are for a resurgence of European competitiveness, TMT leaders know they cannot afford to wait for others to act. All TMT verticals plan to allocate more than half of their investment budgets to growth in the coming five years. Maximizing the returns on those investments requires TMT companies to seek out the value pool segments that have the most favorable trends or competitive advantage. The following five battlegrounds may offer the best opportunities for Europe's TMT sector to improve its fortunes.

Fight for consumer attention

Get the attention of content consumers, whose focus is increasingly fragmented.

Value pool. Content and commerce

At stake. The fight for consumer attention is expected to contribute $200 billion of incremental spend in Europe by 2030, with an estimated CAGR for 2024–30 of 4 percent (two percentage points less than the TMT average).

Competitive dynamics. As total media consumption continues to grow slowly but steadily,[22] the sheer amount of content competing for consumers' attention is rising even faster, resulting in increasingly fragmented consumer attention. Upwards of 265 million hours of content are uploaded to YouTube annually, compared with just some 15,000 hours of professional film and TV content produced globally every year.[23] The Apple app store has more than four million apps to choose from, versus 12,500 total games in the Xbox catalog.

The explosive growth of digital versus traditional media over the past decade, from streaming video and music to short-form social video and podcasts, has only intensified this trend. Digital media now accounts for close to two-thirds of all media time spent,[24] and streaming now accounts for a similar share of all global music revenue.[25] Consider that an overwhelming majority of adults now watch TV and use the internet simultaneously.[26] Driving much of that multitasking activity is the rising appeal of digital user-generated content (UGC), with some estimates suggesting that social video now accounts for a quarter of all video consumption.[27]

All age groupings are steadily shifting from linear to digital video platforms, whether social, streaming, or various forms of video on demand.[28] However, there is an increasing bifurcation of consumer behavior, especially between different age groups. Most broadcasters get three-quarters of EBIDTA from traditional, linear TV, which attracts more Gen X and baby boomers, though the streaming video so popular with younger viewers is still typically unprofitable. Roughly 60 percent of Gen Z prefer user-generated content over other media options, for instance, and close to 70 percent regularly consume TikTok, compared with around 34 percent for Gen X and 11 percent for baby boomers. Similarly, more than half of Gen Z and millennials watch Instagram Reels or YouTube Shorts, versus 31 and 36 percent,

[22] PQM Global Consumer Forecasts.
[23] Tubefilter; Statista; McKinsey analysis.
[24] Arielle Feger, "Digital media makes up nearly two-thirds of consumers' total time spent with media," eMarketer, August 13, 2024.
[25] *IFPI global music report 2024: State of the industry,* IFPI, April 2024.
[26] "The rise of second screens," Big Village Insights, November 17, 2021.
[27] Doug Shapiro, "Social video is eating the world," *The Mediator,* August 15, 2024.
[28] PQM Global Consumer Forecasts.

respectively, for Gen X, and just 15 and 29 percent for baby boomers.[29] The algorithms that increasingly act as gatekeepers (and effectively tastemakers or creators) for what people watch, listen to, and are sold tend to reinforce such habits and potentially increase this generational divide.

European content players face a market currently dominated by a small number of global media giants. Just five players (none of which are European) account for 70 percent of all global video content production spending.[30] Virtually all European social media consumption takes place on global platforms, and close to three-quarters of the region's e-commerce happens on global marketplaces or sites. Moreover, Europe's culturally and linguistically fragmented market makes it more challenging for homegrown creators to leverage economies of scale and attract capital on a level with their peers in the United States.

Industry view. Half of Content and Commerce executives are optimistic that European companies can thrive in the fight for consumer attention, though more (55 percent) believe market fragmentation will remain an important barrier to scaling.

Success factors:

— *Build deeply relevant content.* Develop tailored content strategies aligned to specific regional preferences, and ensure marketing efforts are relevant to local cultures, languages, and consumer behaviors.

— *Leverage partners for wider distribution.* Build a strong network of distribution partners to expand content reach, increase engagement, and strengthen brand presence across multiple channels.

— *Drive personalization through advanced technology.* Foster creative transformation by investing in AI and advanced analytics to support precise audience targeting and content customization.

Bespoke at-scale

Overcome the software scaling challenge while still addressing customers' specific needs.

Value pool. AI and next-gen software

At stake. Software scaling is expected to contribute $310 billion of incremental spending in Europe by 2030, with an estimated 2024–30 CAGR of 15 percent (nine percentage points more than the TMT average).

Competitive dynamics. Software is arguably the most critical sector for unlocking TMT growth and success in Europe. Companies that rely heavily on software have grown at twice the rate of those that do not, and gen AI has shown it can provide a 20 percent boost in productivity. There are already some encouraging signs of momentum in the region. For example, 48 percent of UK B2B companies are already leveraging gen AI for various use cases, compared with 42 percent of global B2B players, according to a recent McKinsey survey.

However, it has proven very difficult for European software companies to scale in the market. In the course of an average white-collar workweek, for instance, exponentially more individual software applications are used now compared with five to ten years ago. Many of these applications are

[29] McKinsey Consumer Media Survey, 2024.
[30] Company reports; McKinsey analysis.

competing against each other, require different GTM approaches per market, must be produced in more than 20 different languages, and operate under some 30 different legal jurisdictions or frameworks. Although technology innovations such as cloud, large language models, and gen AI have the potential to alleviate some of the higher costs of doing business in the fragmented market, it's yet to be seen how much Europe's regulatory landscape will foster the scaling of homegrown software businesses.

The complexity of doing business makes it even more challenging to grow significantly and gain share of the total addressable market (TAM). Sales cycles are long and costly, with multiple phases and decision makers to be navigated along the way; customers get frustrated dealing with so many different providers; and the R&D burden is growing. All the while, global software giants have enlarged their total share of the software market from 66 percent of total incremental revenues in 2019 to 76 percent today. With such scale, they are able to further expand through M&A, vertically integrate to offer end-to-end services, leverage their data and AI, move downstream through easily deployed solutions, and move into untapped markets.

Industry view. European software executives recognize the severity of the growth challenge, with 60 percent identifying European regulations as a barrier to scaling. At the same time, just over half of all top executives surveyed are optimistic that European companies can succeed in this battleground, which 60 percent predict will be the most impactful for TMT in Europe over the next decade.

Success factors. Capturing a large share of this growing value pool will require TMT companies to learn from success cases and execute across a number across a number of dimensions, deploying several different engines, including the following:

— *Revenue.* It will be critical to consider the go-to-market strategy, which can include leveraging channel partners, central sales, innovative playbooks, and the cost to serve. But staying on top of unit economics and maximizing customer retention and expansion are just as essential. Consider that generating new logo (or account) revenue costs more than three times as much as doing it via cross-selling and roughly ten times as much as with retention of existing customers. Successful players know to rethink pricing and packaging every two years, keeping in mind competition, regional differences, and changing metrics in light of consumption and the need to show value.

— *Product.* Identifying a sufficiently large TAM should be one of a company's top priorities when developing a new software offering. To help in that effort, companies can assess the ideal customer profile (ICP) for each market and draw cross-border comparisons, ensuring they think global from Day 1. Smart innovation includes carefully managing R&D spending against growth targets. Optimizing developer velocity and the overall developer experience can be the difference between success and failure. The most successful software companies excel at new-business building to grow their TAM, achieving on average a 60 to 70 percent shorter time to market compared with their peers.[31]

— *People and organization.* The importance of a willingness to pay to attract top talent, especially versus US peers, cannot be overstated. Structuring the operating model for scale is also critical for efficient and effective expansion, be it of products, markets, or the employee base. Doing so depends on having several enablers in place, including how performance management and incentives are developed, where advice and expertise is coming from (such as boards or networks), and creating cross-market, cross-culture leadership teams.

[31] McKinsey analysis

Effectively managing, retaining, and attracting that level of talent also requires incentivizing based on software industry KPIs, such as annual recurring revenue (ARR) growth, net revenue retention (NRR), growth efficiency, R&D spend, and the rule of 40.

— *Dealmaking and new business.* Programmatic M&A can help propel smart, sustainable growth, though the challenges can be greater when crossing borders and dealing with local customs and nuance. Many begin M&A later—potentially too late—in their journey. Developing Europe-tailored playbooks can help ensure deals create sufficient value and are worth the effort. At the same time, establishing new businesses or products organically, with thoughtful integration, can't be ignored.

Capturing and going beyond the core

Maximize core levers and expand into adjacencies.

Value pool. Connectivity

At stake. Maximizing core layers and expanding into adjacencies could contribute $35 billion of incremental spending in Europe by 2030, with an estimated 2024–30 CAGR of 2 percent (four percentage points less than the TMT average).

Competitive dynamics. This value pool comprises two distinct types of players: ServCos and NetCos. ServCos are customer-facing entities that use other companies' infrastructure to provide connectivity services to retail customers. NetCos are operators and wholesale providers of back-end infrastructure and networks that enable connectivity services.

European ServCos have had the tougher time of it lately, and the current outlook for their core business isn't much brighter. B2C and B2B telco services spending in the region is projected to grow only around 2 or 3 percent annually through the end of the decade. The fragmented market makes it much tougher to thrive. Europe has seven times as many different operators as more consolidated markets such as the United States. However, there are some potential growth opportunities on the edges of the business, that is, beyond the core. Revenues for information and communications technology (ICT) and next-generation connectivity services, which encompass offerings such as cloud, data infrastructure, and cybersecurity, are expected to grow revenues around 8 percent annually in the coming years.[32] Last year, global ICT players already enjoyed total shareholder returns that were double those of European telcos. Another encouraging sign is that close to 60 percent of global consumers have expressed some willingness to purchase adjacent or ancillary products, such as financial services or content, from their telco provider.[33]

European NetCos have fared relatively better than their ServCo peers, led by cell tower companies that have been in a rapid building phase of late. In many Western European countries, independent or focused tower companies control 70 to 90 percent of the market, and increased demand for 5G and Internet of Things (IoT) is expected to fuel solid annual growth of 4 to 6 percent through 2030. Similar demand for digital services is driving growth in the European fiber sector, particularly for fiber to the home and B2B customers. Investors have recognized the strong foundation and growth prospects of NetCos, so much so that we estimate 150 M&A

[32] Company reports; McKinsey analysis.
[33] Lars Engel Nielsen, Thomas Joseph, João Leonardo, and Benedict Vanderspar, "Thinking like a 'ServCo': How telcos can drive B2C growth," McKinsey, November 15, 2022.

deals for European tower and fiber companies will take place over the next two years. Average deal valuations are expected to be around $2 billion for towers and just over half a billion for fiber.[34]

Industry view. About half of the executives we surveyed say they are optimistic that European companies can succeed at capturing and going beyond core connectivity, and a similar share predict this battleground will drive the most impact for European TMT over the next decade. Even more, close to two-thirds of connectivity industry leaders identify data sovereignty, privacy, and cybersecurity as the transformation posing the biggest risk to their business.

Success factors. The overarching goal for ServCos should be to optimize their core businesses and expand into adjacencies. The first part of that equation relies on maximizing traditional value levers, such as customer value management and cross- and up-selling, which ultimately should be capable of generating around 10 percent additional revenue.[35] Going beyond the core can include a number of bold moves: investing in network APIs, open radio access networks (RANs), and edge computing to offer customized solutions; expanding or debuting ICT offerings to B2B customers; and rolling out adjacency products or services to consumers on their own or by working with other companies in an ecosystem. Growing their use of partnerships is a key ingredient for ServCo success. They can look to hyperscalers, for instance, to collaborate on connectivity solutions or link up with other ServCos for large-scale initiatives.

For NetCos, the most critical step at the moment is to leverage capital to expand their capabilities. Programmatic M&A can help players build a more consolidated entity that combines both tower and fiber assets. This would enable more streamlined infrastructure management, shared resources, increased scalability, and unified service delivery across networks—all essential for meeting growing demands for seamless, end-to-end connectivity services. Expanding the business organically also is important for NetCos. In particular, they can invest in R&D (and top R&D talent) to deliver advanced connectivity upgrades such as increased bandwidth to enable smooth transmission of HD video, real-time apps, and other data-heavy services. Enabling IoT connectivity with network upgrades also is important, given the unique requirements of such smart devices, including significant support, energy-efficient data transmission, and secure protocols.

Competing for computing

Establish a core position to satisfy infrastructure requirements from current and emerging tech.

Value pool. Data infrastructure

At stake: Satisfying infrastructure requirements is expected to contribute $110 billion of incremental spending in Europe by 2030, with an estimated 2024–30 CAGR of 15 percent (nine percentage points more than the TMT average).

Competitive dynamics. The European data infrastructure market is currently dominated by a relatively small number of global hyperscalers, which control around 70 percent of the region's cloud business. Despite the rapid pace of enterprise cloud migration of the past several years, cloud is still fueling strong growth, with infrastructure as a service (IaaS) expected to grow 25 percent through the end of the decade.[36] Success in this battleground relies heavily on access to investment and capital. Nowhere is this more apparent than with data centers. The explosion in gen-AI-based workloads is fueling a massive wave of data center expansion in the region, with the

[34] Preqin; McKinsey analysis.
[35] "Unlocking the value of personalization at scale for operators," McKinsey, February 24, 2022.
[36] Gartner; IDC; McKinsey analysis.

sector poised to grow around 20 percent for the second half of the decade.[37] But that level of activity requires huge amounts of funding, so perhaps it shouldn't be surprising that more than 100 M&A data-center-related deals are expected in the next couple of years. Midmarket co-locators are likely to account for the biggest share of this flurry, with an average deal value of around €180 million.[38]

Industry view. Only 40 percent of industry executives say they are confident that European TMT companies can thrive in this battleground, though almost two-thirds identify the broader compute and connectivity transformation as the biggest growth opportunity for the TMT sector. Roughly a third of executives say a lack of investment and capital will remain an important barrier to European companies scaling in this battleground.

Success factors. As in the previous battleground, data infrastructure's capital requirements are such that developing a consolidated ecosystem through programmatic M&A can be critical for expanding capabilities and offerings. Partnering with global hyperscalers also can be an important part of a winning strategy. Though these massive players already control 70 percent of the European cloud market, AI demand is spurring them to race to expand their data center portfolio, with regional co-locators well positioned to play a mutually beneficial role with their available capacity.

Innovation, of course, is essential for a comeback in this fast-evolving domain. Given market trends, investor and consumer expectations, and changing regulatory requirements, important focus areas will include scalable infrastructure, energy efficiency, and sustainability. Delivering data center upgrades such as increased bandwidth, low latency, IoT connectivity solutions, and other advances (like cooling technologies) also will be key. Success will depend greatly on the ability to drive and harness R&D and attract and retain the necessary talent.

Symbiotic partnerships

Become the enabling partner of choice across the tech ecosystem.

Value pool. Tech services

At stake. Becoming the enabling partner of choice could contribute $135 billion of incremental spend in Europe by 2030, with an estimated 2024–30 CAGR of 5 percent (one percentage point less than the TMT average).

Competitive dynamics. Tech services providers are uniquely situated at the intersection of tech vendors and end customers, with multifaceted, constantly evolving relationships underpinned by strong collaboration. Tech services providers and the vendors they work with are becoming increasingly interdependent: industry executives estimate that some 60 percent of services providers' revenue will be influenced by their tech vendor partners (directly or through referrals) in 2027, compared with some 20 percent only a few years ago.[39] Amid the growing complexity of tech offerings, vendors are also in turn relying more on their service partners, especially as part of their go-to-market strategy. This shift is happening just as the roster of potential partners in the space is growing. With increasingly modular tech architecture and cloud-native applications lowering barriers to entry for tech vendors, the sheer number of potential partners that end customers and tech services providers need to navigate has greatly proliferated.And total spending on vendor-heavy segments such as third-party software, cloud, and data is expected to grow by 10 percent per year by 2030.[40]

[37] Gartner; IDC; McKinsey analysis.
[38] Preqin; McKinsey analysis.
[39] McKinsey 2024 European TMT Growth Survey (n = 241).
[40] McKinsey 2024 European TMT Growth Survey (n = 241); Gartner; IDC; McKinsey analysis.

Industry view. Sixty percent of executives predict that European TMT companies can succeed in this battleground. Regarding what could help make that happen, 80 percent of executives identify leveraging partners and investing in talent as necessary to evolve their current resources, while a third say fit-for-purpose tech stacks and AI are crucial for driving growth. Still, tech services leaders appreciate the challenges they face: 45 percent identify market fragmentation as a barrier to scaling their business.

Success factors. Top service providers are continually cultivating their ecosystem, making deliberate choices on the vendors they partner with and investing heavily in these relationships. Customers are demanding high-quality, integrated solutions; winning tech services providers are codeveloping cutting-edge IP and automation with tech vendors to deliver these solutions in a cost-effective way. In the process, tech services providers act as a critical growth accelerant for vendors—particularly in fragmented markets such as Europe, which has a very sizeable and complex midmarket customer base.

It is necessary but no longer sufficient to have deep technical domain and vendor expertise alone. Those who are succeeding are combining this with verticalized, industry specialization, where an established track record enables a self-reinforcing competitive edge. Providers taking this approach can gain the ability to make greater investments in building sector-specific solutions at a granular level (such as corporate and commercial banking rather than overall financial services), making them even more attractive to customers in that sector.

Optimizing people supply chains, including balancing onshore, nearshore, and offshore resourcing models in a continent characterized by highly mobile talent and more than 20 different languages, is a critical competency. Leading companies are able to generate high single to low double digit margin advantages over peers, giving headroom to invest in automation and price competitiveness. Those that are able to invest and leverage automation, AI, and agentic capabilities effectively should be able to build and sustain this margin advantage.

Seizing the opportunities of the TMT sector

The massive expansion of the global TMT sector has been one of the driving and defining forces of the digital and economic transformation of the past two and a half decades. Europe's homegrown players in the space, however, have ample reason to feel left out, as they have struggled with flagging growth and seen their share of the sector's rising value drop significantly.

Yet as dim as the prospects may seem on the surface, Europe's TMT leaders also have ample reason to feel at least cautiously optimistic about the possibilities of a genuine comeback, as our survey suggests they are. The next wave of technological disruption could create significant new value for European TMT companies, as much as $800 billion in incremental spending by 2030 across five promising battlegrounds emerging in the following industry domains: content and commerce, AI and software, connectivity, data infrastructure, and tech services.

These promising opportunities come at a time when TMT's role in Europe's economic future could hardly be greater. Rising geopolitical pressures and the sudden expansion of tariffs and other trade controls have only added weight to the continent's technological sovereignty, data security, and supply chain resilience. While these new geopolitical realities will bring new challenges, there could be opportunities for homegrown players who can be agile in the fast-shifting market.

Whether the various opportunities can collectively spur a genuine resurgence of European TMT remains to be seen. The sector has lost a significant amount of ground over the past two decades to its peers in North America and Asia, potentially missing out on as much as $8 trillion in value. Regaining just some of its prior competitiveness is still a daunting task, with both structural and commercial hurdles to overcome and smart, strategic choices and shifts to make. But given the stakes, it's a challenge that the sector cannot afford to shy away from.

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