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ARTICLE

Italian Television in the Multichannel Age

Change and Continuity in Industry Structure, Programming and Consumption

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Abstract / It is only in the last few years that multichannel television has really made inroads in Italy. This article assesses the nature and extent of change that has taken place in Italian television in the move from a handful of terrestrial channels to hundreds of digital channels. It considers emerging trends in terms of ownership, revenue models, programming and consumption. It is argued that Italian television has undergone substantial change in recent years, the rise of News Corporation's Sky Italia and the growing centrality of pay-TV to the economics of the industry being the main novelties. However, there are also important elements of continuity. Mediaset and RAI's established terrestrial channels remain the only truly mass-audience media in Italy. Judging from current viewing patterns and in light of regulatory conditions and economic considerations, they are likely to remain so even in the all-digital scenario of the near future. In the longer term, however, fundamental change may also occur at this level, the analysis pointing in particular to the risk for public broadcaster RAI to become increasingly marginal in future, given the political and economic constraints it currently faces.

Key Words / digital television / Italy / Mediaset / multichannel television / News Corporation / public service broadcasting / RAI / television industry

Introduction

Italy is a latecomer to multichannel television. Up until the early years of the new millennium, Italian television remained essentially a system of terrestrial broadcasting characterized by a limited number of national mass-audience channels. Still in 2002, only a minority of Italian households, less than 20 per cent, had access to multichannel television. The picture, however, has changed dramatically in the past few years, especially after the launch of a new satellite pay-TV platform, Sky Italia, in July 2003 and the introduction in December of the same year of digital terrestrial television (DTT). By 2007, for the first time, a majority of Italians had access to multichannel television, through either satellite or DTT, and by the end of 2008 penetration had reached, according to some estimates, 60 per cent (*Screen Digest* 2009a).[1] With the Italian government committed to 'switch-off' analogue terrestrial television by 2012, the day when all Italian television households will be 'multichannel' is not far away.

Primarily drawing on publicly available industry data and information, this article aims to assess the nature and extent of change that has occurred, and is likely to occur, in Italian television in the move from a handful of national terrestrial channels to hundreds of digital channels. By considering emerging trends in terms of ownership, revenue models, programming and consumption, the article engages with a number of issues, including: the impact of technological change on market structure and on pluralism; the degree to which Italian television can be said to have become global; the shifting balance between free and pay TV; and prospects for public service broadcasting in a multichannel environment. Each of these issues will be dealt with in turn in the four sections that follow. The article is primarily concerned with assessing the extent and nature of change in the Italian television system in recent years and not, as much, in evaluating it from a normative standpoint. In other words, the purpose of the article is primarily analytical as opposed to evaluative or prescriptive.

The Duopoly, Sky Italia and Pluralism

From the mid-1980s onwards, the most striking feature of Italian television has been the heavily concentrated structure of the market – effectively a duopoly held by public broadcaster RAI and commercial broadcaster Mediaset (majority-owned by Fininvest, Silvio Berlusconi's financial holding company). Both running three national channels distributed over analogue terrestrial frequencies, up until the first years of the 2000s RAI and Mediaset were able to command together around 90 per cent of the audience share (evenly split between the two broadcasters) and an even larger share of industry revenues (Gambaro, 2002). Especially after Berlusconi's extraordinary victory at the 1994 general elections, the impact of the duopoly on pluralism has become a major democratic concern and a key policy issue fought over in the domestic political arena (D'Arma, 2009a). Mediaset (then Fininvest) emerged as the only private broadcaster of any scale in the early 1980s as a result of a swift process of industry consolidation, which had followed the mushrooming of hundreds of small local stations, in the context of the unregulated liberalization set in motion by decisions by the Constitutional Court against the RAI monopoly at the local level a few years earlier (Ginsborg, 2004: 32–52; Hallin and Mancini, 2004). Based as it was on a legislative vacuum, the rise of Mediaset, far from being simply the outcome of competitive dynamics, was made possible by the support that Berlusconi received from the political establishment, crucially from Bettino Craxi, prime minister from 1983 to 1987. After the collapse of Italy's 'First Republic' and since Berlusconi's entry into politics in 1994, its newly founded party, Forza Italia, and his other allies in Parliament have strenuously, and ultimately successfully, opposed any attempts by the centre-left governments at reforming the permissive television ownership rules, first established in 1990 which allowed Mediaset to retain a dominant position (D'Arma, 2009a). And indeed, during his term in office from 2001 to 2006, Berlusconi proceeded to further liberalize media ownership rules, allowing Mediaset to expand even further in the national media market, despite repeated interventions by the Constitutional Court demanding changes in national legislation to promote pluralism (Hibberd, 2007).

The proliferation of digital channels in recent years, and their growing availability among Italians, clearly represents a destabilizing factor for established players. The question then arises as to what has been the impact of the 'multichannel revolution' on the Italian duopoly. Is the duopoly still firmly in place or has multichannel television rendered it a thing of the past? There is no doubt that competitive conditions in the Italian television market have substantially changed in recent years. The structure of the Italian television industry appears to have evolved from a duopoly to a 'triopoly', with Sky Italia, the pay-TV satellite platform launched by Rupert Murdoch's News Corporation in July 2003, having joined RAI and Mediaset at the very core of the system. Sky Italia was formed out of the merger in 2003 between Telepiù and Stream, the two loss-making satellite pay-TV platforms that had started operating in the second half of the 1990s. In the first months of activity Sky Italia successfully tackled the problem of piracy, which had heavily hit both Stream and Telepiù in the years before the merger. Making the most out of the absence, initially, of any serious competitor in the national pay-TV market and backed by a group as managerially expert and financially strong as News Corporation, Sky Italia became in 2006 the first company in Italy to make money out of pay-TV. Since its launch, Sky Italia has experienced an impressive growth in the number of subscribers. According to figures released by Agcom, the Italian communications regulator (2008: 79), as of mid-2008, Sky Italia had roughly 4.5 million subscribers, up from roughly 2.5 million when it launched. In News Corporation's 2007 annual report, Sky Italia was referred to as one of the group's major growth drivers (News Corporation, 2007: 7). Sky Italia is currently the third largest pay-TV operator in Europe and has become a major force in the Italian media landscape. Its 2008 revenues (€2,640m) were higher than those of Mediaset, for the first time, and nearly as high as those of RAI (respectively, €2,531m and €2,723m. See Agcom, 2009). Market analysts predict that by 2010 Sky Italia will have become the largest television group in Italy, measured by revenue (ITMedia Consulting, 2008).

Does the rise of Sky Italia mean that concerns about the lack of pluralism in Italian television have become outdated? While Sky Italia is now economically on a par with Mediaset and RAI, clearly its core-business – provision of pay-TV services – means that its strategic goal is not chasing a mass audience, like advertising-funded broadcasters, but those segments of the population with relatively high disposable income and propensity to pay. Crucially, the multi-channel revolution has not led to the establishment of a new strong advertiser-supported broadcaster. The audience share of the six terrestrial channels run by RAI and Mediaset has indeed decreased in recent years – from around 90 per cent in aggregate in the early years of the decade to just above 80 per cent in 2008.[2] Most of the viewing lost by Mediaset and RAI in these years is now spread among the plethora of channels available on satellite television. A trend towards audience fragmentation is therefore clearly observable in Italy and it is set to continue and maybe intensify. However, the main national terrestrial channels run by RAI and Mediaset have remained the only truly mass-audience channels. They are still overwhelmingly dominant, especially so in peak time when most of television consumption occurs. Importantly, RAI and Mediaset capture the bulk of viewing – around 80 per cent in peak time – even in satellite homes. This clearly shows that there are limits to audience fragmentation, even in a fully digitalized scenario.

In a country where newspaper readership has always been low, access to broadband connections and consumption of internet services are growing but are still below the European average, television continues to play a dominant role as a source of information and entertainment and represents the only truly universal medium (Censis, 2007, 2008). While overall television consumption has been decreasing in recent years (Marzulli, 2008: 123), in 2008 Italians still watched television for 237 minutes on the average day, with 42 Italians out of 100 watching television in peak time. Given its ability to reach out to all segments of the Italian population in large numbers, traditional television arguably continues to be by far the most powerful medium in shaping opinion and values.

Italian Television: Still a National Medium?

The arrival of multichannel television has generated much discussion about the globalization of national television systems (e.g. Barker, 1997; Chada and Kavoori, 2005; Esser, 2002, 2007; Straubhaar, 2007). If by globalization and similar terms (such as transnationalization and internationalization) we simply mean the 'growing participation of non-national entities in broadcasting' (Esser, 2002: 14), then there can be little arguing about the fact that in recent years, in parallel with advancements in satellite television and digital compression technologies, Italian television has undergone a process that can be appropriately described in such terms. News Corporation, one of the largest multinational media conglomerates in the world and, indeed, according to some, 'the archetype for the twenty-first century global media firm' (Herman and McChesney, 1997: 70), occupies now a prominent position in the Italian television system through control of the dominant national pay-TV operator, Sky Italia. Subscribers to Sky Italia, and indeed even those who only have a satellite dish installed in their homes without subscribing to Sky, now have access to a plethora of channels, the majority and most successful of which are the localized versions of US-owned cable networks (Chalaby, 2009). Even in the more restricted multichannel environment of DTT, Italian viewers now have access to a handful of foreign-owned channels, including US children's channels (Disney Channel, Cartoon Network) and the 24-hour news channels of two European public service broadcasters (BBC World and France24).

There can be no dispute therefore that over the last decade or so we have witnessed the globalization of Italian television with regard to ownership and channel offerings (Esser, 2002). A much more complex task, however, is to settle the issue of whether Italians are now more exposed to, and, crucially, consume more foreign-originated programming than they used to, say, 20 years ago. On the one hand it is obvious that the sheer amount of foreign programmes available on Italian television across various distribution platforms, and their proportion out of total broadcast hours, has greatly increased in parallel with the proliferation of channels. This, however, does not necessarily mean increased exposure and, above all, consumption. Two important facts must be borne in mind. The first is that, despite the trend in recent years towards audience fragmentation, the main national terrestrial channels run by RAI and Mediaset, as we saw, are still overwhelmingly dominant, especially so in peak time when most of television consumption occurs. This is true even in satellite homes. The second fact to take into account is that since the mid-1990s, there has been in Italy a surge in production and scheduling of domestic programming by Mediaset and RAI, especially fiction, a genre which used to be largely imported before the mid-1990s (Buonanno, 2000). In 1980s Italy, unhindered by regulatory obligations with respect to domestic production, Berlusconi's commercial networks were filled up with American TV series, Japanese animation and Brazilian soap operas, a strategy which, to some extent, had also been followed by financially struggling public broadcaster RAI (Fenati and Nizza, 1992; Richeri, 1990). However, domestic production and programming increased in the second half of the 1990s, in parallel with the introduction of quotas on European works in the national legislation and improved financial conditions at both RAI and Mediaset, due to a period of steady and sustained growth in advertising expenditure. Surely, therefore, ever since the second half of the 1990s the output of the main terrestrial channels in Italy has been more 'national' than it was back in the 1980s and early 1990s. Considering that the majority of viewing is still concentrated on these channels and that this is likely to remain so in the foreseeable future, then it becomes clear why claims about the globalization of Italian television and consumption should be treated with caution.

No doubt, globalizing trends are discernible with regard to television programming and consumption in Italy. The audience share of satellite channels has been growing steadily in recent years, even though, even in aggregate terms, it is still relatively small. The share obtained by 'satellite channels' is of course overwhelmingly viewing that goes to the US spin-off channels, given the marginal presence of national and European content providers in the multichannel environment (Marzulli, 2008). Among young, well-educated people from higher socio-economic backgrounds, satellite television is increasingly popular (Censis, 2007). It should also be noted there are 'qualitative' aspects in the 'globalization' of television programming that should be weighted carefully in any assessment of the phenomenon, even though they are more difficult to ponder. For instance, Andrea Esser argues that one of the main aspects of the 'transnationalization' of European television is 'the convergence of production patterns, including production standards and values, paradigms of programme financing and exploitation and scheduling practices' (2007: 164). According to the author, the growing phenomenon of formats (especially of reality and game shows) also implies globalization and convergence among national television systems. As contended by Esser and others, these phenomena are likely to have contributed to the globalization of national television industries and programming in recent years. According to one study (Barca and Veronesi, 2007), for instance, half of peak-time entertainment programming on Italian national terrestrial channels was based on international formats. In short, it is important to grasp the complexity of the processes under way. On the one hand, the growing diffusion of US-dominated multichannel television and the increasing reliance of terrestrial channels on international formats is evidence in support of the globalization argument. On the other hand, the continuing popularity of the main national channels, and the fact the top-rated programmes are typically domestically produced (Barca and Veronesi, 2007: 245–51) is compelling evidence that television in Italy continues to be first and foremost a national medium.

DTT, and the Shift from Free to Pay TV

The growing centrality of pay-TV to the economics of Italian television is arguably the most recognizable trend currently under way. According to figures released by media regulator Agcom, the proportion of industry revenue generated by pay-TV has increased from less than 10 per cent in 1998 to over 30 per cent in 2008 (Agcom, 2009). Pay-TV is now the second largest revenue stream (after advertising), having overtaken the licence fee in 2005 for the first time. Up until 2005, Sky Italia enjoyed a virtual monopoly in the national pay-TV market, a situation which had materialized after the merger between Stream and Telepiù'. The picture however has substantially changed in the last few years, following Mediaset's launch at the beginning of 2005 of its own pay-TV service, using capacity made available on the recently-launched digital terrestrial network. At a time when advertising income and associated business models are under threat, Mediaset's rationale behind the launch of pay services through DTT is no doubt compelling. The group is seeking to enter a fast-growing segment of the television industry in order to offset its slower-growing core operations – advertising-funded television (*Screen Digest*, 2008). Sky Italia remains the dominant player in the pay-TV market, but clearly Mediaset has now become a serious competitor to the satellite platform, with a growing share of the pay-TV market – 7.4 per cent in 2008, up from 2 per cent in 2005 (Agcom, 2009).

The rapid growth of Sky Italia and the introduction, and gradual expansion, of Mediaset's pay-TV services through DTT show how digital multichannel television in Italy is primarily developing on a pay basis and is involving, in the words of David Hesmondhalgh, 'a much more thorough commodification of broadcasting' (2007: 268). This is not only true of satellite television, as it is rather common throughout Western Europe, but also of DTT, a platform promoted pro-actively by Italian governments with a view at ensuring, officially, continued provision of high-quality free-to-air television services in the digital age. Five years after its launch in December 2003, DTT has instead established itself primarily as a platform for the provision of pay-TV services by Mediaset. Mediaset has fully exploited to its advantage a favourable regulatory environment, largely put in place by the Berlusconi government between 2001 and 2006. In short, Mediaset was allowed to gain control over a very large proportion of the available technical resources on DTT (multiplexes) and was also given complete commercial freedom as regards the types of services to be provided over the new platform (for more details see D'Arma, 2009b; Gardini and Galperin, 2005).

Initially conceived as a platform for the provision of free-to-air channels (Mediaset, 2004: 61), soon afterwards, in response to the growing competitive challenges posed by Sky Italia, DTT came to be seen by Mediaset as the technology which would enable its transformation into a 'pay-TV, multi-channel, multiplatform broadcaster' (Mediaset, 2008a: 3). In Mediaset's 2006 Annual Report, DTT was eloquently described as an 'extraordinary and natural competitor of satellite' (Mediaset, 2007: 3). To implement this strategy, Mediaset invested heavily both in the acquisition of frequencies from local broadcasters to expand the number and coverage of its DTT multiplexes[3] and in the acquisition of rights to 'premium' programming, most notably football, the key pay-TV driver in Italy.[4] National league matches of the most popular clubs have been offered by Mediaset in PPV mode since the beginning of 2005, using an innovative system similar to mobile phone payment methods, based on pre-paid rechargeable cards. Mediaset's PPV offer (branded 'Mediaset Premium') has been the main driver behind the take-up of DTT in Italy. According to company figures, at the end of the 2007/2008 season, the total number of cards in circulation was 2.6 million, more than 50 per cent of the households equipped at that time with a DTT set-top box (Mediaset, 2008b: 5). Mediaset's pay-TV offering was expanded in 2008 with the launch of 'Premium Gallery', a mini-bouquet of subscription-based premium channels. The bouquet consists of three children's channels (Disney Channel, Playhouse Disney and Cartoon Network) and three new channels run by Mediaset offering prime Hollywood dramas series and first-run movies (Joi, Mya and Steel). The bulk of this product comes from two massive four-year volume deals signed by Mediaset in 2007 with US majors, Warner Bros. and Universal (Vivarelli, 2007). The launch of Premium Gallery has signalled an important shift in Mediaset's pay-TV strategy, the goal now being migrating 'the present/future PPV viewer into a subscriber, leading to an increase of the ARPU [average revenue per unit] compared to the current [low] level' (Mediaset, 2007: 27). The development of pay-TV activities through DTT has been a key staple of Mediaset's strategy in recent years (*Screen Digest*, 2008). The group's revenue structure has changed significantly over the last few years. While analogue free-to-air terrestrial television remains Mediaset's major revenue contributor, pay-TV activities now represent an important revenue stream, having reached €403.7 million in 2008, a four-fold increase compared to 2006, and accounting for 12.5 per cent of revenues generated by Mediaset in Italy (Mediaset, 2009). They are expected to increase to €500 million in 2009 (Pekic, 2009). Mediaset is committed to increase the contribution of non-free-to-air TV activities to 20–5 per cent of operating profits by 2012 from the present negative contribution (Mediaset, 2007: 285).

The conspicuous investments made by Mediaset for the acquisition of the pay-TV rights of sporting events and US fiction in recent years starkly contrast with the low-budget programming available on the new free-to-air DTT channels run by Mediaset, as well as by RAI and other broadcasters. There are in total 17 digital-only channels available on DTT nation-wide and free-to-air (excluding therefore the simulcast of existing analogue ones). These are mainly thematic or 'semi-generalist' channels, which heavily rely on cheap acquisitions and library material. The appeal of these offers is unsurprisingly low. According to one recent estimate (Studio Frasi, 2009), the audience share obtained by the new digital-only channels run by Mediaset and RAI in the DTT homes was in aggregate a mere 3.5 per cent. The combined share of these channels is of course much lower (less than 1 per cent) as calculated considering analogue terrestrial and digital satellite homes too. Revealingly of the centrality of pay-TV, Agcom (2009) estimates that the Italian DTT market generated €221.6 million in 2008, the vast majority of which (€210 million) was revenue from pay-TV activities, while only €11.6 million was derived from advertising.

It is also likely that Mediaset's strategic focus on pay-TV in recent years has also impacted negatively on the programming budget for its main free-to-air channels. In spite of the slowing down of the advertising market, free-to-air commercial television remains a highly profitable business for Mediaset, because its market power allows the broadcaster to maintain high advertising rates (*Screen Digest*, 2009a). In 2007 Mediaset's operating margin from free-to-air television was 27 per cent (Mediaset, 2008a: 83). In its presentations to investors, Mediaset stressed its success in 'rationalizing' what it refers to as 'free-to-air costs'. From 2001 and 2007, these have steadily declined in real value (Mediaset, 2008c: 12). The profits generated by Mediaset through its free-to-air commercial television activities are likely to have been invested in pay-TV activities (which are still running at a loss, due to heavy investment in content).

Concerns have been raised about the socially divisive effects of these developments (e.g. Censis, 2007; Padovani, 2007). High-value content, commentators argue, is migrating to pay-TV, denuding free-to-air analogue terrestrial channels of attractive genres such as Hollywood movies and football matches of European competitions (which in the past were shown on free-to-air television), widening inequalities among social groups and generations in access to content. In fact, despite growth in recent years, roughly 70 per cent of Italian households still choose not to or cannot afford to pay for extra-television channels, beyond those available for free. Market analysts predict that in 2012 still the majority of Italian households (54 per cent) will rely on free-to-air television (E-media Institute, 2008). Access to digital satellite and terrestrial television across different socio-demographic groups is uneven, as revealed by surveys conducted by Istat, the national statistics institute, and Censis, the leading national social research institute (Censis, 2007; Istat, 2008). In particular, older generations are lagging behind. According to Istat, at the beginning of 2007, only 17 per cent of households whose members are people aged 65 and plus had access to either satellite or digital terrestrial television – less than two out of ten (the national average was at that time slightly less than 50 per cent).

Towards the Marginalization of RAI?

Italian public broadcaster RAI has long been criticized for its excessive closeness to governments and political parties and for scheduling programmes hardly distinguishable from those on commercial television (e.g. Mazzoleni and Vigevani, 2005; Padovani and Tracey, 2003). These two widely perceived weaknesses of RAI as a public service broadcasting organization have different origin and explanation. Political interference has always been pervasive in RAI, reflecting a deeply-ingrained political culture that sees the media, and public broadcasting in particular, as a central site for the exercise of political power (Hallin and Mancini, 2004; Padovani, 2005). RAI's lack of distinctiveness from its commercial rivals, on the other hand, is widely held as resulting from the fact that since the rise of commercial television in the 1980s RAI has found itself competing head-on with a commercially driven broadcaster like Mediaset, having to supplement the rather modest income that it receives from the licence fee with advertising revenues (Richeri, 1990). Inadequate insulation from political power and lack of distinctiveness remain no doubt the two major problems and weaknesses of public broadcasting in Italy.[5] Over the past two decades, successive Italian governments have been either unable or unwilling to establish the enabling regulatory conditions for genuine public service broadcasting to flourish in Italy, by easing off RAI's commercial and political pressures through changes in its funding and governance respectively (D'Arma, 2009a; Hibberd, 2001). Neither has a move away from a culture of political patronage been observed by commentators (Crapis, 2006; Gisotti, 2006; Hibberd, 2004). Heavily politicized and commercially driven, RAI has however been unscathed so far by another major problem that a few PSBs around the world have been facing in their recent history, namely increasing marginalization as a result of growing market competition and consequent decline in viewership (Iosifidis, 2007). Having pursued a commercially-oriented programming strategy, RAI has been able to maintain a high level of popularity throughout its history, at least measured in ratings terms, drawing consistently a big share of the national audience.

Arguably, however, a growing risk of marginalization looms large for RAI in the new emerging multichannel order. To be sure, with a viewing share exceeding 40 per cent, RAI is all but marginal at the moment, enjoying one of the highest viewing figures of all PSBs in Europe (EAO, 2007). While RAI has lost some of its viewers in recent years as choice has expanded, audience fragmentation, as we saw, is still relatively low and there is sufficient evidence that there are limits to the extent to which the trend towards fragmentation will progress. The share captured by RAI's three channels in 1998, at the dawn of the digital age, was 48 per cent. In the intervening 10 years, a period during which the proportion of 'multichannel homes' has increased from less than 10 per cent to more than 50 per cent, RAI has lost 'only' 6.5 percentage points, even though, admittedly, the downturn trend has accelerated in the last few years. It should also be noted that RAI's expansion into the 'new media' (digital television and the internet) is unhindered by regulatory restrictions. In fact, RAI is required under its service contract to produce and distribute content across all platforms, both old and new (RAI, 2007a).

Enjoying a healthy viewership and free to develop its new media activities, RAI would therefore appear to be in a relatively solid position. Why then would there be a risk of marginalization? Economic forces and political circumstances inexorably push towards this direction. Simply put, RAI relies on two sources of income, advertising and the licence fee (the former accounts for roughly 40 per cent of RAI's total income; the latter for much of the rest), both of which, for different reasons, have very limited growth prospects. Market analysts concur that in technologically advanced television markets such as Italy the advertising revenues of the main generalist channels are in future likely to grow only slowly, if at all, because of audience fragmentation (however slowly this trend progresses) as well as because of the shift of advertising expenditure towards online media. RAI's Business Plan for 2008–2010 shows that RAI's advertising revenues have been essentially flat since 2004 (RAI, 2007b: 10–11).

As for the licence fee, there is little political support for it. The widespread perception that RAI is a heavily politicized organization and that its output is pretty much the same as that of commercial television is clearly an important factor in explaining the lack of popular support for the licence fee, together with Italians' negative attitude towards taxation and widespread scepticism towards public service in general. The licence fee in Italy is one of the lowest in Europe – at €108 in 2009 it was half the fee paid by households in Germany (*Screen Digest*, 2009b). It is also one of the most widely evaded. Collection mechanisms and enforcement procedures are both ineffective – roughly 25 per cent of Italians do not pay the licence fee, compared to a European average of less than 10 per cent (RAI, 2007b). This deprives RAI, according to the broadcaster's own estimates, of €450–500 million in income every year (RAI, 2008: 9). In recent years the licence fee, the amount of which is set annually by parliament, has either been held at the same level (for two years in a row, in 2005 and 2006, under the Berlusconi government) or has been increased below or just in line with the inflation rate. Under current political circumstances it is therefore unrealistic to expect that the licence fee will grow significantly in future.

RAI's future outlook must be assessed bearing in mind the budgetary pressures that the group is currently facing. RAI ended its three last financial years with a loss. Inadequately funded by the state and heavily relying on plummeting advertising revenues, RAI will in all likelihood gradually lose ground against both Sky Italia and Mediaset. Currently the largest media group by revenue, RAI is expected to be overcome by Sky Italia and Mediaset by 2010 (ITMedia Consulting, 2008). There are already trends in place that point towards a much less central role for RAI in future. RAI's growing difficulties in attracting young people and 'young adults' to its mainstream offer is one of these. RAI's Business Plan worryingly notes that the audience of RAI's three analogue terrestrial channels is getting increasingly older, with younger viewers migrating either to Sky or to the internet (RAI, 2007b: 42). In 1998, the 15–24 age group accounted for 7.4 per cent of RAI's overall audience. In 2006 this age group accounted for only 4.2 per cent. Similarly, the 25–44 age group accounted for 24.1 per cent in 1998, and only 20.8 per cent in 2006 (RAI, 2007b: 42). As a broadcaster that is nearly half-funded through advertising revenues, RAI is clearly chasing this audience (the most sought–after by advertisers). From a public service perspective, young viewers are tomorrow's viewers. Providing a service which appeals to young viewers as well as older audiences is crucial to support claims on the future need for public service broadcasting in a digital age.

Another critical issue for RAI appears to be the performance of its digital channels. In line with policy expectations, in recent years RAI has directed the bulk of its digital investments to DTT, a technology that has been seen as the natural extension of analogue terrestrial television. Since 2003 RAI has developed a family of free-to-air DTT channels (RAI, 2008). One of the key strategic objectives set out in RAI's 2008–2010 Business Plan was strengthening the DTT channel line-up, in order to enable RAI to compete more effectively in a multi-channel environment (RAI, 2007b: 59). In its Business Plan RAI claims that with a budget of currently roughly €80 million it spends more than anyone else in Italy on free-to-air DTT (2007b: 60). Ratings results however have been disappointing so far. In 2007 RAI's digital-only channels achieved a mere 0.5 per cent share. RAI's digital channels currently lag behind those of the main commercial players. Emblematic in this respect is RAI's poor showing in two core PSB genres, news and children's television. RAI News24 is outperformed by Sky Italia's own 24-hour news channel (see Padovani, 2007: 70). The audience share of RAI's DTT children's channel (RAI Gulp) is again much lower than the share obtained by the two leaders in this market segment, Disney and Mediaset's Boing (Stracom, 2009).

Conclusion

This article has asked what consequences the 'multichannel revolution' has had, and is likely to have, on the structure, organization and character of Italian television. The overall argument developed in the foregoing discussion is that Italian television has undergone substantial change in the last 10 years or so, a period of time during which access to digital multichannel television has become widespread, but that there are also important elements of continuity.

One of the key changes discussed is the growing centrality of pay-TV to the economics of Italian television. Digital multichannel television, it was shown, has become primarily associated with pay-TV services in Italy. This is not because of a widespread readiness now among Italians to pay for television. According to market analysts, the majority of Italians will continue to rely exclusively on free-to-air television even after the 'switch-off' of analogue television in 2012. Digital multichannel television, it was argued, is primarily associated with pay-TV in Italy because this is where the bulk of investments by commercial players are currently directed. By contrast, free-to-air multichannel television is developing as a 'secondary' market, consisting of low-budget channels, largely filled with recycled programming, which are able to generate tiny audiences and advertising revenues.

In parallel with the shift towards pay-TV, the last few years have seen the rise of Sky Italia as a dominant force in Italian television. Owned by global media conglomerate News Corporation and offering a rich menu of mainly US-originated basic and premium channels, no doubt the rise of Sky Italia has contributed to the process of internationalization of Italian television and has significantly altered established competitive conditions. Sky Italia is now on a par, in terms of annual turnover, with the two historically dominant players, public broadcaster RAI and commercial broadcaster Mediaset. It won't be too long before it becomes the largest media company in Italy. The rise of Sky Italia signals the end of a two-decades-long period during which RAI and Mediaset controlled, between them, virtually the totality of economic resources generated in the Italian television market. Importantly, however, it was argued that by no means the rise of Sky Italia implies that concerns about lack of pluralism are no longer justified. Free-to-air television remains by far the main source of information and entertainment for the majority of Italians, and RAI and Mediaset's terrestrial channels remain the only channels that are able to reach a mass audience, including those people who are the least likely to read newspapers and use the internet.

The foregoing discussion also clearly pointed to the different degree of success with which RAI and Mediaset are adapting to changing market conditions. Exploiting a favourable regulatory framework, Mediaset has used DTT to enter the fast-growing pay-TV market and reduce its dependency on plummeting advertising revenues. Mediaset appears well-positioned to successfully face the competitive challenges posed by Sky Italia and its multichannel offering. In contrast, the future for RAI appears less bright. Constrained by inadequate public funding, lacking political support and enjoying a low level of popular legitimacy, RAI faces a growing risk of marginalization, even though admittedly it remains so far, somewhat paradoxically, one of the most successful European PSBs in ratings terms.

Contrary to expectations in some quarters, the arrival of multichannel television, and the development of DTT in particular, has not facilitated the emergence of a new strong free-to-air broadcaster, this in turn being generally seen as an essential (but by no means a sufficient) condition for increasing pluralism in Italy. The fact that no strong free-to-air broadcaster has emerged is partly a consequence of the economics of television advertising which favours established players (Brown, 2003), and partly the consequence of regulatory choices which have consistently favoured the dominant player in the market (Mediaset), allowing it to take control of the emerging DTT market.

Having recently started investing in domestic fiction and recruiting some of Italy's most popular television entertainers and hosts (Franco, 2009; Grasso, 2009), Sky Italia might well emerge as a serious challenger to Mediaset and capture a growing share of the television advertising market in the years to come. It is not unconceivable that in parallel with the growing investment in talent and programming Sky Italia might soon decide to transform its flagship channel, the recently rebranded Sky Uno, into a free-to-air channel and try to get access to the DTT platform. Entering the free-to-air television business would then be Sky Italia's response to Mediaset's raid into pay-TV.

The television order that is emerging in Italy is one which looks set to be increasingly dominated by global media giant News Corporation and national powerhouse Mediaset, and shaped by the competitive relationships between these two players, with a weakened public broadcaster in a subordinate position. This scenario looks like a faithful reproduction, on a national scale, of the two-tiered market-driven global media system described by Herman and McChesney more than 10 years ago (1997) – the first tier consisting of a handful of fully integrated global media giants, exploiting economies of scale and scope across media and regions, and the second tier consisting of three dozen or so sizeable national or regional media conglomerates, operating on a smaller scale than the corporations in the first tier and less diversified than those, but able to exploit other advantages, including close ties with national governments. Clearly, it should be added, under Italy's current political circumstances, and while Berlusconi is in power, describing the ties between Mediaset and the Italian government as close would appear as an understatement.

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Notes

1 Cable television is non-existent in Italy. In recent years, telecommunications operators have launched IPTV services (Internet Protocol Television distributed over a broadband connection) but the number of subscribers is still very low (2 per cent of Italian households). So, 'multichannel television' in Italy essentially equates to digital satellite and digital terrestrial television. Satellite television gives access to hundreds of channels. By contrast, with an availability of around 40 national channels, DTT is the gateway to a more limited multichannel environment. In 2008, according to Screen Digest, 32 per cent of Italian homes had a satellite dish (two thirds of which subscribed to Sky Italia) and 26 per cent received DTT.

2 Figures on the audience shares cited throughout the text are publicly available figures produced by Auditel, the company that carries out television audience measurement in Italy.

3 In most countries DTT spectrum has been allocated administratively by national authorities. By contrast, in Italy, because of the lack of free spectrum – a consequence of the 'wild-deregulation' of the 1970s and 1980s during which private broadcasters had occupied available frequencies on a 'first-come, first-served' basis, in the absence of any proper licensing policy – analogue broadcasters have been allowed to trade frequencies with each other for the purpose of setting up DTT multiplexes.

4 The green light given by the European Commission to the merger between Telepiù and Stream in April 2003 was conditional on News Corporation committing to a number of remedies in order to ensure that the pay-TV market remained open. Among others, News Corp waived exclusive rights in relation to blockbuster movies, football matches and other sport rights for non-satellite transmission. This allowed Mediaset to acquire rights to such programming for other platforms, including DTT.

5 While it is true that by international standards RAI's programming has historically exhibited a lack of distinctiveness (see Achilles and Miège, 1994; McKinsey, 1999), it is also important to acknowledge that, however limitedly, RAI does differentiate itself from Mediaset in important respects and in key areas of programming, as it is clear from studies showing how RAI, not dissimilarly from its counterparts in other parts of Europe, airs a higher proportion of domestically produced programmes and 'public service' genres than its main commercial competitor (see for instance Barca and Veronesi, 2007: 175; EAO, 2007; IEM, 2008).

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