

MANAGEMENT OF INNOVATION INDUSTRY ANALYSIS SERIES

## EXECUTIVE SUMMARY

### Snell UK Telco Innovation Report 2004

How to Exploit Innovation to Address the Growth Ambitions of the UK Telecommunications Sector



**SnellConsultancy**   
Technology and Innovation Consulting

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## THE AUTHORS

During 2004 over 25 senior executives in the UK telecommunications industry, charged with delivering the innovation ambitions of their companies, were interviewed for this snapshot report. The authors wish to thank them for their time and expertise, without which the preparation of this groundbreaking report would not have been possible.

This report has been researched and written by Ivan Snell and Constantin Schwarz of Snell Consultancy Services Limited and represents our own independent views and opinions.

Snell Consultancy is a management consultancy firm, which is solely focused on assisting companies to improve and strengthen their innovation performance. Established in 2000, its consultants provide a source of entrepreneurial energy and fresh thinking on innovation.

Snell Consultancy works with clients in a number of technology intense industry sectors, such as telecommunications, in which it has in-depth experience in launching new products and services, particularly for a number of the UK telecoms companies. Through this research work and similar initiatives to follow, Snell Consultancy aims to become the preferred supplier of Innovation Consulting services to the CEO's of the UK FTSE 250 companies by 2006.

Ivan Snell has a Masters of Science (MSc) in Technology and Innovation Management. He is the Founder and Managing Director of Snell Consultancy. For over 10 years, Ivan has worked with a number of UK and European fixed and wireless telecommunications operators, service providers and vendors advising them on the strategic management of innovation.

Constantin Schwarz has worked for 10 years in technology-enabled business transformation and innovation as a researcher, analyst, investor and consultant. He has also spent a number of years as a European business manager for a global pharmaceutical firm. Constantin holds an MBA degree.

### **Copies of this report can be purchased from:**

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### THE ISSUE – ADDRESSING UK TELCOS' REVENUE GROWTH AGENDA

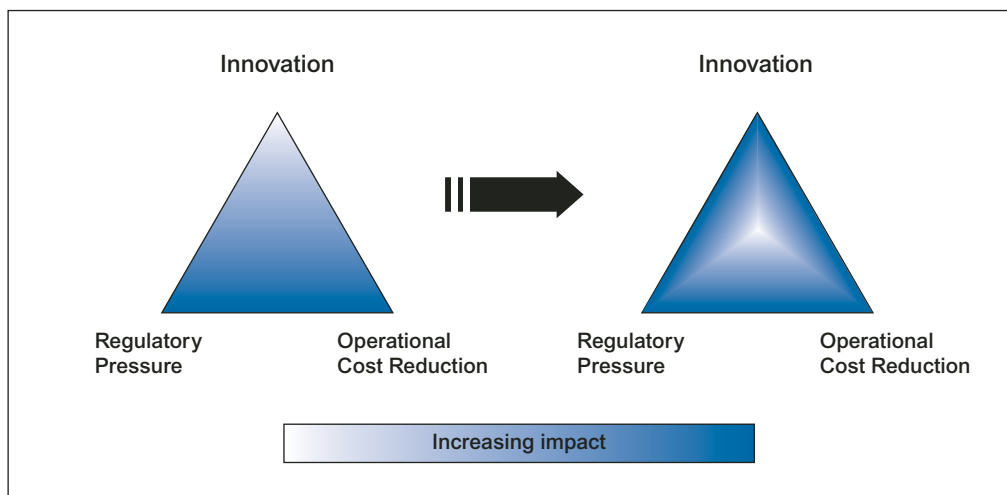
Gary Hamel (1997), Joe Tidd et al. (2001) and PricewaterhouseCoopers (2001) have shown that companies taking a strategic, committed and systematic approach to managing innovation on a company-wide basis are rewarded with faster rates of revenue growth than 'non-innovators'. This report addresses the issue of how UK telecommunications companies (Telcos) can exploit innovation in such a strategic, committed and systematic manner to grow sustainable, profitable revenues.

#### The Increasing Importance Of Innovation In A Growth Economy

In October 2003 a global survey of 700 CEOs conducted by The Economist Intelligence Unit (EIU) found that after a focus on 'customer satisfaction', 'cost management' and 'core competencies', 'fostering innovation' was the CEOs' fourth strategic priority for the next three years. Six months later the EIU reported that product development and innovation had become a top three strategic priority (EIU, April 2004). Other recent research has shown that boards of directors and senior management need to spend more time on these and other big strategic issues facing their organisations.

#### Innovation As A Strategic Issue For Telecommunications Companies

In the UK, the telecommunications industry does focus on two of its major strategic issues. These are the impact of deregulation on revenue from existing products and services, and the continuing need to drive down operating costs at the same time.



However, there is a third important strategic issue, that of innovation. In comparison, it receives far less attention than it deserves. As a recent article in The Financial Times entitled 'Innovation: an opportunity and a risk' pointed out, 'one of the biggest challenges facing telecommunications companies is predicting the impact of rapid advances in technology on their business' (FT, June 2004).

Innovation is important in every sector of the economy, especially so for Telcos. The rapidly growing impact of so called 'network effects' and the relatively low barriers to entry make disruptive technologies a serious threat. In the past, failure to see this threat has led to major destruction in shareholder value. It is clear that learning to measure and manage innovation strategically is a key differentiator between organisations in the sector.

Telcos are operating in a harsh competitive environment, with an increasing number of players vying over a finite set of customers. Core revenue streams are on the decline or flat at best. These issues are not confined to the UK. In many other parts of the developed world Telcos are wrestling with ways to arrest the decline in traditional fixed-line legacy service revenues (often as much as 7 percent per annum), with mobile subscriber numbers heading towards saturation and flat average revenues per user (ARPU) growth. Some would even argue that the sector's narrow margins and oblique competition will only support a handful of network companies in the future. The ability of these companies to innovate and respond to shifts in customer demands, new technologies, new devices and adjacent market opportunities will determine their future.

Although a few companies successfully realise innovation without a formal management process, extensive research has concluded that companies should not leave innovation to chance but consciously manage it in a strategic, committed and systematic manner. Clearly this is more easily said than done: learning to manage innovation is an ongoing challenge. This raises the question as to how Telcos should manage innovation to best effect?

The Snell UK Telco Innovation Report 2004 is the first effort of its kind to investigate how Telcos are managing innovation. The research was conducted by interviewing key players in the UK Telco sector.

## THE KEY DELIVERABLES OF THE REPORT FOR TELCO BOARDS

There are five key findings that the Telco board needs to consider:

<p>1. <b><u>Telcos Must Innovate:</u></b></p>	<p><b>All</b> the Telcos interviewed stated that the only long-term strategy open to them, for reversing continuing revenue decline, is the acceleration of product and service innovation.</p>
<p>2. <b><u>Innovation Requires a Strategic Focus:</u></b></p>	<p><b>All</b> Telcos recognise the need to manage innovation strategically. Telcos understand there is simply no choice, it is a matter of survival.</p>
<p>3. <b><u>Telco's Innovation Intentions Do Not Match Reality</u></b></p>	<p><b>Few</b> Telcos really understand the concept of innovation and understand how to manage it strategically. <b>None</b> of the Telcos we talked to had formally documented innovation strategies, or could state what the business case for innovation really was.</p>
<p>4. <b><u>The Management of Innovation is at a Very Early Stage:</u></b></p>	<p><b>No</b> Telcos measure and <b>very few</b> manage innovation performance on a company-wide basis.</p>
<p>5. <b><u>Leadership in Innovation Matters:</u></b></p>	<p><b>The most</b> innovative Telcos in our survey have developed a culture of innovation with strong leadership from the top.</p>

We have identified four stages in the evolution of innovation management; each with their own set of priorities for getting the most value out of, and greater use of, scarce managerial resource.

## **CONCLUSIONS FROM THE SURVEY FINDINGS**

At a strategic level, Telco boards need to become better acquainted with the innovation challenges facing their management teams and the implications of the strategic innovation options that are open to them. We spell out in the report that each Telco is at a different stage in implementing the organisational building blocks required to make innovation a core competency. However, the need for action is shared by all.

### **Making The Commitment To Improve Innovation Performance**

To reap the rewards that innovation brings, Telcos must act decisively to manage innovation better. They need to commit to innovation, assign responsibility, measure progress and create the appropriate tools and techniques. Management practices need to accommodate and reflect the company's innovation ambition. This will be critical to drive faster, profitable, revenue growth and future value creation for all stakeholders.

### **Call To Action – Next Steps**

We have developed a simple three key step process that can be followed by any Telco intent on improving its innovation performance:

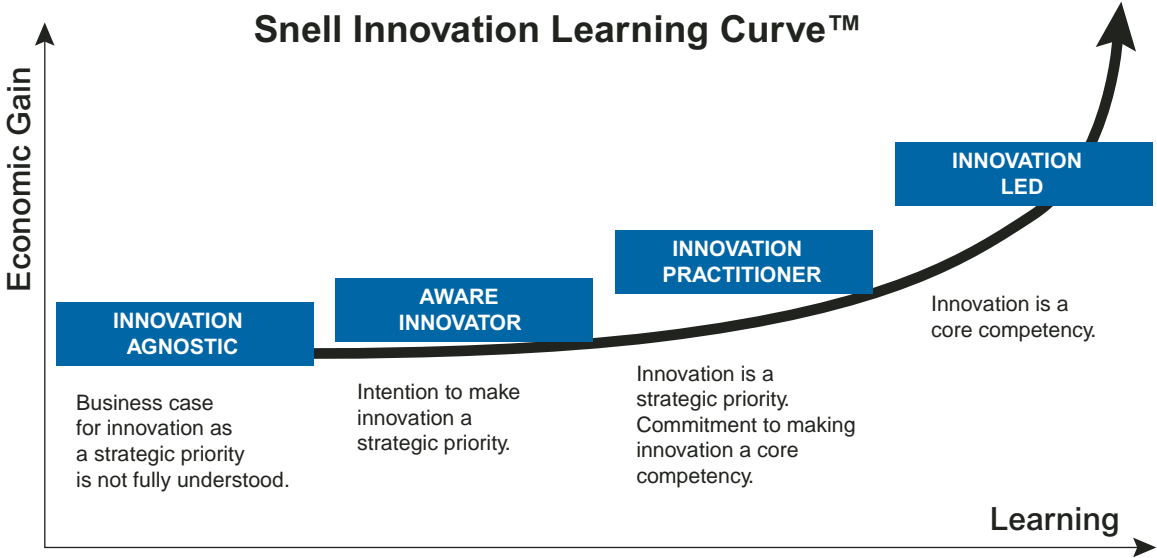
- 1. Baseline – undertake a company-wide innovation health audit**
- 2. Initiate – assess the company's position on the Snell Innovation Learning Curve™**
- 3. Control – introduce the innovation improvement work programme appropriate for the company's position on the Snell Innovation Learning Curve™**

While successful innovation management requires a combination of skills, supportive cultures and climates, structures and processes, vision and leadership, the aim of this report is on how to plan for and then on how to begin developing the formal elements of a new management process.

### **The Benefits Of The Report**

This report provides information, suggestions and tools that offer senior executives in the telecoms industry new ways to think, question and understand how to improve their capacity to innovate so as to help ensure the survival and future prosperity of their companies. In particular, we have identified a number of innovation performance improvement work programmes to assist management in achieving early results.

# Where Are You On This Curve?



## Do You Know How to Move Up the Curve?

Snell Consultancy can help your company move.

FROM	TO	HOW
Agnostic	Aware	by starting an <b>Innovation Initiative</b>
Aware	Practitioner	by embarking on a <b>Strategic Innovation Programme</b>
Practitioner	Innovation Led	<b>Innovation Leadership Transformation</b>

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