



*High performance. Delivered.*

This article originally appeared  
in the October 2009 issue of

Outlook

The journal of  
high-performance business

Communications & High Tech

## Open innovation: How to create the right new products, the right way

By Gene Reznik and Angelo Morelli

The communications industry does not always get much bang for its R&D buck. But new research shows a correlation between companies that meet or exceed their new-product launch plans and those that are more effective at open innovation—establishing relationships with third parties and specialized providers in an open development environment.

• Consulting • Technology • Outsourcing

Even in these days of government bailouts and massive budget deficits, a trillion dollars is still a lot of money. That was the estimated outlay worldwide on research and development last year alone.

Are companies getting their money's worth?

In fact, many of them, across virtually all industries, are having a surprisingly difficult time managing their development pipeline effectively and efficiently, and an even harder time tracking precisely what business value they are realizing from that investment.

New-product development challenges are especially acute in the communications industry. Companies in this sector are struggling to cope with falling margins from traditional products, rising consumer expectations and a marketplace in which they are increasingly competing head-to-head with high-tech, software and content players much more highly skilled at the product development game.

These difficulties raise serious questions about the industry's innovative capability. Add a recession to the mix, and it spells trouble.

New Accenture research confirms that the communications industry is not always getting much bang for its R&D buck. A majority of the 270 communications executives we surveyed across Europe, Asia Pacific and the Americas experience budget overruns in new-product development. Forty-two percent report an overly slow pace as they move a product from idea to prototype to launch. Seventy percent stopped development of at least some new services last year. Meanwhile, the average company discontinued 15 new products, and 10 percent of companies discontinued more than 50 services.

The news is not all grim, however. Our research also finds a correlation between companies that meet or exceed their new-product launch plans—a group we term “innovation masters”—and those that are more effective at so-called open innovation: establishing effective relationships with third parties and specialized providers in an open development environment.

The masters are developing the right innovations the right way—by improving their understanding of customer desires, and by developing products that deliver a compelling and simplified user experience. Rigorous processes; better management of new-product development, especially in an open innovation environment; and grooming internal talent are critical.

Together these capabilities can reduce the cost of new-product development while increasing the likelihood of delivering breakthrough products.

What's causing so many development projects to falter in the communications industry? Our research points to a number of factors.

Delays result from a lack of project management skills and poor interdepartmental cooperation. As one executive puts it, “The act of aligning different parts of a large, complex organization adds considerable time to the process that isn't related to the technical development itself.” Such delays result in cost overruns, which in turn lead to abandoned projects as budgets get tight.

Slow development times go to the very heart of communications companies' competitiveness. As another executive says, “We are competing with other players that can launch products and services much faster. We need to be quicker.”

Slow development times go to the very heart of communications companies' competitiveness.

Another factor contributing to project delays and budget problems is the complexity of the development environment. About one-third of the executives we surveyed include third parties and/or customers in their new-product development processes. Such a collaborative development environment increases the opportunities for innovation. But it also introduces more risk and, potentially, additional costs.

Talent shortages also present challenges to new-product development. Many industry executives are frustrated by their organization's inability to attract the right level of talent and by a paucity of new ideas for innovative services. A lack of incentives for innovation is clearly a factor. This talent gap is felt most acutely by the IT executives in our study.

#### **Innovation masters**

A distinct group of respondents—many of them in Europe—are experiencing greater success in new-product development. Indeed, they reported new-product development times significantly faster than their peers in the United States and the United Kingdom. For example, while average new-product launch times across our global sample was six months, companies in France and Germany were significantly more likely to have launch times of less than three months.

Moreover, compared with other respondents, more Europeans exceeded their launch expectations in the last year. And these companies are more optimistic about the number of new services they will develop in the coming year, regardless of the economic climate.

These companies are also bolder when it comes to the types of offerings they are working to release.

One of the consequences of increased risks and costs in new-product development is a kind of timidity. For example, most of the companies surveyed are focused primarily on developing new services in the areas that have traditionally generated most of their revenues, such as voice services and messaging. Relatively few companies reported planning new offerings in areas such as social network video streaming, user-generated content and location-based services—initiatives that would take them out of their comfort zones.

By contrast, innovation masters are more likely to branch out into new areas such as personal information management, fixed-mobile convergence and services based on social networking applications.

What's behind the success of these companies? One of our key findings is that they are embracing principles of open, collaborative development and open innovation. More of them also report that they intend to improve the overall process by working with specialized developers, using better planning processes and expanding their base of product innovation partners.

There is a catch, however. According to the research, these same European companies are also more likely to experience cost overruns in new-product development. Balancing the effective collaboration needed to be innovative against the constraints of a cost-conscious business environment is essential.

The communications industry is not monolithic, to be sure. Indeed, we see three types of players emerging in the broader communications ecosystem: companies focused on innovations in products and services; those seeking to differentiate themselves through sales and service; and network operators where innovation is concentrated

**Innovation masters are more likely to branch out into new areas such as personal information management, fixed-mobile convergence and services based on social networking applications.**

on creating efficiencies in network distribution. The specifics of innovation are going to vary somewhat across those three types of companies.

**Faster, more efficient**

Nevertheless, our research and experience point to a number of common themes and imperatives when it comes to taking innovations to market faster and more efficiently in the communications industry.

**Commit to greater customer-centricity and customer-driven market insight**

Focusing on those services most likely to meet significant customer needs is key to profitable new-product development.

In large measure, developing better, more customer-centric innovations requires the application of analytic technologies and solutions that provide a deeper understanding of the unique interests and desires of customer segments, enabling companies to target profitable customers more effectively.

Australian service provider Telstra, for example, has made considerable investments in a deep, segmented understanding of its customers. That means the company's marketing units are able to provide better guidance about the types of products and services most likely to be profitable.

But customer-centricity also means that a richer customer understanding drives product design and development—as well as the entire customer experience across all of a company's products and services. This represents a significant change.

According to Eric Bruno, senior vice president of corporate marketing for US-based wireless provider Verizon Communications: "If you went back two or three years ago, you would

find companies launching independent sets of applications and sending them out into the marketplace. Now we're spending much more time integrating those experiences, centralizing all the applications so customers can go to one place for a total experience."

One emerging best practice is to involve customers in the R&D process. This not only gives companies a better understanding of their customers; it also helps customers forge a stronger and more personal relationship with the company.

For example, Spain's Telefónica has established customer labs in its R&D area—bringing customers in to interact with researchers during product development. The company has also used social media to create open forums with its customers. Telefónica's chief strategy officer, Bernardo Quinn, reports that "we are already seeing the difference this is making in terms of customers who are more engaged with our company and products."

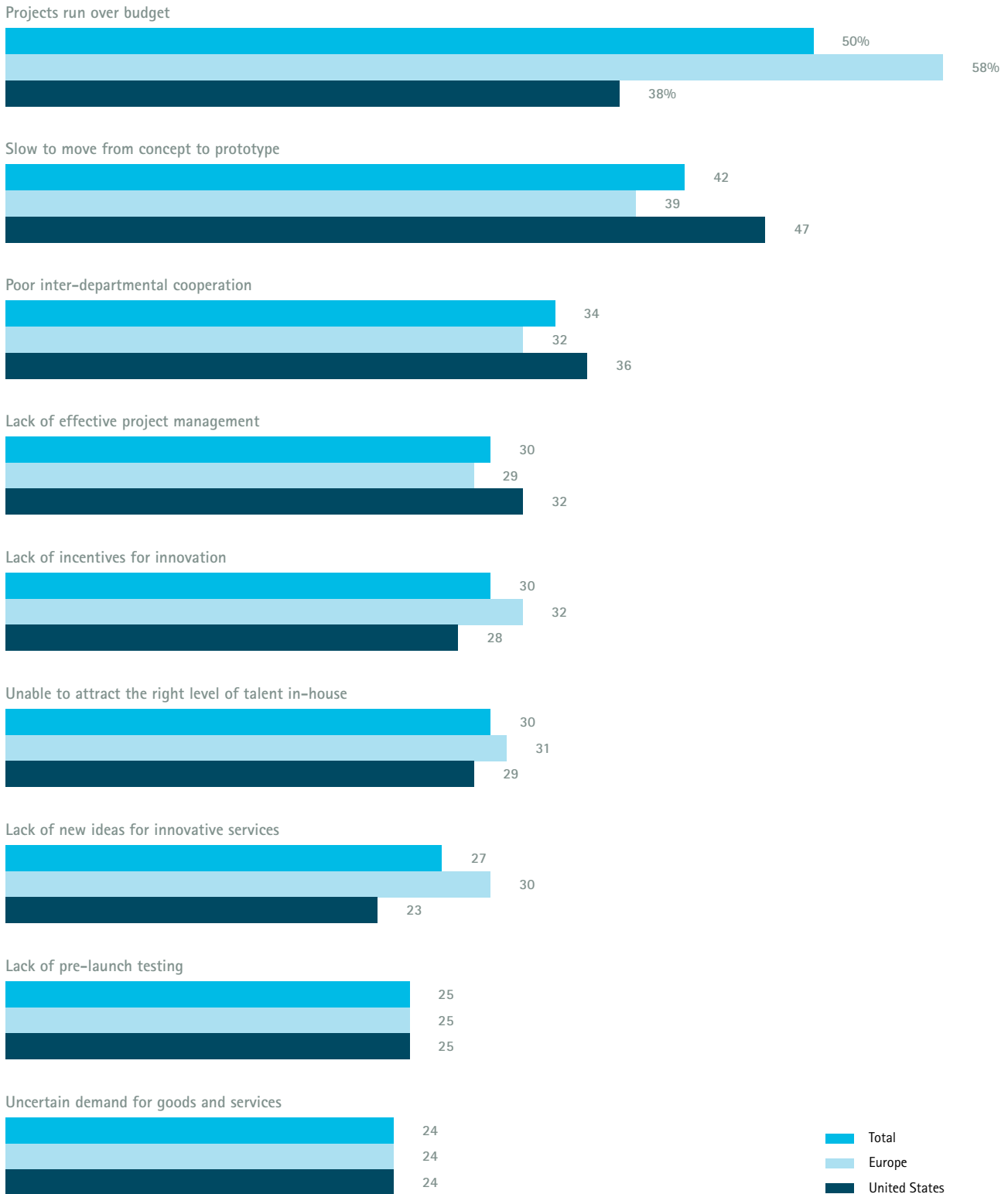
France Telecom also brings customers into the design process, as part of its strategy of focusing on fewer, higher-impact products. According to Jean-Philippe Vanot, the company's senior executive vice president of innovation and marketing, "We can test their ability to use our products and services quickly and easily. If a product is perceived to be easy to use, development continues. If not, we modify the product and try again." The result is a less complicated experience for the consumer, says Vanot, "but one that is therefore much more valuable."

Compelling customer service experiences are clearly critical to differentiation. Some companies go a step

(Continued on page 6)

# Hurdles to innovation

Accenture surveyed 270 communications executives across Europe, Asia and the Americas. They told us that cost overruns and slow development times are the primary constraints to new-product development.



Source: "Managing New Product Development and Innovation in Challenging Times," Accenture 2009.

(Continued from page 4)

further, bringing a service mindset to the new-product development process.

For example, at US cable company Comcast, “Our service function gives us the opportunity to be engaged in the product development process, in many cases at the very beginning of product ideation,” reports Karen Gaines, vice president of customer operations. “So that way we can help build the customer’s perspective into the service—including how they will learn about and use a new product.”

#### Use better innovation portfolio management to generate demand-led, top-line growth

Many providers today serve a variety of customers, from top government and enterprise customers to individual consumers, which makes managing new-product development much more complex. As a result, leading companies are gaining a deeper and more detailed understanding across their entire innovation program, and then managing that program as an investment portfolio.

Telstra, for example, manages its innovation program and portfolio on two levels. The first, representing approximately 25 percent of the overall portfolio, involves completely new capabilities and significant upgrades to existing capabilities and platforms. The second level involves new applications and features—incremental functionality.

These different kinds of product development require different lead times and must be managed differently to appropriately match the development process to the level of investment risk. Telstra also invests in technology enablement programs to create shared infrastructures that support all future product developments.

Knowing when and what to disinvest can be as important to effective innovation portfolio management as creating new products. Many companies carry too many products, services, customers, parts and variants. Not only is this costly; it hinders growth and the ability to execute.

In addition to reducing the number of new products launched, France Telecom is also working actively to prune old products. This enables the company to focus more effectively on new services that drive growth, and also cuts implementation costs for new products. These do not have to interface with older systems, and the company also saves migration costs to new systems. Telstra regularly retires platforms and products that have entered the less profitable part of the product maturity lifecycle, which helps the company focus on newer, more profitable offerings.

#### Tap more effectively into a larger idea pool based on open innovation

Sixty-three percent of executives in our survey acknowledged that open innovation is a cost-effective alternative to traditional development. About half also agreed that open innovation can counter a shortage of in-house ideas.

The most innovative European companies are much more likely than their US counterparts to “always” use an open innovation model, according to our research (see chart, page 9). In general, innovation masters—regardless of their location—also reported, by a wider margin than their peers, that they intended to reduce development times by working with more specialized developers, collaborating with third parties or even outsourcing aspects of the innovation process.

A more collaborative ideation and development process is not the exclusive province of the Europeans, however.

One emerging best practice is to involve customers in the R&D process.

## Collaboration can create a deeper pool of new ideas and increase the potential customer base.

Verizon Communications' Eric Bruno, for example, confirms that his company is "completely and totally committed to open development because we will not drive sufficient innovation on an internal basis alone."

Toward that end, Verizon is currently working with Vodafone, Softbank Mobile Corp. and China Mobile as a member of what's called the Joint Innovation Lab to create a single global platform for developers. The goal is to encourage the creation of a wide range of innovative and useful mobile applications.

This kind of collaboration clearly creates a deeper pool of new ideas. But it also increases the potential customer base. The four companies of the Joint Innovation Lab together serve a billion subscribers.

Telstra also manages its collaborations very carefully, relates Holly Kramer, group managing director of Telstra Product Management. "We've deliberately reduced our supplier base so that we have fewer but deeper relationships with our vendors," she says. "This enables us to encourage them to innovate with us. At the top level, we build true partnerships with these companies."

Industry leaders are also tapping into expertise closer to home. Telefónica, for example, has created an internal program, which includes prizes as incentives, to encourage and reward ideas coming from its employees. In some cases, submitting a winning idea can lead to joining the development team. Last year, the Spanish telecom received more than 600 ideas and recognized about 25 with prizes.

### Develop more effective program management capabilities that break down internal barriers

A shortage of effective project management skills was cited by more than a third (35 percent) of the

executives in the Accenture survey as a constraint on new-product development. That percentage was even higher (44 percent) among the IT executives.

Better tracking tools are one part of improving project management capabilities. Comcast, for example, employs several tools that help project leaders and executive sponsors more effectively manage a new product through the development process, providing "more rigor today around project management than we had just a few years ago," says customer operations executive Gaines. Verizon uses a software tracking tool to help developers document requirements more effectively. "Requirements become exponentially more complex in today's development environment," Bruno points out, "because one has to integrate the various experiences. Every time we launch, we're adding to a preexisting experience, so we need to make sure we capture the requirements, document them and then update them as we go."

### Provide opportunities to retrain your workforce and upgrade its capabilities

Because the challenges of the communications industry are so fresh, companies can have more difficulty bringing in people who already possess the complex set of knowledge and skills required in specific domains. Retraining and/or expanding the capabilities of the existing workforce may be the better answer in some cases.

At Telstra, says Kramer, "There will always be skill shortages in new and emerging technologies, and also at the point of convergence between fixed and mobile, media and communications, and network and IT." She notes that one of the keys to the company's success has been its dedicated Telstra Learning Academy, run on an outsourced

**Retraining and/or expanding the capabilities of the existing workforce may sometimes be the better way to develop the complex set of knowledge and skills required in specific domains.**

basis. “The Academy gives us an opportunity to work with learning professionals to rapidly design curriculums that meet our current skill needs.”

**Reduce waste and waiting time to boost speed to market**

If companies are to leverage the power of a more open development environment and meet the twofold challenge of speeding new-product development while reducing costs, then new processes, tools and platforms are essential. A service delivery platform is an example of such a tool—a standardized service creation and execution architecture that accelerates the introduction of new applications and services.

In recent years, however, the complexity of the development marketplace has rendered older platforms obsolete. A new generation of open service delivery platforms—built to accommodate popular social networking applications—can help companies integrate an ever-increasing number of critical enablers, from access to applications to network to the business support system and operations support system.

Major communications services providers are currently leveraging that kind of service delivery platform. It is a key supporting element to the “Open Telefónica” initiative, for example, by which the company is opening up its application programming interfaces so more developers can take part in creating new services on the Telefónica platform.

Telstra, too, has been on a multi-year journey to create a more effective and collaborative development environment supported by a set of reusable network and IT enablers, which the company calls its Service Delivery Framework. According to Kramer, “The vision for our SDF was

to do several things. One was to be able to deliver integrated products and applications with a seamless user experience. If you’re building silo platforms for different access types, you’ll never get a good seamless integrated experience for your customers. The second driver was to improve the efficiency of our new-product development capability.”

Telstra’s investments have paid off. The company has reached a point now where a significant proportion of its product roadmap is leveraging the SDF functionality. The delivery platform has given Telstra the capability to bring high-volume, low-investment products, content and applications to market more quickly and at lower cost.

**Innovating through the downturn**

Service providers have a critical role to play in the converged communications, high-tech, software and media marketplace. If they are to continue to be major players, however, they need to focus on several areas in particular.

First, they need to become more effective at helping their customers accelerate the pace of innovation adoption. Our research has found that end users—consumers, in particular—need help coping with the complexity of today’s technology environment.

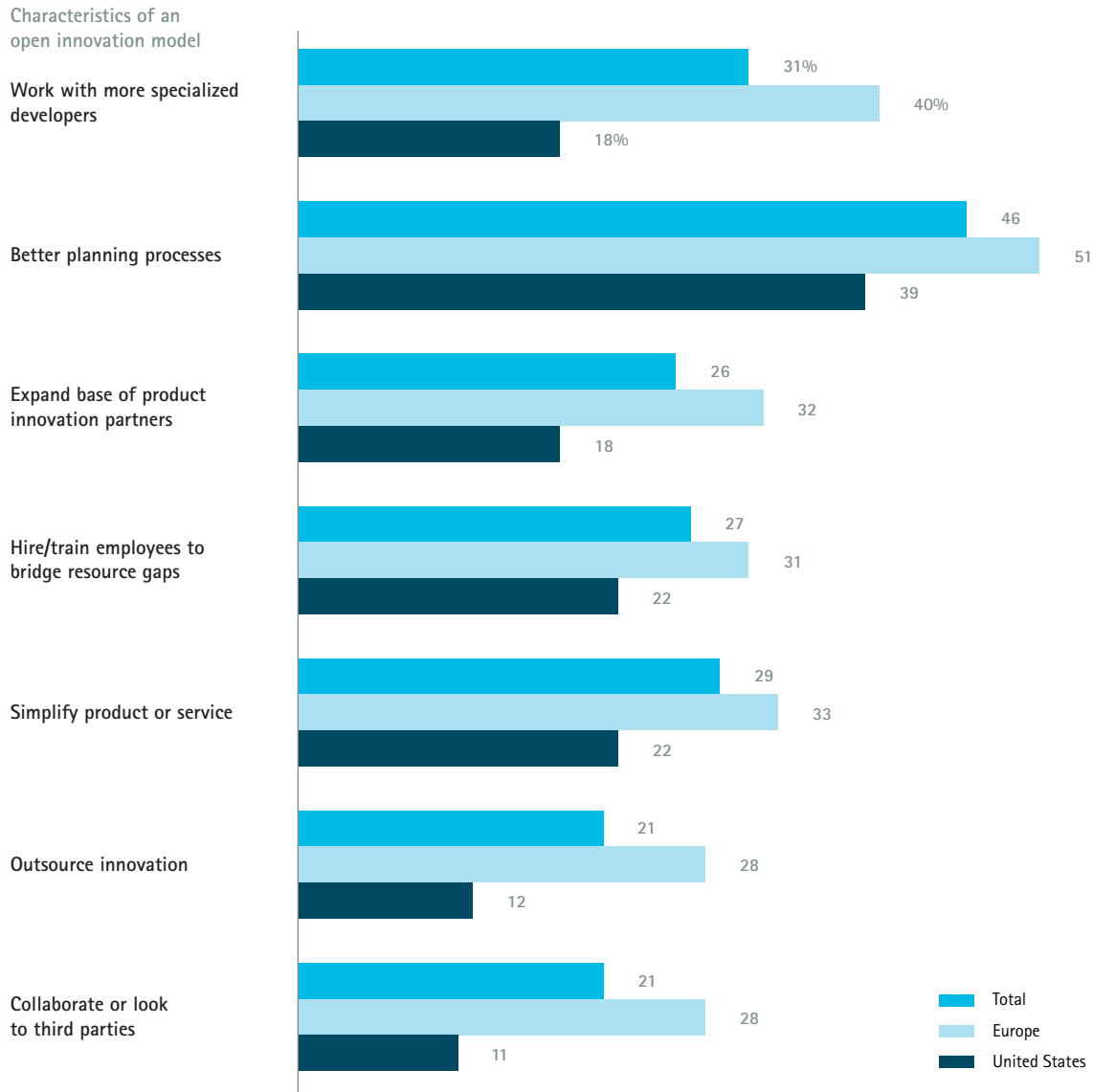
The best products in the world cannot succeed if customers are bewildered by them. Designing products that are simpler to understand and use is part of the answer, but so is providing tailored technical support for customers. Such support can even be a revenue generator for the business.

Second, carriers must more effectively manage the quality of their services and devices. Delivering a modern

(Continued on page 10)

# The European advantage

European companies are more willing to use an open innovation model than their US counterparts.



Source: "Managing New Product Development and Innovation in Challenging Times," Accenture 2009.

(Continued from page 8)

communications service involves many players, but the provider's brand name is usually the most prominent. That means a carrier must be able to track faults throughout the entire system. It also means that more effective testing of the network and devices is essential.

Finally, providers must focus on increasing the value of innovation. While Web 2.0 players and consumer electronics companies are focused on vertical integration of their services (taking responsibility for device, delivery and content), carriers can help increase the value of innovation through horizontal integration of multiple applications across a variety of connected devices.

By more effectively integrating applications, content and hardware, they can enrich the end-user experience to the point where they can become the provider of choice for a consumer's full range of digital experiences.

*Outlook* is published by Accenture.  
© 2009 Accenture.  
All rights reserved.

The views and opinions in this article should not be viewed as professional advice with respect to your business.

Accenture, its logo, and High Performance Delivered are trademarks of Accenture.

The use herein of trademarks that may be owned by others is not an assertion of ownership of such trademarks by Accenture nor intended to imply an association between Accenture and the lawful owners of such trademarks.

**For more information about Accenture, please visit [www.accenture.com](http://www.accenture.com)**

## About the authors

**Gene Reznik** is the global managing director of the Accenture Communications industry group. In this role, he oversees the development of the company's strategies and capabilities for serving the wireline, wireless and cable segments. Mr. Reznik has been with Accenture for nearly 15 years and has worked across multiple industries and business areas. Prior to his current role, he was the global managing director of the Accenture Communications & High-Tech Strategy group; before that, he led the company's Communications Network group. Mr. Reznik is based in Chicago.

[gene.reznik@accenture.com](mailto:gene.reznik@accenture.com)

**Angelo Morelli** is the Rome-based executive director of Accenture Communications & High Tech, responsible for Accenture's offerings and work around new-product development and innovation for communications, high-tech and media clients globally. Mr. Morelli has more than a decade of experience helping communications service providers achieve high performance. He is the global lead for the Accenture Service Delivery Platform solution, and he has extensive experience helping new market entrants define the business case and set up their operations. Previously, Mr. Morelli served in a number of management positions in the telecommunications industry.

[angelo.morelli@accenture.com](mailto:angelo.morelli@accenture.com)