

Accenture Solutions for Innovation and Service Management

# Managing New Product Development and Innovation in Challenging Times

Driving high performance through profitable innovation

An Accenture research report



*High performance. Delivered.*

• Consulting • Technology • Outsourcing

During challenging economic times, communications and high-tech companies may be tempted to scale back on product development. Yet such a decision risks cutting off the lifeblood of innovation that keeps a company competitive. A better answer is to make innovation and new product development more efficient and profitable.

New Accenture research finds that companies that are able to support a more open and collaborative environment for new product development are speeding new products and services to market faster than their peers. These companies are more likely to say that their development process has accelerated, and that they expect to launch more products in the coming year.

Expanding one's base of innovation partners and specialized developers is a key to achieving high performance, as is an effective platform for better management of the collaborative environment.

---

## Table of Contents

Executive Overview: The keys to successful service innovation and new product development	1
New product development: The challenge is in the execution	4
Faltering development projects: Contributing factors	5
Overcoming the challenges: What the innovation masters know	8
Driving high performance through more effective new product development	10
Conclusion: Innovating through the downturn	12

## Executive Overview

# New Accenture research highlights the keys to successful service innovation and new product development

The investment community has not been kind in its assessment of the future value of the communications industry, leading to a \$200 billion loss in future value among a group of major industry players just over the past couple of years.<sup>1</sup> At its heart, such a loss points to serious issues with the innovative capability of the industry. Add an economic downturn to the mix, and it spells trouble.

Strategic cost reduction is certainly an imperative at this time, but so is innovation that drives growth and widens the post-recession performance advantage. Accenture analysis of growth and recession cycles in the United States over the past several decades has found that companies that outperform their competition continue to invest in refreshing their products and services even during an economic downturn.

### New research confirms that a more effective collaborative environment is essential

Accenture believes that a key to innovation during a downturn is a more effective collaborative environment and a development platform, based on open standards, that enables faster and more cost-effective collaboration among multiple parties, both internal and external to an organization.

This point of view is supported by new research from Accenture—a global survey of 277 communications, media and high-tech executives conducted in late 2008. The findings confirm the presumption that times are hard when it comes to new product development. Half the companies in our survey report budget overruns in new product development. Forty-two percent of the companies report an overly slow pace as they move a product from idea to prototype to launch.

As a result of these challenges, 70 percent of the companies surveyed stopped development of at least some services last year. Many companies also report a talent shortage and a breakdown in the management of the end-to-end innovation process, which contributes to delays.

### What the innovation masters know

The news is not all grim, however. Our research finds a correlation between companies that meet or exceed their new product launch plans—a group we term innovation masters—and those that leverage third parties and specialized providers in an open development environment.

The innovation masters report development times significantly faster than their peers. They also were more likely to say their product development process has accelerated over the past year, and were more optimistic about the number of new services they will develop in the coming year, regardless of the economic climate.

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

There is a catch, however. These same companies are also more likely to report that they experience cost overruns in new product development. So clearly, although an open and collaborative development increases the opportunities for innovation, it also introduces higher risk and, potentially, additional costs unless the development environment can be made more efficient and effective.

### Creating a more effective and collaborative service delivery platform

What is to be done? If companies are to leverage the power of a more open development environment and meet the twofold challenge of speeding new product development at lower cost, then new processes, tools and platforms are essential. In particular, the traditional service delivery platform must evolve to enable more developers and the delivery of customer-centric services in a Web 2.0 environment.

The new kind of platform—Service Delivery Platform 2.0—is one based on an open infrastructure: a scalable, distributed, efficient and open architecture capable of supporting a large number of service activations. It provides a set of components that can be used to create simplified interfaces to new service platforms. By being open to third-party developers and content providers, an open SDP helps developers create new, value-added services faster, more consistently and with less expense.

Challenging economic times do not have to be a constraint on innovation. As this Accenture research study shows, open development—guided by a relentless focus on the customer and the customer experience—can reduce the costs of new product development and increase the chances of delivering breakthrough products. A more effective delivery platform can meet today's need to reduce costs while also positioning a company for market advantage in the longer term, when the economy recovers.

# New product development

## The challenge is in the execution

Figure 1: Primary obstacles to launching new products

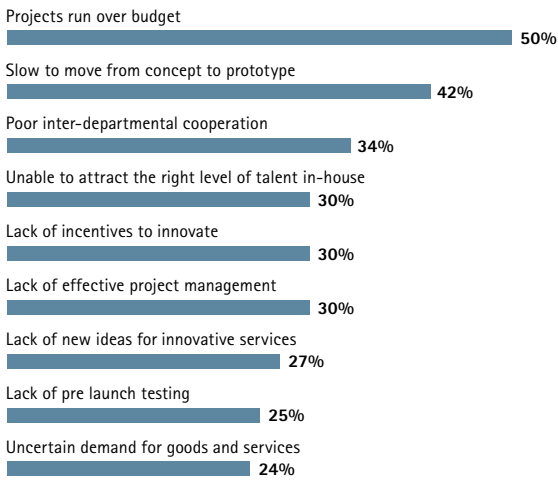
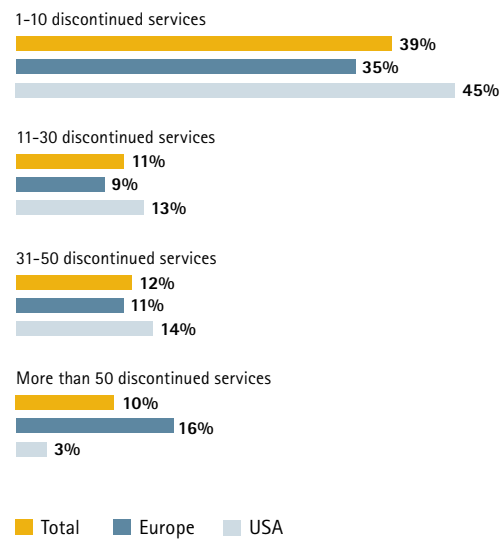


Figure 2: Number of discontinued development projects



The executives in our survey are clearly veterans of product development. They have a structure in place and a proven track record, and they have even enjoyed some success in speeding new product development over the past year or so.

Only four percent of the companies surveyed have no formal development process in place. More than half regularly set up management structures for innovation such as designing effective action plans, conducting market research and establishing a project team. Three-fourths of the companies have a pipeline of new product ideas, the source of which is input from internal sources as well as external parties such as customers, suppliers, alliance partners, academics and inventors.

In other words, those surveyed as part of our research are experienced and, in an ideal world, they would be comfortable with the phased approach they have in place for conceiving, developing and launching new products.

The problem is, it's not an ideal world.

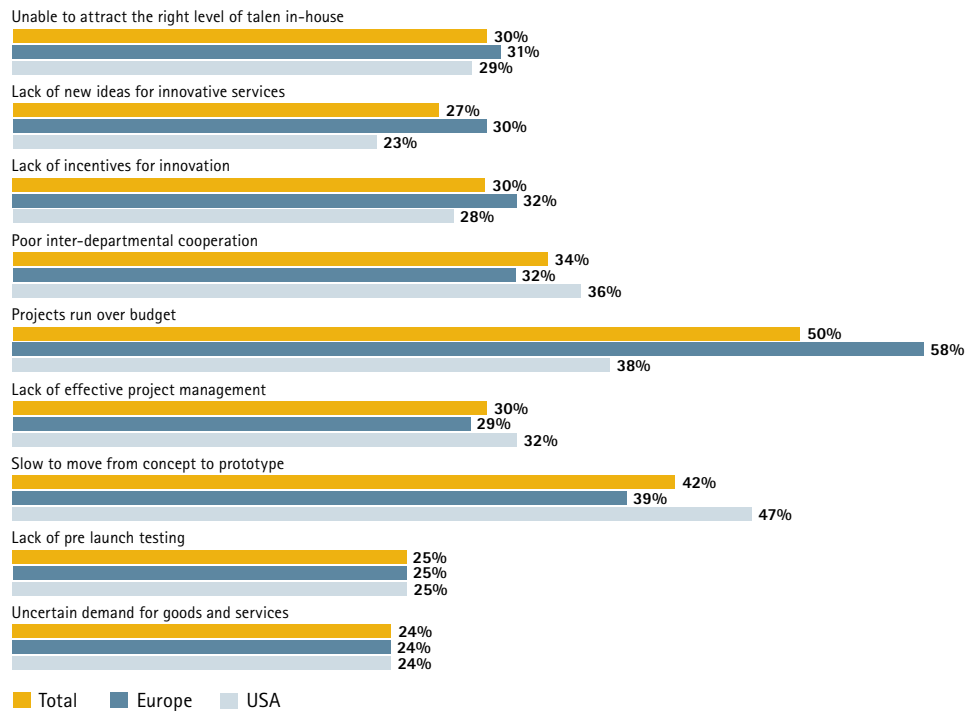
In the real world, communications, media and high-tech executives are feeling cost pressures and the frustrations of being unable to move ideas through the pipeline fast enough. The ideas are there, but companies just can't execute quickly enough. (See Figure 1.)

As a result of these challenges, 70 percent of the companies in our survey stopped development of at least some services last year. The average company discontinued 15 new products, and 10 percent of companies (including 35 percent in the United Kingdom) discontinued more than 50 services. (See Figure 2.)

# Faltering development projects

## Contributing factors

Figure 3: Cost overruns and slow development times are the primary constraints to new product innovation



What's happening to cause so many development projects to falter? The research findings point to a number of factors.

### High costs, excessive delays

Perhaps not surprisingly, the two main constraints on effective product development are cost and speed. Half the companies surveyed, including 58 percent of European executives, cite budget overruns in new product development. Forty-two percent of the companies, including 47 percent of the American executives surveyed, report that they suffer from an overly slow pace as they move a product from idea to prototype. (See Figure 3.) Across our survey sample, the average time to launch a new product was six months. For their most important new services, companies are looking to shorten that development time considerably.

The cost issue is particularly pernicious. High percentages of companies—57 percent, including about equal percentages of US and Europeans—have experienced increases in costs of development. Only 6 percent of surveyed companies have achieved cost reductions for new product development. (See Figure 4).

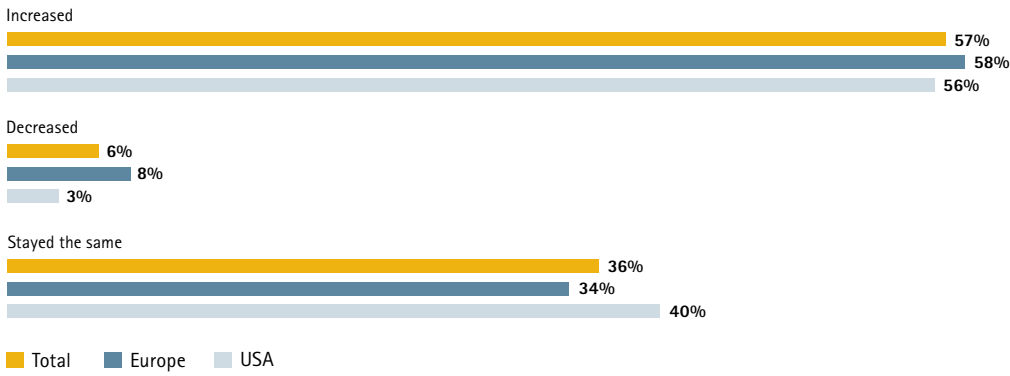
What are the reasons behind such dramatic and widespread cost increases? One factor is obvious: If, as we have seen in these survey findings, companies are experiencing project delays, these translate into cost overruns, as well.

### More third parties involved in development

Companies also now find it necessary to involve many more parties in product development. About one-third of the executives we surveyed involve third parties and/or customers in their new product development processes. Based on Accenture experience, we know that high percentages of effective communications service providers are using 10 or more co-design partners per product development project.

Such a collaborative development environment increases the opportunities for innovation but also introduces more risk and, potentially, additional costs unless companies take steps to make the environment more efficient and effective.

Figure 4: Development costs are increasing for a majority of companies surveyed



## Technological complexity

Leading-edge technologies are also a factor and are, in fact, a double-edged sword to companies in these industry sectors. On the one hand, technology developments constitute a major source of innovation. On the other hand, unproven and often incompatible technologies further increase development times, as well as costs and risks. Products and services may become so complex as to be overly daunting to consumers, who seek instead a simple interface and a unified experience when it comes to their communications services and electronic devices

For a communications or content company to release a new service on multiple handsets, for example, requires extensive testing, which cuts into already slim margins. Complexity also increases the rate of returns of consumer electronics devices. Other Accenture research has found, for example, that in the United States alone, the total cost of consumer electronics returns is almost \$14 billion, of which 20 percent is due to processing costs of "no trouble found" devices—equipment that is not defective, but returned for reasons such as simply being too difficult for the average consumer to connect and use. That's a huge cost drain.<sup>2</sup>

## Talent shortages

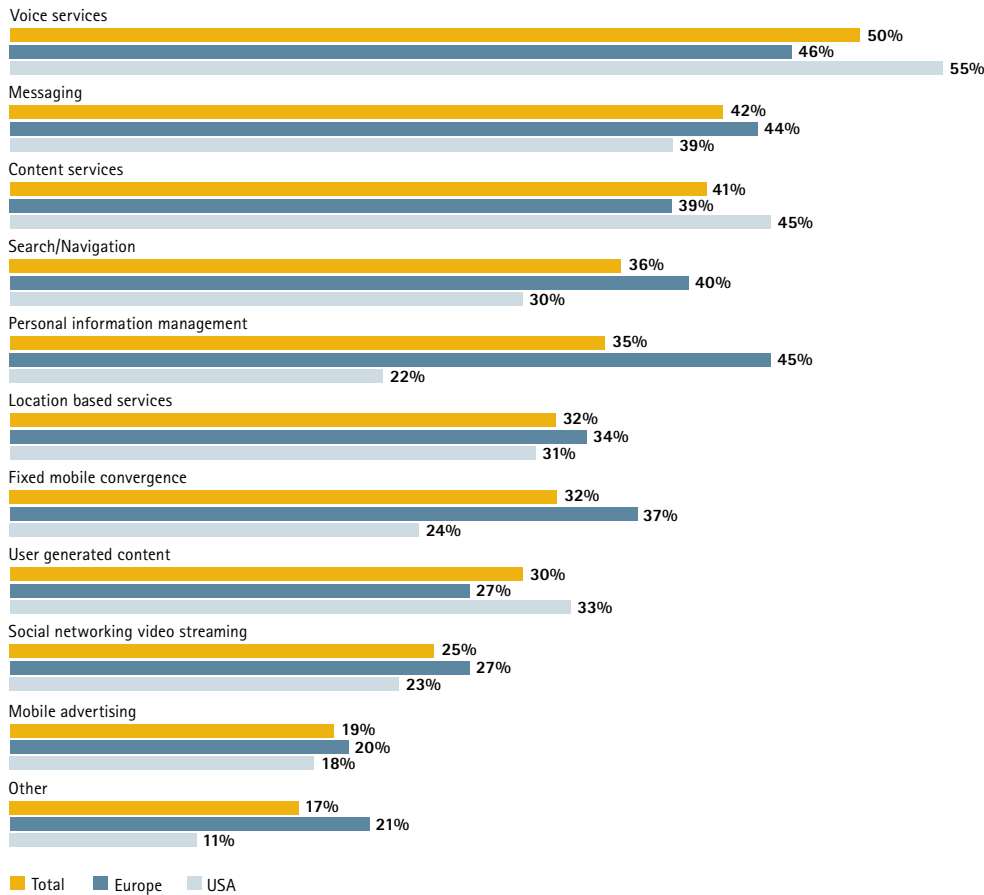
A shortage of workforce talent required to spur innovation and manage new product development is also a factor. About a third of the executives surveyed feel their organizations are constrained by an inability to attract the right level of talent and by a lack of new ideas for innovative services. A lack of incentives for innovation is also a factor.

This talent shortage is felt more acutely by the IT executives in our study, who were more likely than their business peers to feel the effects of insufficient organizational incentives and the overall lack of the right people generating breakthrough ideas.

## Organizational disconnects

A final contributing factor to both cost increases and project delays is a disconnect between various functions and roles of the business. One-third of the executives we surveyed, for example, noted that "poor interdepartmental cooperation" was a significant constraint on effective product development.

Figure 5: Most new services developed were extensions of existing services instead of breakthrough innovations in new areas



We also see slightly different perspectives on development and innovation emerging from the executives we surveyed depending on their job function. For example, business executives tend to see budget issues as the bigger constraint on innovation, while technology executives appear more focused on talent issues: having the right people in place and giving them the proper incentives to drive breakthrough ideas to fruition. The technology executives also tended to place greater importance on working with third parties to drive new, profitable products, and also emphasized attracting more specialized suppliers, increasing the availability of training and simplifying products.

### The result: Innovation timidity

Added up, these new product development challenges have additional compounded consequences on the business value delivered by service innovation and new product development. If risks appear to be too great, companies may become constrained in their vision and overly timid in their investments.

Indeed, we see evidence that such timidity is occurring. For example, most of the companies we surveyed are focused primarily on developing new services for areas in which they have traditionally generated most of their revenues, such as voice services and messaging. (See Figure 5.) Relatively few companies reported planning new offerings in areas such as social network video streaming, user-generated content and location-based services.

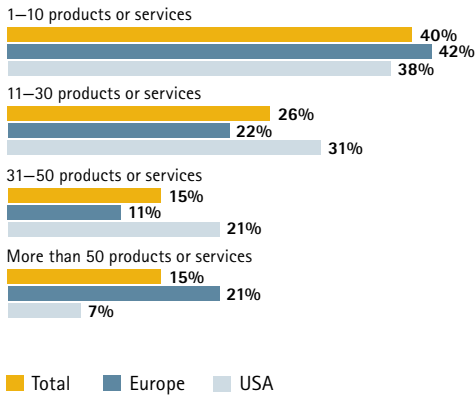
Another recent Accenture research report confirms this tendency of companies to restrict the power of their own innovations during times of economic stress. The study, conducted in collaboration with the Economist Intelligence Unit, found that the majority of innovation investments today are targeted only at extensions of existing products and services, not game-changing ideas or business models.<sup>3</sup>

# Overcoming the challenges

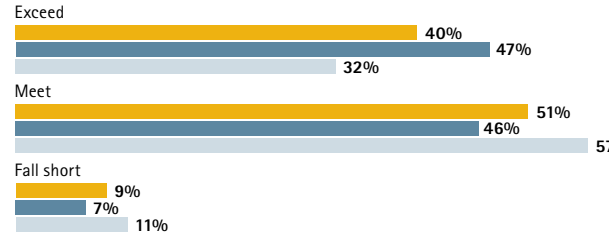
## What the innovation masters know

Figure 6: In several key areas, European companies are enjoying greater success in new product development than their US counterparts

### Planned launches in coming year



### Delivery vs. Target – Expectations



Emerging from the survey responses, however, is an interesting set of correlations between companies enjoying greater success in new product development and the means they are using to achieve it.

### Evidence of greater innovation success

The more successful innovators identified in our research—the innovation masters—are launching new products faster than their peers. These are also more likely to have exceeded their product launch expectations in the past year, and they expect to launch more products in the coming year. They are also more likely to indicate that their product development process has significantly accelerated, even under challenging economic conditions.

In general, according to the Accenture research, these innovation masters are found in continental Europe. For example, whereas 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 under three months.

Europeans were more likely to exceed their launch expectations and twice as likely to launch more than 50 products in the last year than companies in the United States. As they look ahead to the coming year, European executives are also more likely to be optimistic about the number of new services they will develop, regardless of the economic climate. (See Figure 6.)

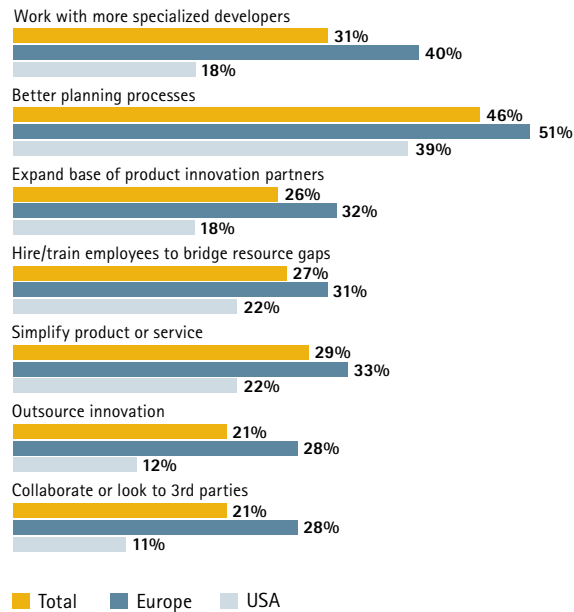
The innovation masters are less prone to be timid in their innovation. European companies are more likely to be branching out into new types of services such as personal information management, fixed-mobile convergence and services based on social networking applications.

### A commitment to open development

What's behind the success of the innovation masters? One key finding is that these companies are more likely to embrace principles of open, collaborative development and open innovation.

# Our research finds a strong correlation between companies speeding new services to market faster and those leveraging a more open and extensive development community.

Figure 7: European companies are more likely to rely on an open collaborative environment leveraging third parties



The executives in our survey are aware of the potential benefits available to them through open development: 63 percent of respondents acknowledged that open innovation is a cost-effective alternative to traditional development. About half also acknowledged that open innovation can counter the negative effects of a shortage of in-house ideas and can lead to the development of more products. The technology executives in our survey were more likely than their business peers to embrace principles of open development.

One of the most important survey findings regarding open development is that European companies were much more likely than their US counterparts to "always" use an open innovation model—37 percent to 29 percent. European companies were also more likely than their peers to say they intended to reduce development times by working with more specialized developers, collaborating with third parties or even outsourcing aspects of the innovation process. (See Figure 7.)

This commitment to a more collaborative development environment is significant, especially in light of other findings discussed to this point, such as the shortage of in-house talent and the difficulty in generating enough high-quality ideas. There is at least a strong correlation between the companies speeding new services to market faster and those leveraging a more open and extensive development community.

## The need to reduce costs and risks

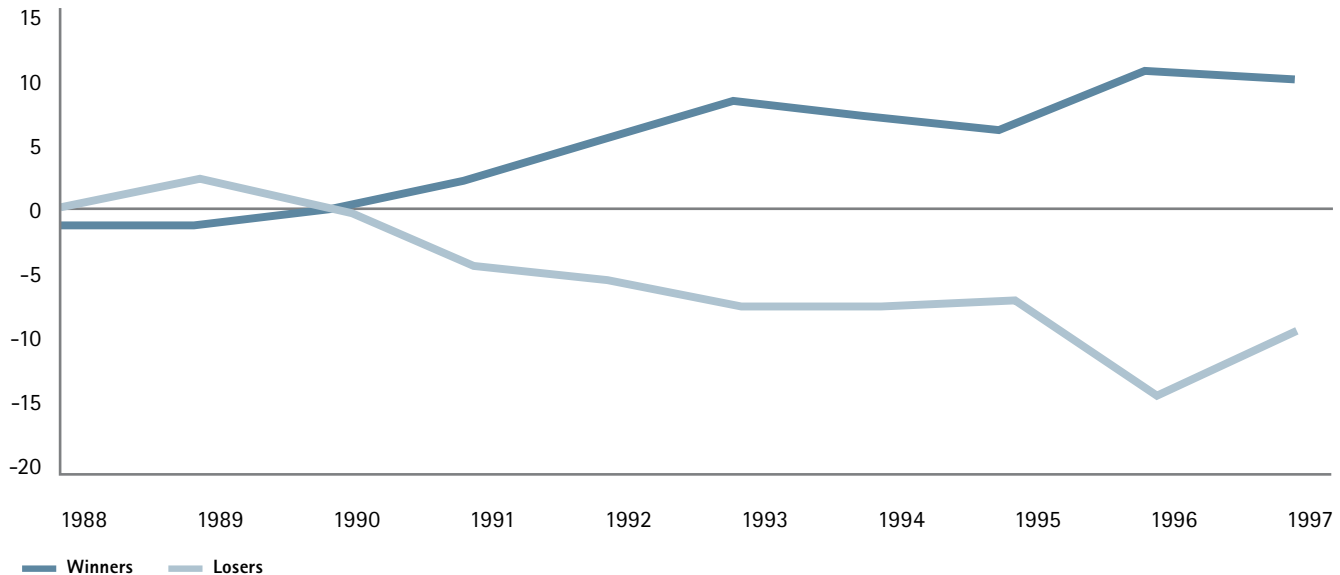
Amid these strong signs of successful results from an open development environment is one cause for concern, and it's a big one: cost. The same innovation masters who report shorter development times and the ability to release more products are also more likely to report that they experience cost overruns in new product development.

In today's economic environment, a better balance needs to be found between results and costs. An open environment for innovation and development is promising, and even essential to success today, but ways must be found to reduce development costs and risks if such an approach is truly to support the achievement of high performance.

# Driving high performance through more effective new product development

Figure 8: Performance comparison following the 1990-91 recession

Average return on invested capital relative to industry



Accenture's High Performance Business research initiative has found that a distinctive trait of a high-performance business is the ability to proactively use a downturn to improve its competitive position—prudently cutting costs while also sharpening its customer focus, driving operational excellence and carefully acquiring capabilities and assets.

Analysis of the 1990-91 recession shows that a readily identifiable group of companies emerge from economic downturns in strong positions and quickly widen their lead over companies that did not take a cost management approach with an eye for the long view. (See Figure 8.)

Our current research into new product development and innovation leads to some specific insights about how companies can pull away from competitors in this way by reducing costs and improving development times for new services.

Accenture recommends that companies look to the following keys to success when it comes to improving their ability to innovate and to generate new, profitable services.

## 1. Commit to greater customer centricity in new product planning

Focusing on services with more likelihood of meeting 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 that provide a unified view of the customer. This results in a deeper understanding of the unique interests and desires of customer segments, enabling companies to target profitable customers more effectively.

One important key to overcoming the problem of fragmented customer data—and then using customer insight to create competitive advantage—is what Accenture calls "converged customer management." Converged customer management is an important component of a company's services delivery architecture; it provides the data services needed to provision, activate, execute and operate value-added services.

Converged customer management can deliver accurate, detailed and timely knowledge of customers' needs and preferences based on the history of their interactions with products and on real-time contextual data such as location and type of device used.

This more detailed understanding of customers then supports the development of products and services with innovative, differentiated capabilities. For example, a customer's preferences can be matched against the behaviors and interests of similar customers within a segment. Based on inferences made about the broader segment, companies can perform real-time, targeted advertising or make additional product recommendations likely to be of interest to the customer. As sophistication in customer analytics increases, companies will be able to define a commercial bundle applicable even to a single customer.

In an era when offerings such as wireless services are approaching market saturation, the ability to use customer data effectively to create innovative services and deliver a compelling user experience is critical.

## 2. Develop more effective program management capabilities that break down internal silos

Poor interdepartmental cooperation in new product development was cited by about a third of survey respondents as a significant impediment to effective service innovation. Similar numbers cited deficiencies in project management. One-fourth of the executives reported a lack of pre-launch testing.

These findings point to several deficiencies that can only be addressed by developing the processes and the talent required to manage the innovation process with more rigor and predictability. This is another area where companies should consider leveraging third parties and outsourcing providers, who consider such management capabilities to be a core competence.

## 3. Tap into a larger idea pool

When it comes to innovations, many companies suffer from an inability to harvest the good ideas that reside throughout the workforce or among business partners. New social networking technologies provide the potential to locate ideas and to encourage the kinds of dialogue and knowledge sharing from which good ideas naturally emerge.

For example, the Accenture Collaborative Innovation Solution is a "mass collaboration" technique used to stimulate innovation and then manage the innovation process. The solution begins with an issue of focus (a "seed" idea or request) for the organization. That request is then passed electronically to a set of participants who add their individual insights and perspectives. Those responses are then read and enhanced by successive waves of participants, each handoff taking the preceding ideas in new, diverse and potentially high-value directions based on different individuals' perspectives of the issue or potential solution.

To keep these dozens, hundreds or even thousands of resulting ideas manageable and actionable, the Accenture Collaborative Innovation Solution employs the same group of participants to rate and rank individual ideas.

This mass evaluation technique, supported by Web 2.0 technologies, helps separate the highest-potential ideas from others, leading to a winnowed-down list of the top ideas.

## 4. Leverage a new generation of open service delivery platforms

What if companies could more easily leverage the insights of a greater pool of knowledgeable and experienced developers and provide them with a structure for effective collaboration? For more than a decade, that has been the promise of a service delivery platform—a standardized service creation and execution architecture that accelerates the introduction of new applications and services. These platforms have had a significant impact on driving faster development times at lower cost.

However, if companies are to achieve high performance in a more complex and open development environment, with services that leverage Web 2.0 capabilities, they need to make the leap to a new generation of service delivery platforms.

The new platform, what Accenture calls Service Delivery Platform 2.0, is based on an open infrastructure—a scalable, distributed, efficient and open architecture capable of supporting more third-party collaborators and a greater number of service activations. The platform provides a set of components that can be used to create simplified interfaces to new services. By supporting more third-party developers and content providers, an open service delivery platform helps developers create new, value-added services faster, more consistently and with less expense.

The open infrastructure also means that the service delivery platform can integrate and interact more easily with internal operations support systems and business support systems. For many companies, such systems are unable to easily integrate with those of third-party developers, further complicating companies' ability to engage in open development and adding to overall development costs.

For an example of how an open service delivery platform can drive faster and more cost-effective new product development, consider the case of 3 Italia, a leading mobile phone operator in Italy. 3 Italia needed to increase its ability to create and launch innovative new services to drive revenue growth, but lacked a sufficient number of skilled development engineers and the appropriate technical infrastructure necessary to achieve its innovation goals. The company had a strong roadmap of target services, but was unable to implement those services at the desired speed and cost.

In collaboration with Accenture, 3 Italia implemented a "product development factory" that enabled 3 Italia to rapidly launch new products and services. The factory combines an underlying service delivery platform that is hosted by Accenture, as well as a team of development engineers dedicated to 3 Italia. Today, 45 percent of 3 Italia's mobile value-added services are developed and hosted on the Accenture platform, including the company's award-winning mobile television product.

## Conclusion

# Innovating through the downturn

Although many executives today are wary of a commitment to innovation as economic pressures continue to grow, this Accenture study demonstrates that it is possible to create an environment of open innovation that is, at the same time, rigorous and cost effective.

Despite the unquestioned importance of new product development to achieving high performance in the communications and high tech industry, organizations are faced with greater challenges in executing and sustaining innovations that deliver results. The frequency and pace of innovation are areas of weakness, as is the ability to consistently deliver high-impact products and services.

Budgets will be tighter in the foreseeable future; that much is clear. But companies cannot stand still, either. If they are to survive in the current economic environment and then also place themselves in an attractive position when the economy turns around, companies must leverage new processes and platforms that tap into a broader collaborative environment and that help them manage the new product development process more effectively and at less cost.

By opening traditional development processes to a broader range of players, and putting in place a proven infrastructure to support collaboration, companies can drive high performance even in challenging times though faster, more cost-effective service innovation.

### Contact us

For more information about how Accenture's distinctive solutions and services can help you achieve high performance through less costly and more effective new product development and service innovation capabilities, please contact:

**Emmanuel Lalloz**  
+33 4 92 94 88 15 (France)  
or [emmanuel.lalloz@accenture.com](mailto:emmanuel.lalloz@accenture.com)

[www.accenture.com/npdi](http://www.accenture.com/npdi)

1 Accenture analysis, 2009.

2 "Big Trouble with 'No Trouble Found': How Consumer Electronics Firms Confront the High Cost of Customer Returns," Accenture 2007.

3 "Overcoming Barriers to Innovation: Emerging Role of the Chief Innovation Executive," Accenture, 2008.

## 1st place winner at 2008 CTIA Emerging Technology Awards

Accenture was awarded first place in the 4G Service Creation & Development category in this year's 2008 CTIA Emerging Technology Awards. This is the second time that CTIA, the leading NA wireless industry association, has honoured Accenture for its innovative work in a number of categories representing the wireless industry.



## Winner at 2007 IEC InfoVision Awards

The Accenture Service Delivery Platform Solution is the foundation for empowering service innovation at 3 Italia, a project that was a finalist in the IEC's InfoVision Awards, 2007. "We're pleased to recognize the joint work of 3 Italia and Accenture as an InfoVision finalist for their Digital Video Broadcasting-Handhelds (DVB-H) Solution," commented IEC President John Janowiak.



## 1st place winner at 2006 CTIA Emerging Technology Awards

In 2006, Accenture was awarded first place in the Enterprise ROI category at the CTIA Wireless Convention, further validating the benefits wireless customers may achieve in creating and managing data services through Accenture Communications Solutions featuring the Service Delivery Platform.



Copyright © 2009 Accenture  
All rights reserved.

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

### About the authors

Angelo Morelli is the global lead for new product development and innovation for Accenture Communications.

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

Koen van den Biggelaar leads the strategy practice for new product development and innovation for Accenture Communications.

[koen.v.d.biggelaar@accenture.com](mailto:koen.v.d.biggelaar@accenture.com)

### About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 186,000 people serving clients in over 120 countries, the company generated net revenues of US\$23.39 billion for the fiscal year ended Aug. 31, 2008. Its home page is [www.accenture.com](http://www.accenture.com).