



HOW TELCO INNOVATION CAN AVOID THE 'HOT AIR' IN SILICON VALLEY

STL Partners

A recent (August 2021) opinion piece in the Financial Times – “**Telecoms innovation talk may be nothing but hot air**” described some of the start-up and incubator initiatives over the last decade such as Telefónica Digital’s first London incubator, Three’s early innovations in video and music (x-Series) as well as Vodafone’s early initiatives in mobile commerce and wallets as “*a history of squandered opportunity [that] bodes ill for technology growth*” in the telco sector.

There are an array of varied and ever-expanding innovation models available today: scouting, crowdsourcing, idea competitions, collaborative design and development, spin-outs, corporate ventures, incubators, joint ventures, in- and out-licensing of intellectual property, consortia, innovation platforms and ecosystems to name but a few. Increasingly, this activity is taking place in clusters – auspicious geographic concentrations of interconnected companies and institutions – **the most famous of which is Silicon Valley.**

Hundreds of organisations of various sizes and industries – even those with plentiful local R&D talent in their home markets – have been drawn to the Valley in the hope of importing outside-in innovation, identifying new products and partners, and harnessing its ecosystem to solve strategic problems. Telcos are no exception: since the early 2000s, telcos’ core businesses have come under increasing pressure from OTT players as well as wider market forces to innovate and grow.

Open Innovation is the antithesis of telcos’ traditional, vertically integrated approach of translating their own R&D efforts into internally developed products and services, typically tightly linked to their existing customer bases and offerings. **Operators are hoping some of the Valley’s magic dust of disruptive thinking and speed of execution will rub off on them.**

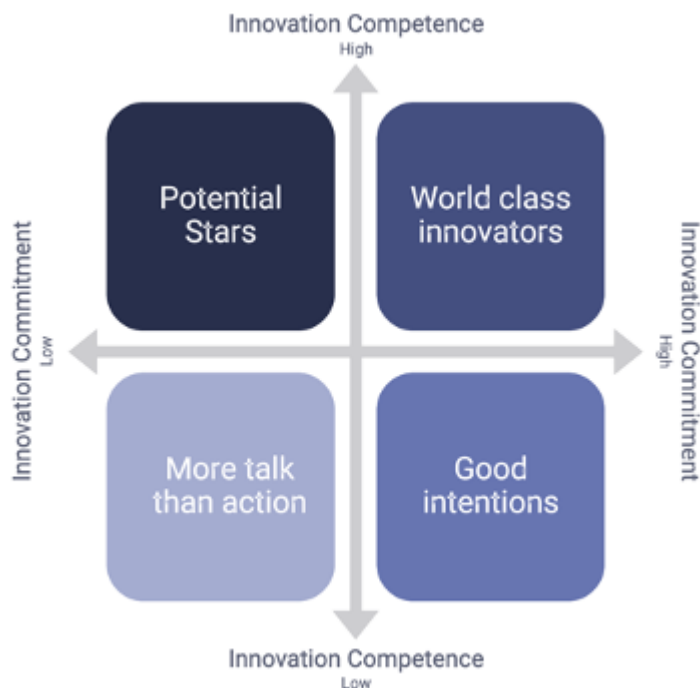
However, insiders sometimes quip that the Boeing 747s flying out of San Francisco International Airport have “amnesic” properties. The executive groups that typically descend upon the Valley, hoping to learn from its incumbents both large and small, take copious notes and leave fired up about re-energising innovation in their home base. But once back within the corporate environment, the seeds of innovation struggle to germinate and the majority of initiatives fail to generate any substantial return on objectives. There appears to be a degree of cognitive dissonance between the expectation of such engagements, and their impact.

It is one thing to send a management team to the Valley for a week, and another to embed learnings from such a trip within the business and align efforts to expectations.

What should telcos do differently? Establish appetite and capacity for change

Before charting a course for innovation, telcos need to identify their individual appetite and capacity for change. This is a function of innovation competence (the ability to come up with and implement new ideas) and innovation commitment (the importance of innovation to the company and how much resource and effort it invests in innovation).

Innovation maturity matrix



More talk than action – Despite having internal R&D functions, many telcos have outsourced cutting-edge innovation to vendors with the necessary global reach/funding to enable innovations to scale profitably. This has resulted in a significant decline in telco R&D spend over the last 30 years. Telco CEO may have a vision and enthusiasm for innovation, but they stop short of translating ideation into action or, frustrated by their structure and a lack of resources, they struggle with execution. Or they may introduce formal innovation programmes and pay close attention to signals emanating from the Valley and elsewhere, but they have yet to implement any defined innovation initiatives.

Good intentions – These operators are achieving the baseline level of innovation they need to stay in the game over the long term. They say they place innovation at the heart of company culture, yet their advances are mostly incremental, and offerings brought to market only make a modest splash. Their appetite for innovation is not yet matched by their capacity to identify unmet needs and/or the capabilities required to support execution at pace and scale. These operators should look to place bets on a few self-contained, ad hoc initiatives to spread risk, test their value quickly and cheaply, and

develop and embed those with promise, all while accumulating knowledge, experience and confidence in the process.

Potential stars are “accidental innovators” who generate a lot of new ideas but lack an over-arching strategy to harness them. They are not fully committed to internal investment (possibly believing that in-house innovation delivers incremental gains rather than game-changers) and may lean heavily on OTT players or other specialist third parties for execution. While this can be a faster, more cost-effective route to market, with lower implementation risks, a prolonged reliance may increase the risk of telco deskilling or leave the organisation struggling to refresh its resource pool with digital natives. Potential stars may set up external innovation labs or venture-build to turn their concepts into reality. This category could also be referred to as “Stars at risk” – if they do not internalise and systematise innovation practices, performance may decline over time.

World class innovators – this group is typified by agile, growth-phase start-ups who eat, sleep, and breathe innovation, and the GAFA behemoths. Telcos are keen to emulate elements of both but can be constrained by factors such as their size, regulation, cultural and structural legacy and, in some cases, financial inflexibility (whether due to the need for network investments, a debt-laden capital structure or sky-high investor demands). Despite some having large subscriber bases, they cannot match the global scale of digital platform titans to roll out new products and services that truly change the game. Telcos tend to make their existing customer bases the primary focus for new initiatives, measuring success in terms of impact on telecoms services customer loyalty rather than in its own right. This can lead to competitive convergence – a shared conventional wisdom across the industry about who their customers are, what they value, and the scope of products and services telcos should offer – which can stifle innovation and prevent telcos from looking for unoccupied territory that could provide breakthrough value. Additionally, by delivering their GTM strategies through existing channels rather than new ones, it makes it harder for non-telecoms customers to find a point of entry into such services.

Through honest self-appraisal to identify the quadrant they currently occupy; telcos can make more informed and pragmatic decisions about how to build their commitment and/or competence (e.g. internal or external innovation). This requires serious strategic thought and dialogue, not only in terms of advancing their own position but how to take all stakeholders – shareholders, employees and customers – along on the journey.

To learn more about....

- The dominant innovation outpost models in Silicon Valley;
- The **four “levels of learning”** which broadly categorise the learning maturity of corporates making forays into Silicon Valley;

- The types of innovation and innovator archetypes;
- Whom to learn innovation lessons from in Silicon Valley;
- In terms of people: Who goes to the Valley, and who stays home;
- Dos and Don'ts in Valley approach;
- The telco dynamics and challenges such as culture and how capital-intensive infrastructure companies have a bigger turning circle

Download the report: [What can telcos learn from Silicon Valley?](#)

Related research

- [How to identify and meet new customer needs](#)
- [Telco innovation: Why it's broken and how to fix it](#)

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