

Technology Strategy Board

Driving Innovation



High Value Services

INTERIM STRATEGIC ASSESSMENT



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Which high value services?

In our strategy document *Connect and Catalyse* (May 2008) we announced that we intend to respond to the technology and innovation challenges of the high value services sectors. We recognise that the services sector makes a fundamental contribution to the UK economy – around 75% of GDP – and that technology plays a role in driving the growth of new products and services.

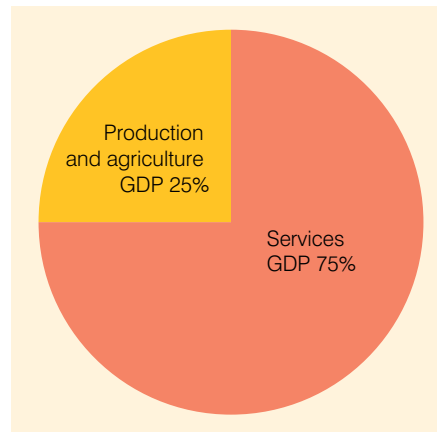
Although almost every aspect of society depends upon the effective provision of good services, some services are more valuable contributors to the UK's wealth than others – high value services.

We have initially identified **financial services, specialist consultancy and internet retailing** as the high value services where the Technology Strategy Board can make the most useful contribution to innovation.

This interim strategic assessment presents our preliminary views, based on our research and consultations so far, on the business challenges facing the sector, and the ways in which technology can be exploited to overcome them. We have produced it to prompt discussion and elicit feedback from business and other stakeholders.

We would like your comments on this assessment which we will use to develop a more detailed strategy, to be published later in the year.

The importance of services to the UK economy – % GDP 2007



Source: Developed from Office for National Statistics (ONS) 2007 Blue Book data

How do we see the UK position?

Not only do services contribute around three-quarters of the UK's GDP; they are even more important to the UK economy than to the economies of other OECD countries where they represent, on average, 60% of GDP.

We've broken down the UK position for each of the identified high value sectors.

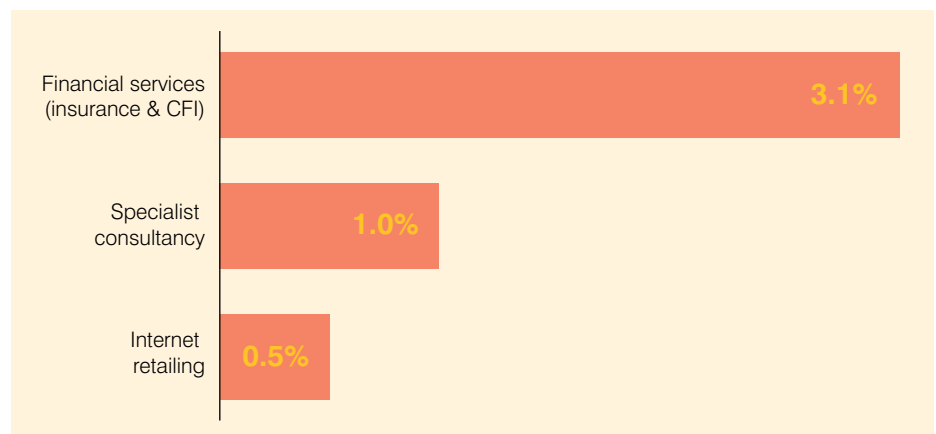
Financial services

Notwithstanding the current problems in global financial markets, the UK has a world-class position in this area. Global comparative analysis for 2005 suggests that the UK achieved a \$35bn surplus in financial services; more than double that of any other country. This, coupled with the associated professional services supporting the industry, underlines its strategic significance for UK plc.

The country's leadership in the financial services sector is clearly demonstrated by the following statistics.

Insurance: In 2007 the UK's worldwide insurance premium income was £240bn. This represents 11% of total insurance premium income worldwide, and puts the UK in second place globally, behind the US but ahead of Japan. Underpinning this is a population of 1,050 companies registered to conduct insurance business in the UK, including Lloyd's of London. Lloyd's operates the market and is the regulator – a unique feature that contributes to the UK's competitiveness.

Estimated contributions to UK GVA of priority sub-sectors 2007



Note: CFI: complex financial institutions. Estimated from ONS Blue Book 2007



Banking: By March 2008, about 20% of international bank lending and 22% of international bank borrowing was arranged in the UK, making London the world's largest single market for international bank lending and borrowing. This was enabled by the more than 550 international banks located in London, twice as many as in Frankfurt, Paris or New York. Meanwhile, over 170 securities houses are based in London, a location that is also the base for 43% of the global equity market. Complementing these are in excess of 108 investment management firms, managing assets valued at £3,400bn in January 2008.

Specialist consultancy

Specialist consultancy comprises management and IT consulting, accountancy and legal advisory services. Together, they have an estimated UK market value of about £30bn. Traditional consulting in the UK was valued by the Management Consultancies Association at £6bn in 2007 and is reportedly second only to the US by market value.

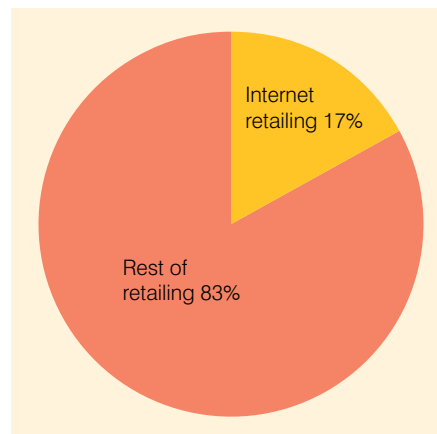
Specialist consultancy services are important to stimulating innovation in the UK economy and are very much connected to other sectors (such as financial services). Their potential for innovation is high.

Internet (online) retailing

It is arguable that the highest value-added area of retail in the future is likely to be online retailing. This covers online-only retailers, traditional retailers with strong capabilities in web-based retail services, and, of course, the links between retailing and the transport, storage and logistics sector.

The total value of retailing in the UK in 2007 was £266bn. About 17% of that, £46bn, was derived from internet retailing. Globally, online retailing is increasing at 40% each year, and technology innovation is at the very heart of this growth.

UK internet retailing market size (turnover 2007)



Source: Estimates from trade reports

What do we see as the challenges?

Based on our interactions so far, we understand that these key high value services areas face the following technology-related challenges:

- Meeting the needs of an increasingly complex global customer base is a growing challenge across all services sectors. There is an opportunity to improve UK business performance through the development of new models that better predict which products and services will gain customer acceptance.
- Our analysis suggests the following challenges in the financial services sector:
 - improving risk management practices for financial products to match the increasing complexities in the sector
 - improving operational models and processes to cope with increasing volumes, volatility and complexity of data – especially necessary for the wholesale markets sub-sector

- developing better knowledge and information management systems and processes to support financial decision-making. These systems and processes must properly account for the implications of upcoming governance and environmental issues.

We believe that innovations in the above will help improve the international performance of UK businesses.

What's our approach?

Most of the leading organisations in these sectors are already investing heavily in technology to enable and drive their businesses forward. Some of the challenges are sufficiently large that co-ordinated work on the problems is likely to deliver results faster and more effectively. We therefore plan to explore ways of facilitating collaboration that delivers immediate benefits for multi-disciplinary, innovative, knowledge-based service delivery.

What have we done so far?

We undertook a scoping study to help in understanding:

- which services sectors contribute, or have the potential to contribute, the highest value to the UK economy,
- what their major business challenges are, and
- the extent to which the exploitation of technology can contribute to the resolution of these challenges.

We have also consulted and engaged with a number of players in the services sector.

Our initial review suggested that the areas in which Technology Strategy Board can make the most useful contribution to innovation are financial services, specialist consultancy and internet retailing.



What are we doing next?

In the first instance, we are investing in a Financial Services Knowledge Transfer Network to ensure that best practice is shared within the financial services sector, and between the financial services sector and other industries in the UK, and to help identify the future innovation priorities.

We have already launched a competition to select an organisation or consortium to run it.

We also plan to undertake reviews of the specialist consultancy and internet retailing sub-sectors to ensure that we have an accurate understanding of their technology innovation needs.

How to get involved

If you have views on what the Technology Strategy Board should be doing about any of these high value services sub-sectors, then please let us know.

Contact

Email

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The Technology Strategy Board is a business-led executive non-departmental public body, established by the Government. Its role is to promote and support research into, and development and exploitation of, technology and innovation for the benefit of UK business, in order to increase economic growth and improve quality of life.

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