

Open Innovation Network

Looking outside the organization for fresh ideas and promising new opportunities

Research & Development and marketing groups often find it challenging to deliver truly breakthrough ideas. Fresh thinking is hard to come by if long-time staff always have the same conversations with each other based on common wisdom and orthodoxies. Introducing fresh perspectives, knowledge and inspiration from the outside allows us to go beyond day-to-day thinking and opens up the mind to entirely new possibilities.

Procter & Gamble, for example, has leveraged an Open Innovation strategy with great success in the past few years. While many companies have historically looked to their own R&D efforts to drive innovation and growth, Open Innovation proponents argue that today's business logic has changed and that companies today must embrace new strategies for systematically tapping into ideas, resources and knowledge from the outside. Relationships with external partners such as universities, academic research institutions, government or private labs and individual entrepreneurs can bring emerging technologies onto the radar screen or spur fresh insights that can be combined with internal competencies to create novel technology combinations that drive new products.

Open Innovation is as much a mindset as a process, and challenges an organization's assumptions about the way R&D should be conducted. Below are some of the key differences between traditional approaches and the principles of Open Innovation:

Closed Innovation Principles

- ✓ The smart people in our field work for us
- ✓ To profit from R&D, we must discover it, develop it, and ship it ourselves
- ✓ If we discover it ourselves, we will get it to market first
- ✓ The company who gets an innovation to market first will win
- ✓ We should control our IP, so that our competitors don't profit from our ideas

Open Innovation Principles

- ✓ We need to work with smart people inside and outside our company
- ✓ External R&D can create significant value; internal R&D is needed to claim some portion of that value
- ✓ We don't have to originate the research in order to profit from it
- ✓ If you make the best use of internal and external ideas, you will win
- ✓ We should profit from others' use of our IP, and we should buy others' IP whenever it advances our own business model

Source: Henry Chesbrough, University of California at Berkeley

An Open Innovation philosophy must be driven by an organization's senior executives. In addition to R&D teams, other key internal stakeholders (such as general managers and representatives from marketing, consumer insights and manufacturing), should be involved to assess feasibility and buy-in from a multidisciplinary perspective. Finally, metrics must be established around Open Innovation efforts to ensure that the approach delivers the desired value.

Case in point

Procter and Gamble has actually innovated the Open Innovation model itself. P&G connects with external sources of new ideas, and then develops those ideas within their internal R&D and marketing functions to create profitable new or incremental products. New ideas are identified through networks – university and government labs, supplier innovation processes and talent, web-based talent markets, consultants, and independent researchers. Multiple ideas are carefully nurtured and managed and then screened through a funnel process. Today, P&G sources approximately 50% of its new innovations from outside the company and has reduced its overall R&D budget from 4.5% of its annual sales to 3.5%.

About InnovationPoint

InnovationPoint is a non-traditional consulting firm that helps its Fortune 1000 clients take a strategic approach to innovation. InnovationPoint blends traditional and unconventional methodologies to identify breakthrough opportunities, develop growth strategies and consumer-inspired new products, and to align organizational strategy and design in a way that supports sustainable innovation. InnovationPoint's clients include Hewlett-Packard, Kimberly-Clark, PepsiCo, Frito-Lay, Philips, Dial Corporation, Charles Schwab, Microsoft, Yahoo!, SRI, Alegent Health, Genentech, SK Telecom (South Korea) and Nestlé.