

CHAPTER 1

Why Open Innovation Matters

In my travels, I have found that open innovation is not yet fully understood by many companies. Some people argue that the buzz about open innovation that has cropped up in the past few years is hype. I disagree; I believe open innovation is just getting started, and the main reason for this is that open innovation rides on two global megatrends:

1. Innovation has become a global 24/7 operation. Many companies have set up R&D and innovation labs outside their corporate headquarters, stretching the possibilities for how innovation is done, and making it easier for companies to take the logical next step of opening up their innovation processes to external partners.
2. The other megatrend is the transparency of knowledge. We all know that what really matters in our companies is knowledge. But where does this knowledge reside? For the most part, it is inside our heads, although the emergence of knowledge management as a discipline over the past two decades has created methods for companies to better tap into the knowledge embedded in their people and their experiences. Still, distributing knowledge within organizations remains challenging, and becomes even harder when you have to extend that knowledge outside the corporate boundaries as well. But we now live in a global world where knowledge is becoming more accessible and transparent. This makes

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it easier to innovate across barriers. Web 2.0 tools such as wikis are being adapted by companies that also have begun to see professional value in social networking platforms such as LinkedIn and Facebook. Finding people who have the knowledge you need has never been easier, thanks to such networking tools.

One small sign of the increasing interest in open innovation is the fact that the number of LinkedIn profiles with the term *open innovation* is growing fast. This could be a sign of hype, but I have checked many of these profiles when I invite new members to join our 15inno community on LinkedIn and have found that there is real substance behind the profiles. If you dig further into the profiles, you understand that many companies have started interesting open innovation initiatives. You can also see this at innovation conferences. In these difficult economic times, open innovation is the only topic that seems to be able to draw an audience.

Challenges Abound

There is a lot of talk about how to define open innovation. I try not to get into definitions and semantics as I believe it is important for companies to define this broad term to match their own situation. However, I will add that, to me, open innovation is very much about bridging internal and external resources to make innovation happen.

Actually, one of the chief challenges posed by open innovation was neatly summed up in this comment by a participant in one of my Danish network groups for innovation leaders: “Embracing the outside requires that you really know the inside.” There is no reason to go outside corporate boundaries if the company does not know what is happening within the company. Internal and external resources need to work hand in hand to make open innovation happen.

I also fully acknowledge that open innovation should be viewed as a two-way process in which companies have an inbound process in which they bring in ideas, technologies, or other resources needed to develop their own business and an outbound-process in which they out-license or sell their own ideas, technologies, and other resources. This should take place during all stages of the innovation process.

Nevertheless, I believe companies have plenty of challenges just making the inbound process work and they need to focus on this. As they get the proper mindset and processes in place, then they can start looking into the outbound processes in which they out-license or sell technologies, ideas, or intellectual property not being used internally. But focus is important in order to get it right in the first place. Thus, in this book, open innovation is almost entirely about the inbound process.

It is my firm belief that open innovation should be a hot topic at every company that is serious about innovation. Why? Because the idea of combining internal and external resources to increase innovation productivity and prowess is just too good a value proposition to miss out on. Take consumer-goods giant Procter & Gamble (P&G) as an example. Since 2001 P&G's innovation success rate has more than doubled, while the cost of innovation has fallen. Joachim von Heimburg, who has 30 years of experience with P&G, told my Danish network groups that he believes many companies can get similar gains if they make open innovation a part of their overall innovation strategy.

But here is the problem. Almost all companies have a marketing strategy or a sales strategy, but only very few companies have an innovation strategy. When companies have an innovation strategy, it is also important that they do not just put open innovation on top of this. According to von Heimburg, companies can only increase their innovation productivity if open innovation becomes an integrated part of such a strategy.

I believe that, as of now, only about 10 percent of all companies are adept enough at open innovation to get significant benefits. Let's call them the champs. Another 30 percent have seen the light and are scrambling to make open innovation work and provide results that are worth the effort. I call them contenders. The other 60 percent are pretenders—companies that don't really know what open innovation is and why or how it could be relevant for their companies. Some might figure out how to follow the leaders one day, but today they're going through the motions.

Obviously, P&G is an uncontested champ, as I explain in the sidebar at the end of this chapter. Its management no longer views open innovation as something new, unique, and different. After nine years, it is just the way the company innovates. Not many other have reached this level of confidence.

Intuit and General Mills seem to be champs in the making. The reason I like Intuit is its Entrepreneur Day initiative, which they held for the first time in late 2009 for 40 selected start-up companies. Although I have not yet heard of specific outcomes on this initiative, I find it to be a great display of setting clear goals, establishing a filter process, and showing strong commitment toward creating new partnerships. All are important aspects for open innovation.

At a first glance, the portal for General Mills Worldwide Innovation Network (G-WIN) in which General Mills seeks new technologies applicable for their current lines of business looks just like the many other open-innovation portals that are popping up right now. But based on an interview with Jeff Bellairs, who directs General Mills' Worldwide Innovation Network, I picked up on some sharp thinking behind the scenes.

What I like in particular is that General Mills is making the linkage between outside and inside resources as smooth as possible. One of their tools for this is an "external speed team," a cross-functional group that meets biweekly to discuss projects, share insights, and make sure its external partners are talking with the right people. In addition, General Mills recently launched an innovation entrepreneur program. These individuals have a number of responsibilities, including ensuring that outside ideas make their way into the company's innovation pipeline.

The efforts by General Mills are highly relevant as they can help General Mills reach one of the key objectives which is to become the preferred partner of choice. Such a position brings a first-hand look at new technologies and ideas, and this advantage is very important in the long run. This requires effective processes for linking internal and external resources. General Mills understands this. (See the complete interview with Jeff Bellairs at the end of Chapter 3.)

Campbell Soup jumped on open innovation through its Ideas for Innovation portal in 2009. Unfortunately, this is more like a gimmick than a serious attempt to engage customers and business partners, so I'm putting Campbell in the pretender category. While I'm singling Campbell out, the truth is that many other companies are just as clueless. Here are my specific problems with Campbell:

- Its intentions are too vague and unfocused. Campbell declares that it wants "ideas for new products, packaging, marketing, and production technologies that will help us meet the needs

of our consumers and customers better, faster, and more completely.” Gee, that could be almost anything, couldn’t it?

- The company should be turning us on, not away. Campbell says it will take three to six months to respond to a suggestion, and if it turns down your idea, you won’t receive any explanation. Why not try to make it more inviting?
- The whole thing reads like an ego trip. The Campbell web site talks only about why open innovation is good for Campbell. If Campbell wants help, it should at least mention how collaboration can help its would-be partners.

Although Campbell is pleased by receiving nearly 5,000 submissions, they acknowledge that their efforts in this space are not perfect and they are working on future enhancements of the site to move from the pretender and contender ranks to the championship level; here are issues that Campbell (or anyone else) needs to deal with early in the process.

First of all, you need to ask the why question. Many people jump into open innovation without asking why it is relevant to their particular situation. Open innovation works only if it aligns with the overall corporate strategy. Many companies mess up here. They simply do not have an innovation strategy.

The next step is defining what open innovation is. Innovation, and even more so open innovation, can be defined in many different ways. Companies need to know what they’re after, as Procter & Gamble and General Mills do.

Before moving on to implementation, you must remember your people. A paradigm shift requires that employees change their mindset and obtain new skills. The keys to open innovation are the abilities to view innovation in more holistic terms and to become better networkers.

Open innovation is by no means easy. But as I said at the start, the value proposition is just too good to miss out on.

Admittedly, it is difficult to find hard evidence that the benefits of open innovation outweigh its costs. Not much research has yet been done. A recent report from the Belgian management school, Vlerick Leuven Gent, where researchers Dr. Dries Faems and Dr. Matthias de Visser (Universiteit Twente) and Prof. Bart Van Looy and Dr. Petra Andries (Katholieke Universiteit Leuven) studied joint ventures and open innovation and came to the conclusion

that, in the short term, the financial costs of innovative joint-venture projects are greater than the financial benefits.

In their research, they studied the collaborative activities and the financial performance of 305 Belgian industrial companies. They found that collaborating with several partners does produce greater innovative strength, but it also increases the proportion of employee expenses in the added value, which in turn has a negative effect on financial performance. In the short term, it appears that this cost-raising effect is even greater than the indirect value-creating effect of the joint venture.

Do these findings signify the end of open innovation? The researchers don't think so. The innovative and financial-surplus value of joint-venture initiatives does become evident over the long term. In evaluating open innovation models, people in the public as well as the private sector often want to see quick results. Indeed, in the short term the costs are particularly visible, while the benefits take longer to manifest. A bit of patience and staying power are apparently essential.

P&G: How Open Innovation Is Done

The world's largest consumer-packaged goods giant, Procter & Gamble, operated one of the most widely admired and successful research and development operations in corporate history. But its closed innovation model suffered from a not-invented-here syndrome and was not up to the task of driving the corporate growth needed to sustain an enterprise of P&G's size. So in 2000, under the leadership of the newly appointed CEO A. G. Lafley, P&G began looking for a better global innovation model. Lafley soon expressed the radical idea that half of the company's innovation output should include a key external contribution.

What set P&G off toward an open innovation model was the discovery that there were 200 researchers and scientists outside P&G who were just as good or even better for each of P&G's own 7,500 researchers and scientists. That adds up to perhaps 1.5 million people whose talent the company could potentially tap into. What would an arrogant company do with such a learning experience? You are right. They would say it did not matter. They would argue that since they are not on their payroll there is no reason to care about them. P&G chose

not to be arrogant and instead explored ways of working with these 1.5 million great minds. Eight years later, P&G had 9,000 scientists within the company and estimated they had access to two million externally. Many of these outside scientist and engineers work at the small or mid-sized entrepreneurial firms that are increasingly the locus for important innovation.

P&G adopted an innovation model they called Connect+Develop. It's a two-way street, accessing externally developed intellectual property in its own markets while allowing its internally developed assets and know-how to be used by others. It collaborates with individuals and companies, laboratories, research institutes, financial institutions, suppliers, academia, and R&D networks. A team of more than 50 people searches for open innovation opportunities in engineering, technology, trademarks, packaging, and more.

Today, a web site dedicated to Connect+Develop (www.pgconnectdevelop.com) is the cornerstone in bridging internal and external resources. A visit to the web site highlights that open innovation to P&G is about much more than just technology transfer. It encompasses everything from trademarks to packaging, marketing models to engineering, and business services to design. The site is not just for soliciting ideas; the team is actively seeking those who have already patented their ideas and need P&G's help in bringing them to market. This approach has already resulted in more than 1,000 active agreements between P&G and external partners.

I like the example of Pringle chips with text or images. It started with a great idea inside P&G, but the technology to make this happen was found in a small bakery in Bologna, Italy, run by a professor who had invented a technology that uses ink-jet techniques to print pictures on pastries. P&G got their hands on the technology making it possible to launch the new Pringles Prints chips in less than a year—and at a fraction of the cost of doing it in house.

As reported in a 2006 *Harvard Business Review* article authored by two P&G executives, the company's innovation success rate has more than doubled while the cost of innovation has fallen.¹ The company is close to reaching Lafley's goal of having half of their innovation coming from external sources.

Interestingly, employees were not given any additional incentives to change their not-invented-here mindset. Instead, persistence by R&D management in general and by Lafley in particular did the trick. Lafley used every occasion to ask for updates on the progress toward

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his stated goal. This CEO did not give up, and bit by bit the new mindset took root in the company. Many of these employees are very appreciative because P&G has embraced a proudly found-elsewhere culture that gives them many more opportunities to make innovation happen.

By the way, if you want to get an idea of how oriented a company is toward open innovation, you should take a look at their corporate web site. Try doing this with Procter & Gamble at www.pg.com. Scroll the page, and you will find a link to the Connect+Develop web site. Yes, this seems obvious, but nevertheless very few companies have made this small effort to make it easy for external partners to approach them. This is just one sign that open innovation is not a new and unique gimmick at Procter & Gamble. This is just the way they innovate.

Key Chapter Takeaways

- The 24/7 global economy and the increasing transparency of knowledge are driving the movement toward open innovation.
- Internal and external resources need to work hand-in-hand to make open innovation happen.
- Open innovation should be a hot topic in every company because the idea of combining internal and external resources to increase innovation productivity and prowess is just too good a value proposition to ignore.
- There are champs, contenders, and pretenders in the open-innovation world, with as many as 60 percent of companies falling in the pretender category.
- To move out of the pretender category and into the contender category, you must do these things:
 - Ask why your company should be involved in open innovation. Open innovation works only if your reasons align with the overall corporate strategy.
 - Define what open innovation is.
 - Remember your people. A paradigm shift like this requires that employees change their mindset and obtain new skills.