

# Open Innovation as a Success Factor

For years, companies have been working closely with external partners. For example, through joint projects with universities, they gain access to the latest findings from pure and applied research, which can be used by their internal research and development organizations. Open Innovation (OI), however, goes one step further and integrates external problem-solvers into the innovation process – a methodology that is also taking place at Siemens (p. 86). In this case, a company's R&D department is no longer its only source of innovation; customers, suppliers, other companies, and online communities also play a part in the development process.

As global competition intensifies, development and product cycles become shorter and shorter, thus driving up the risks of innovation and thereby the associated costs. One of the prime objectives of OI is thus to cut the time it takes to introduce new products and services — and to thoroughly canvass customer opinion in order to slash the number of products that flop.

IBM and consumer goods corporation Procter & Gamble (P&G) were among the first enterprises to open their innovation processes several years ago. P&G, for example, operates its own "Connect + Develop" website, where customers can submit ideas and help to solve concrete problems. This process led to the creation of the "Swiffer" duster, for example. In 2004, 35 percent of new products from P&G resulted from external sources. The company's

aim is to increase this figure to 50 percent. By 2006, productivity at R&D had improved by around 60 percent and the product success rate had doubled. At the same time, investment in R&D had fallen from 5.8 to 3.4 percent of sales.

Alongside its managers, researchers, and development engineers, a company's most important source of ideas is its own customers. This is the finding of a study conducted by Grant Thornton International. Almost half of all respondents in the Asia Pacific region said customers were an important source of innovation, compared to 40 percent in Western Europe, and 35 percent in the U.S. Moreover, a significant proportion of respondents worldwide identified open innovation as successful and a strategy that they will continue to adopt. At 35 percent, agreement with this claim was highest in Western Europe, compared to 30 percent in North America, the original home of open innovation.

One OI pioneer, U.S. company Threadless, develops all of its products on the basis of customer suggestions. In fact, the Threadless community generates around 1,000 ideas a week. If a T-shirt design is actually printed, the creator of the design receives \$2,000. And if an Internet survey demonstrates that a T-shirt is particularly popular, its designer can earn up to \$20,000.

Another type of OI is to commission an external service provider. Such companies have built up a global net-

work of experts and can command substantial fees of anything up to \$1 million for taking on a specific research problem.

A prime example of this is the U.S. open innovation company InnoCentive and its online platform InnoCentive Challenge. The company was launched in 2001 and now mobilizes over 180,000 challenge-solvers worldwide. To date, this community has been able to solve 400 of the some 900 challenges posed by 150 companies around the world. Forrester Research investigated the financial impact of this technique in a study based on SCA, a Swedish hygiene group. According to its findings, queries to the expert InnoCentive network generated average yields of 74 percent and paid back the initial investment in under three months.

Nevertheless, a lot of companies are still uneasy with OI when it comes to intellectual property rights. The 550 experts surveyed in the international Delphi Study 2030 ("The Future Prospects and Viability of Information and Communication Technology and the Media") identify an inadequate culture of innovation and data-protection issues as the biggest hurdles to OI in the corporate world. At the same time, the majority of respondents said that OI as a new R&D paradigm would greatly increase in significance by 2024 at the latest and enhance the efficiency of innovation processes.

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