



# OUT IN THE OPEN

Whether it's game-changing technologies, revolutionary marketing strategies or the latest must-have product, companies are always looking for the next big thing. But where is the innovation coming from? And can businesses today effectively utilize the wisdom of the crowd?

By Lucy Douglas

## Scenario one

A global soft drinks company decided to pull its multimillion dollar advertising slot in one of the most watched sporting events in the country. Though the sponsorship deal had been held for 23 years by the company, it withdrew funding and instead turned a \$20 million budget towards a philanthropic, social media inspired marketing strategy.

In January the company launched an online network where users – from individuals to large-scale organizations – could post ideas for a community-based or charitable project and the budget required for the venture. Over the course of a month users of the network can vote for the project that they would most like to see through. The project with the most votes by the prescribed deadline is awarded the budget required in order to bring the project into being.

To date the network has received more votes than those cast in the last Presidential election.

## Scenario two

One of the country's leading utility providers has decided to place a significant investment in an ongoing project to increase the amount of environmental initiatives and green-focused research. The project has up to this year cost the company some \$5 billion in

research and development expenses and generated returns of around \$70 billion. The company announced plans to push \$10 billion into the project over the next five years, in order to develop technologies such as compact fluorescent lighting, smart appliances, battery technology and wind turbine manufacturing.

As part of the initiative the company outlined a challenge for businesses, entrepreneurs or individuals to take up as they saw fit, to create breakthrough ideas for a cleaner and more energy efficient power grid and to increase the adoption of smart grid technology. Ideas and strategies selected by a panel of judges are then offered the opportunity to develop a commercially viable service or product with partners from the company, benefiting from investments, an evaluation of the business strategy with experienced corporate teams, and partnership opportunities with the company to scale the business and a develop a go-to-market strategy.

### Scenario three

An international consumer products company opened its innovation process up to its customers with an internet portal, on which it lists the new products that it is looking to develop, to add to its expanding portfolio. Users can submit a solution to any number of the product briefs, or alternatively can submit an idea for a new marketing strategy or design or packaging, that may benefit the company long-term. Once an idea is submitted to the company, a representative assigned to the relevant area will review it, paying particular focus to the technological aspect of the proposal. If the idea is suitable, the company then looks to collaborate with the innovator to bring the product or marketing idea into the business. Payments for innovations are determined for each individual situation, but have been claimed to be in the range of \$10,000 to \$100,000. So far this portal has generated more than 1000 collaborations between the company and external innovators.

The same company uses a separate internet portal to generate innovative proposals for new business models that would take a small scale business and scale it to serve the mass market. Services or products that serve an emerging consumer market can seek to partner with the company, in order to generate over \$100 million in sales. These two initiatives have helped this company to remain in Businessweek's top 25 Most Innovative Companies for the last four years.



The Pepsi Refresh Project received more votes than the last Presidential Election

Though taken from three very different firms, each offering three very different services, the above scenarios all have one thing in common: the use of open innovation.

In a recent TED lecture entitled 'Where good ideas come from', Steven Johnson, author of the book of the same name, explains that while we may like to think that innovations occur in one single moment of enlightenment, in reality ideas are more likely "cobbled together from whatever parts happen to be nearby; we take ideas from other people, from people we learn from, from people we run into in the [proverbial] coffee shop and we stitch them together and create something new. This is where innovation comes from."

Johnson's theory that "chance favors the connected mind", while undoubtedly insightful, is based on the simplest corporate logic: that two heads are better than one. And indeed, there's few who would dispute that theory. With more executives placing development of new product, service or strategy as the number one priority for a company looking to regain its competitive advantage in the wake of the financial downturn, maximizing the chances of creativity is paramount. "If you have an innovation budget



or a Chief Innovation Officer,” explains Judy Estrin, author of the book *Closing the Innovation Gap* and CEO of JLABS, “such that people in the company think that’s where the innovation is done, then it works against innovation, because innovation needs to be throughout the culture of the entire company for it to thrive.”

According to Businessweek’s findings for the 2010 50 Most Innovative Companies in the spring, the preceding 12 months had seen a “resurgence of innovation”, a fact attributable to the economic recovery. “Scarcity breeds innovation,” says Tom Hulme, Design Director with global design company IDEO and pioneer of the firm’s open innovation network, OpenIDEO. “The reason entrepreneurs are effective is they’re forced to learn quickly and bootstrap their businesses; ironically larger companies are being forced to do that at the moment as well.” Indeed, whether experiencing tough times or not, evolving the business can only be a positive step, and as Stein suggests, opening the opportunity up to as many people as possible can only improve the environment for innovation to flourish.

“You get more opportunities when you combine internal and external resources,” highlights Stefan Lindegaard, author and serial blogger on innovation in business. “Open innovation gives you more diversity, more opportunity and a faster speed to market.” So why has it taken until now for the open innovation envelope to arrive at the table?

First, as with so many industry buzz words, the term has a certain ambiguity that makes executives recoil. Once a term used for the act of outsourcing the development of a particular project, open innovation in the internet powered generation is much more complex. “I’m enjoying watching it evolve as an emergent idea,” Hulme says. “Whereas in the past I think open innovation was categorized by ideas coming from the outside, I’m more excited now about applying open strategies to all aspects of the innovation process.”

## OpenIDEO

This theory has been the basis for the OpenIDEO network, an internet-based forum on which people can post their ideas to solve selected challenges. Hulme explains that the project was born out of experience in the innovation process highlighting the need for a more diverse range of minds in order to have the best possible outcome. “I was inspired by what happened in the last Industrial Revolution,” he says. “There was a real spike in innovation as a result of people coming together in cities like never before, so involving diverse people in conversations – and logic would tell me that technology, the internet, would give us an opportunity to have a similar spike in innovation, but for whatever reason I don’t think it’s been realized as much as it might. So we decided to start looking at how we might design a platform to enable creative people to come together to solve complex problems.”

The set-up of the network is straightforward; challenges are posted, usually sponsored by an external organization (at the moment a featured challenge

## The world’s #1 innovator...

**A**n engineer of a major technology company stopped at a bar in California on his way home from work one night, to celebrate his birthday. After a few drinks he decided it was time to move on, unfortunately leaving behind him a prototype of an upcoming model of his company’s iconic cell phone. The device was picked up by an unsuspecting patron, who dutifully attempted to return it to the company; however he had little success as the customer services representatives he spoke to thought his claim so unlikely that they disregarded it.

After some weeks the device was picked up by a popular technology blog, at a cost of some \$5000, which published a video and a post unveiling the new product. Unsurprisingly, the news was rife across social media outlets and fast became the blog’s most read story since it began.

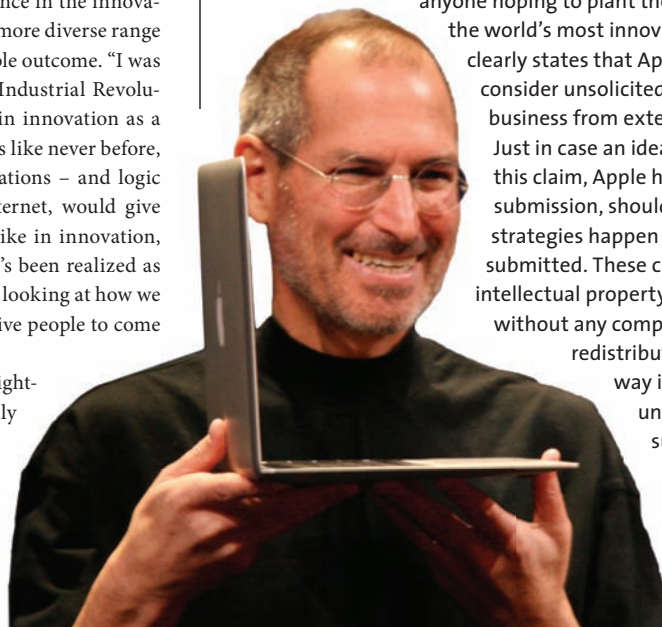
And for Apple, the world’s most innovative company and notoriously over-protective of its intellectual property, it’s unlikely to be forgotten in a hurry. Producing some of the most original, exciting and popular products on the market, the technology giant is not short on innovation. But it all takes place behind closed doors. The primary reason that this incident drew so much attention is that the unveiling of an Apple product is almost as significant as the product itself. With such audacious taglines as “This changes everything. Again.” or “A magical revolutionary product at an unbelievable price”, the desirability of Apple’s products stems largely from the mystery in which they are shrouded until they are revealed to the world.

“Apple is renowned for being closed,” says Tom Hulme. “I think that’s naïve. There are certain aspects of their business model that are very open. They chose to be open to allow people to develop apps for their platform, for the iPhone, iPad and the iPod. That’s open behaviour. They decide to solicit new applications from their creative community.”

Indeed, the development of apps is proving big business for the 2010 entrepreneur. Over four billion downloads had been recorded from the Apple Store alone as of July of this year, generating an average of 70 percent of the sale price for the developer. Through Apple’s App Store, developers have made more than \$3 billion in revenues, and an estimated 43,200 developers work on apps for the Apple system today.

But beyond application development just how much does the technology giant support innovations from outside the boundaries of the business? Well, Apple does have an ‘Unsolicited Idea Submission Policy’, for

anyone hoping to plant the seed of inspiration with the world’s most innovative company. The policy clearly states that Apple does not accept or consider unsolicited ideas on any aspect of the business from external individuals or parties. Just in case an idea is submitted in spite of this claim, Apple has a list of conditions of submission, should any products or marketing strategies happen to seem similar to any ideas submitted. These conditions include giving up all intellectual property rights of the idea to Apple without any compensation, that Apple may redistribute the submitted idea in any way it chooses and that Apple is under no obligation to keep any submission confidential.



is to improve the way that kids in America eat, sponsored by British chef Jamie Oliver), and the connected members of the network can post inspirations for solving the problem, strategies for implementing the inspiration into the real world, and evaluating the ideas that have arisen from the opportunity. As well as benefiting the organizations setting the challenge and OpenIDEO itself, the network allows users to improve their profiles with their participation. “Those parts of the process are the different ways that people can contribute,” explains Hulme, “and they become part of what we call your design quotient, so we built a system that automatically feeds back to you your performance on the site, based on the quantity and also the quality of your inspiration, so that you get recognition.”

### Not invented here

The OpenIDEO network is undoubtedly effective as a source for generating innovation for the philanthropic project. Hulme explains that his firm made the conscious decision to only host challenges for social good, first because “everyone’s motivations when they participate in challenges for social good are much clearer.” The second reason he says, is that it enables users of the network to enjoy the openness

Procter & Gamble’s Connect + Develop initiative has generated 1000 business innovations for the company

of the platform. “To give you an example, if we are coming up with solutions for a school in India, we’re absolutely happy if schools in Africa look at the site and steal the ideas. That’s a great result for us because it increases impact.”

Indeed, this open innovation model is ideal for this sector; it works for IDEO and it’s working very well for Pepsi (see Scenario One). And it works well for businesses looking to expand on their social responsibility initiatives, such as General Electric (see Scenario Two). But in the world of corporate consumerism, it does not address the most pressing concern of many executives looking to expand their innovation strategy: intellectual property. However, according to Hulme the principles of open innovation can easily be applied to the corporate world. “It’s easy for people to think in a binary way,” he explains. “People think, ‘We have to have everything open or everything closed.’ But actually the truth, and the most successful corporate positioning, lies in between on that spectrum.”

The fear of opening the doors on the research and development team for the whole world to see remains the biggest obstacle to utilizing the wisdom of the crowd. But for Hulme,

## The closed innovator?

Even organizations who hide their intellectual property until it is ready to be released value the innovation input of each member of the organization, as MD of Porsche Design Studio **Roland Heiler** explains.

In your capacity at Porsche Design Studio, what do you feel is the most effective path to innovation?

**Roland Heiler.** Innovation is done by people and can only be executed successfully if the culture within a company not only allows for it but asks for it to happen. One of the 10 commandments describing our Design Philosophy is “Innovation”. Whether you call them experts or creative people, every one of our designers is curious, well informed about the latest technologies and trends and all of them are trained to think out of the box.

Do you use third party contributors to innovate with, or do you innovate only from within the design team at Porsche? Why do you follow this strategy?

**RH.** It is probably more a necessity than a strategy, but in almost every project we work closely with engineers and strategists of our partners who again are experts in their own field and can convey their in-depth knowledge to us. Our strength is to connect the dots in a new and different way. This way we have been practicing certain aspects of open innovation for a long time.



Lindegaard and other advocates of open innovation practice, it is no longer as simple as choosing one path or another.

“Open innovation should be viewed as a mindset or a philosophy rather than a toolbox,” says Lindegaard. “The internal work must still be highly appreciated, but if a firm has a ‘not invented here’ culture then they need to break it down.” He goes on to explain that the cocktail of external and internal innovation resources can often make the process a complex one. “But,” he says, “if you can handle this complexity then the broader number of opportunities – which should also lead to better opportunities – outweighs the way we used to innovate.”

Indeed, the thought that a new product or technology idea comes from outside the company leads many executives to believe that they would risk losing their competitive advantage. According to Hulme, however, this is no longer the case. “There’s an interesting idea that if you open up the process and give people visibility to it, superficially, people think that you actually lower the barrier to someone copying your idea. In this day and age this matters less and less, and the simple reason is that it’s a legacy approach to think that that we don’t know what different

businesses are bringing out in terms of their product stream or strategy. Everything can be copied incredibly quickly now. The value of businesses is in creating clever systems, and so opening up parts of the innovation process so that people have visibility to strategies is actually a good thing, although it’s painful for many people.”

Still, as liberal as business ethics may have become, that ‘not invented here culture’ remains a pressing issue. According to Mitchell Baker of Firefox, it stems from a fear of the competition. “The not invented here syndrome is very important,” she says. “There’s a first reaction of being excited by something new and interesting, and maybe you’re scared about it competitively as well, but at least you recognize when something’s exciting.” For firms that are not prepared to, or simply are unable to, take the risk of compromising their intellectual property, the argument against taking a crowd-based innovation strategy is solid. Would the iPad have been as desirable if it had been designed by a computer science student and submitted on an internet network for new ideas?

**“Open innovation should be viewed as a mindset or a philosophy rather than a toolbox”**

Sefen Lindegaard



**What are the main challenges presented by innovating openly?**

**RH.** It depends on your product. In some cases sharing project content by crowd-sourcing means higher innovation speed but it can also mean disclosing content with a competitive edge.

In the current climate there has been a lot of pressure on ROI and measuring value in a tangible way. **What are your most valuable metrics as an innovation expert?**

**RH.** The most convincing argument is a positive experience. If a paradigm shift through design in a certain product category leads to 10 times the expected sales at a considerably higher price, this is very convincing. However, innovation remains a battle with every new project and predicting its commercial success before a product goes into the market is always a gamble.

Obviously the Porsche Design brand is very established and therefore there must be a lot of pressure to ensure that new products are congruent with the brand signature and what Porsche Design stands for. With this in mind, how do you manage innovation for new products?

**RH.** The answer lies in our people and their dedication to the Porsche Design philosophy and the desire to innovate. Coming up with new solutions is part of how they understand their job.

According to *Businessweek* there has been a “resurgence of innovation” in the last 12 – 18 months. Would you say this is true for your organization?

**RH.** For Porsche Design, I cannot think of the necessity to revive the process of innovation because for us it was always alive. As far as the general trend is concerned, I can only speculate that the urge to innovate is driven by the desire to come out of a crisis situation as the world economy was facing in 2008 and 2009.

We are working on very exciting products with international partners and customers. But our innovation process is not that open, to give it all away just yet. However, one should be curious about what we will be presenting within the next few months.



Maybe not, but that is one extreme. Procter & Gamble on the other hand has made a strong name for itself as an innovation powerhouse through the use of its Connect + Develop portal (see Scenario Three). Ford's consumer community is offered the opportunity to post ideas and respond to discussions on the various features of Ford cars. Nokia is collaborating with research specialists at leading institutions to develop its forthcoming portfolio. I could continue.

***“You get more opportunities when you combine internal and external resources. Open innovation gives you more diversity, more opportunity and a faster speed to market”***

Sefen Lindegaard

“I think some people would say they look at open innovation to reduce costs but I don't agree with that argument,” says Hulme. “I just think it's a different approach, and I think it should actually be taken on merit versus the alternatives.” To highlight an example, Hulme cites the opportunity cost of open innovation, pointing out that in the current financial climate cash has significantly less value than it did before the downturn, when assets left untouched could earn real interest. “It doesn't exist now. The alternative uses of cash are less exciting. Also, the cost of making noise in the marketplace has gone down dramatically. Companies for the first time are able to celebrate their new products and services in a way they wouldn't have been able to afford in the past.”

### The engaged innovator

The greatest benefit of open innovation is also the greatest challenge to overcome in order to utilize it effectively. Including as many diverse opinions as possible in the conversation logically will lead to the best results, but in order for this to happen the workforce needs to be on board with the open innovation strategy. According to Lindegaard, organizations and corporations need to educate the workforce on the need for open innovation, beginning at the executive level. “[We should] make the organization buy into open innovation,” he explains, “and make them understand how they can contribute in the short, mid and long-term.” Indeed, the success of the Pepsi Refresh project, General Electric's Ecomagination and Hulme's own OpenIDEO is attributable to their success in engaging the consumers with the projects through the philanthropic model. Mitchell Baker explains that her organization utilizes the time of volunteers in an

General Electric's Ecomagination initiative has generated returns of \$70 billion

innovation capacity at Firefox. “You don't have the tools that you have with employees,” she says. “You don't have salary, you don't have health benefits, you don't have a whole bunch of other things and so they need to believe in what's happening and to feel a sense of ownership. There's nothing worse than for people to think that they have a say in what happens and then learn they don't.”

In fact, whether operating in the corporate or non-profit sector, fully engaging the workforce and consumers with the open innovation strategy is ultimately the most effective way to innovate. “We are moving from innovation that is based on transactions to innovation that is based on relationships,” says Lindegaard. “As this happens, it is important to note that trust is established first and foremost between people and then perhaps between organizations. The key to acquire trust is to deliver on your promises. If you say you will do something, do it and if you say you will create specific results, do it. Open innovation is a paradigm shift and it will be how companies innovate in the future.” ■

Interviews with Judy Estrin and Mitchell Baker were carried out by *Business Management's* sister channel, Meet the Boss TV.

