Open Innovation 101: The Solution May Be In The Open

Open Innovation Starts with Xerox Parc as A case Study
Evolution of the Mouse

The Newyorker
Bob Metcalfe's 1972 sketch of his original "ethernet" vision
Image provided courtesy of Palo Alto Research Center Inc., a Xerox Company

Xerox Core Business

The Xerox 3107. The only copier this size...
So What Happened

Open Innovation

The historic closed model of corporate innovation:

Adapted from Chesbrough, Open Innovation
Open Innovation

The historic closed model of corporate innovation:

- Break through
- Increased R&D
- Increased Sales
- New Products

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Open Innovation

The Broken Model:

- IPO or Acquisition
- Increased R&D
- Increased Sales
- Key Engineers start New Venture
- VC helps build team and focus on new markets

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Open Innovation

The historic closed model of corporate innovation:

Research projects

Research

Development

Boundary of the firm

The Market

Greater dependence on University research and developer community

A new business model for corporate innovation:

Licensing from other firms: Outside - In

Acquisitions

Development and product launch

Spin-offs to other firms for new markets: Inside - Out

Adapted from Chesbrough, Open Innovation
Sounds Great in Theory but How Does It Actually Work

The First Famous Case is Proctor & Gamble Connect & Develop
Situation at Proctor & Gamble
Prior to 2004

- $70B Revenue
- Needed 4 to 6% growth ($2.8 to $4.2B)
- R&D Productivity had leveled out
- 35% hit rate in R&D
- Stock Price had fallen $118 to $52
- Reducing R&D Budgets

Strengths of Firm (Core Competence)

- Strong Channels
- Experts at Consumer Marketing
- Labs: 1000+ people/experts
- Manufacturing, Testing, Scale
- Supply Chain

The Idea:
- A New Balance between R&D and C&D (50% target)
- Internal 1000 can not compete with rest of world
- Replace NIH with Proudly Found Elsewhere
The Process

1. Top 10 Customer Needs: Annual Identification List
2. Link to Brands (Crest, Pampers, ..)
3. Convert to Science Problem (Refocus Scientist)
   1. In white papers, explain state of the art
   2. Desired breakthrough
4. Communicate to networks: Suppliers, Tech Entrepreneurs, Nine Sigma
5. Entrepreneurs screen → Eureka Catalog
6. Encourage External ideas. Reward time to market, not only invention

A. G. Lafley, Former Chairman & CEO, P&G

Video
Lessons for 10 years of history with Connect & Develop

1. Don’t Assume “Ready to Go” is ready to go. There will always be substantial internal development.

2. Don’t underestimate the internal resources required. Will always need a senior P&G executive to run each project.

3. Need mandate of CEO. C&D can not be a corner of R&D. C&D is a top down strategy.

Discussion

• Can this work for everyone?

• What are the pros and cons?

• Is this the same as crowdsourcing?

• Is there a key lesson in the process?