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## Advantages of Open Innovation

Spend more time thinking about different ways to reinvent your business model. Your business model is more important than your technology alone or source of innovation. If you have ever been involved with technology, life sciences, pharma, or the semiconductor fables industry, you are probably familiar with the role of intellectual property (IP) and patents. Chances are your IP management strategy was governed by a protectionist not invented here (NIH) and not sold here (NSH) policy. Despite the status quo, an increasing number of innovative companies have managed to abstract the process and source of innovation from their value chain. [Meebo](#) is the latest company to join the list of open innovators.

$$\left(\frac{1 + g_1}{1 + K_{CS}}\right) \left(\frac{(1 + K_{CS})^{n-1} - 1}{K_{CS}}\right) + \frac{D_0(1 + g_1)}{K_{CS}(1 + g_1)}$$

$$= \frac{D_0}{K_{CS} - g_2} \left[ (1 + g_2) + \frac{n_1 + n_2}{2} (g_1 - g_2) \right]$$

$$= Pmt \left[ \frac{1 - \frac{1}{(1 + k_B)^N}}{k_B} \right] + \frac{FV}{(1 + k_B)^N}$$

Earlier this year, I looked at technology start-ups who were implementing open business models as part of their core strategy. A number of these initiatives involved the Internet, open source software, and open business models. Zimbra and Meboo are just two recent examples. You might be saying to yourself - so what's new? What is new is the commercial intent of these initiatives with investor backing. Clearly some of these new initiatives reflect the commercial viability of open innovation and business models. In the early days, most open source projects had no commercial intent. Interestingly

enough, a handful of companies like Google, Amazon, and Salesforce.com found it strategically advantageous to use free open source software (FOSS) for their own infrastructure.

**Some of the companies who are embracing the open innovation framework:**

- [Apple](#)
- [Google](#)
- Amazon
- Zimbra
- Meebo
- Skype
- Salesforce.com
- Eli Lilly
- P&G (Procter & Gamble)
- BASF
- DuPont
- Dow Chemical
- General Mills
- Kimberly-Clark
- GSK (Glaxo Smith Kline)

**Don't fall into the NIH trap.** Creating your own IP is not a prerequisite or determinant for success. 75% to 95% of patented technologies stay on the shelf and go to waste. Not to mention the fact that 90% of all products fail. Moreover, if your IP management policy prohibits reassignment, then your patents are not assets. With rising technology development costs and increasingly shorter product life cycles, the risk of innovation is almost certain. Technology life cycle has gone from 4-5 years, from a decade ago, to 6-9 months. In other words, your window of opportunity to recoup your investment

got even shorter. Having your innovation, business model, and community aligned is more important.

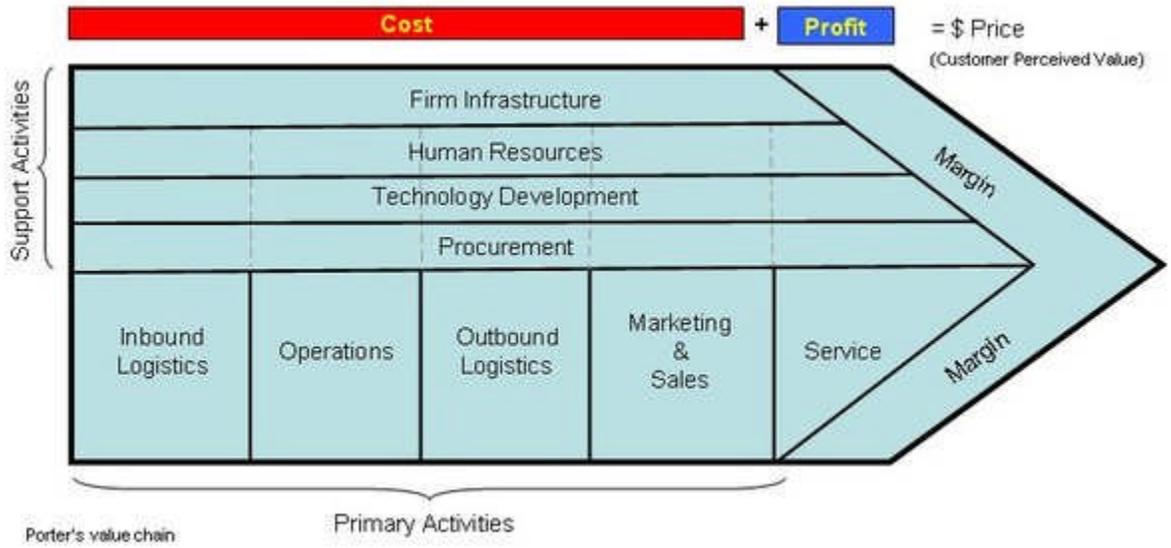
So why are you waiting to explore the strategic advantages of what Henry Chesbrough calls - open business models. Companies big and small are learning that many of their best ideas, approaches, and solutions come from the outside. Moreover, by adopting the open innovation model, companies can dramatically reduce the pitfalls, costs, and risks associated with closed innovation.

**These are some of the generic advantages of open innovation:**

- Speedup time to market
- Reduce the risk of innovation
- Less risk guessing what the market wants
- Let the market / community tell you what they want
- Integrated community innovation
- Innovation can come from anywhere and anyone
- Some of the best ideas are outside of your organization
- Some of the best solutions reside outside of your organization
- Lower your R&D and operating costs
- Supplement your R&D
- Tap into the virtual R&D community
- Create brand evangelists out of your community
- Shared IP can create a formidable barrier to entry

What does it mean to have an open business model? Think of all the things you do in your value chain and how it fits into the entire supply chain. What is a value chain? Everything you currently do or that contributes to your value creation (product / service) is your value chain. You can think of the supply chain as all other participants, suppliers, partners, and channels between your

value chain and ultimate customer.



What is an open business model and how do you open your business model? As you share technologies, seek IP, outsource functions within your value chain, and rearrange your supply chain, you begin to lay the foundation for a more open business model. Remember, open business models are not the exclusive domain of open source software initiatives. Community collaboration and innovation are simply some of the attributes. For simplicity, think of open and new business models somewhat interchangeably. Some of the most innovative businesses are no more than a brand. P&G is certainly adopting this trend.

**Some of the marketplaces for trading, sharing, swapping, buying, or selling IP:**

- [InnoCentive](#)
- [NineSigma](#)
- Big Idea Group
- [InnovationXchange](#)
- [Shanghai Silicon IP Exchange](#)
- [Ocean Tomo](#)
- [SparkIP](#)
- [Techex](#)
- [Patentcafe](#)
- Eureka-club

If your organization has successfully embraced the concept of open innovation and open business models, congratulations! You just joined the ranks of some of the hottest start-ups and handful of innovative Fortune 500 companies who understand that some of the best ideas come from the outside. There is a good chance your organization is creating and capturing value ahead of the competition. Moreover, your business model more than likely reflects the state

of your industry, technology or company life cycle, and R&D development cycle relative to the target market window of opportunity.

If your organization has embraced the open innovation framework, please tell me more about your open business model.

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