



BECOME AN OPEN INNOVATOR

More companies should tap into the wellspring of great ideas outside their walls

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Ever since Thomas Edison pioneered open innovation – by reaching out to scientists, economists, and politicians for inspiration for his inventions – companies have tried to follow suit. But most attempts to normalize the process of sourcing innovative ideas from outside of their organizations have failed.

Only a handful of players in industries as varied as consumer products, fashion, autos, and pharmaceuticals have managed to produce a blockbuster product this way. But even these leaders in open innovation are discovering their processes are falling short.

Rapidly changing customer demands force companies to constantly reinvent and improve their products. Today’s cutting-edge products

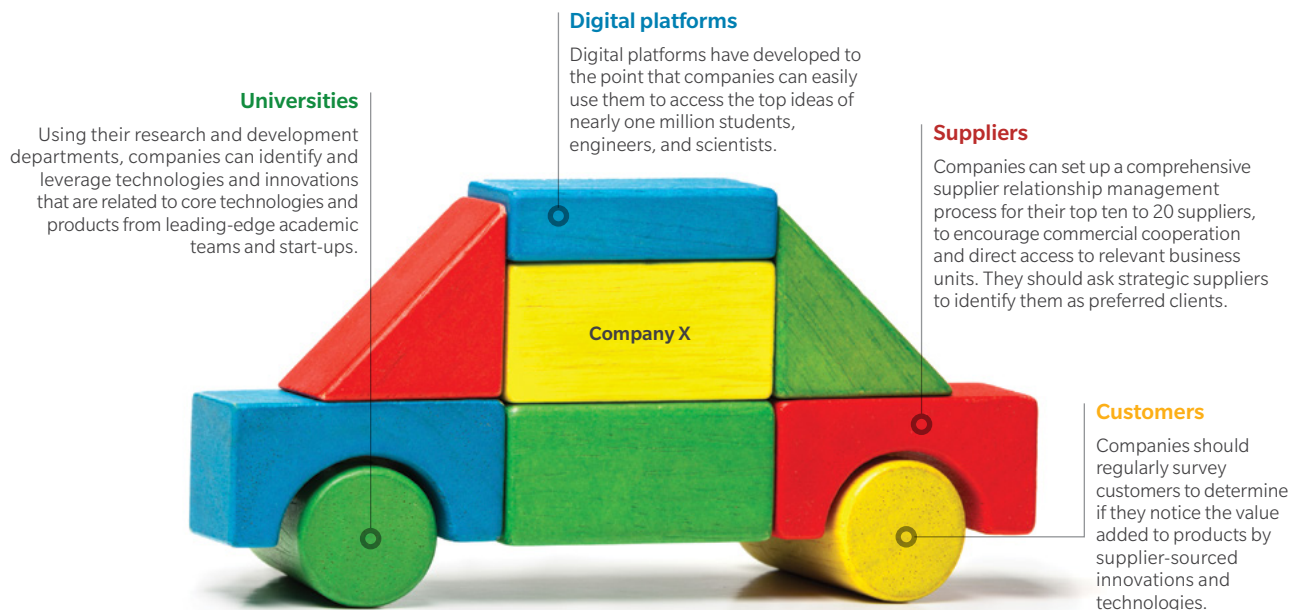
become obsolete in months, not years. Companies draw upon hundreds of patents to produce phones, instead of dozens. All the while, research and development costs are doubling every five years.

So in this harsh, hyper consumer-driven environment, what separates the superior innovators from the rest? Strategists have developed some well-known rules for adopting open innovation practices. These rules have provided a playbook for success for leaders such as Procter & Gamble.

But we’ve also observed a disturbingly large number of cases in which companies blame external forces, such as poor supplier quality, for failures when their real hurdles are internal.

RETHINKING THE INNOVATION NETWORK

COMPANIES NEED BROADER, OPEN INNOVATION NETWORKS FOR BEST-IN-CLASS INNOVATIONS



Companies often cast off external ideas because they do not have a clear strategy for what should be insourced or outsourced. As a result, great ideas are not developed because they are “not invented here,” appear too risky, or must draw upon resources that companies don’t already have.

Before companies can truly excel at open innovation, they need to take a look in the mirror and revamp their internal processes. Here are three ideas for meeting the most common challenges:

1. Rethink procurement.

Executives can tell their managers to source innovative ideas from outside of their companies. But ultimately their procurement teams are the ones who must identify and adopt them.

Unfortunately, the mandate of most procurement divisions is often solely to reduce costs. Fewer than half of the Euro Stock 50 companies have an in-house “innovation group” to identify market solutions and co-design new offers. “Innovation groups” act as catalysts by helping procurement teams to better assess if an advance is a core capability for a company to develop on its own or not. They also encourage collaboration across functions such as finance, legal, and marketing.

2. Collaborate in radical new ways.

Many companies have attempted to put open innovation into practice by holding innovation contests with suppliers and academics. But they merely scratch the surface of what can now be done.

Using digital platforms, companies can reach hundreds of thousands of people all over the world. Virtual idea markets connect people who have never been in contact before – including customers – to tackle not just minor challenges but even long-term strategic stumbling blocks. Every day, Massachusetts-based crowd sourcer InnoCentive teams up thousands of “solution seekers” with more than 200,000 “problem solvers.”

The following three questions form a starting point for a diagnostic to discover if your company has the right strategy, supplier management process, and overarching organizational structure to adopt great ideas from outside:

- How aligned is your procurement strategy with the key value drivers of your business?
- How well do you leverage supplier innovations?
- Does your company have the critical organizational capabilities it needs to conduct world-class open innovation?

3. Create an open culture.

All too often we hear of middle managers who learn of, and then discard, outside inventions only for them to be picked up by a more savvy competitor. The main culprit is usually the company’s culture. Some companies have a tendency to try to master all of the patents used in their products. Others reject outside advancements due to potential legal concerns.

Strategies fail when they don’t account for the fact that companies’ cultures are as varied as the people who work for them. But even the most risk-averse companies can become nimble open innovators by understanding and accounting for these differences. One way to do this is to first define what a company can do well. Then people should be assigned to forge customized pathways for ideas to be easily sourced from outside and evaluated across divisions.

In some cases, companies may only realize they miss chances to openly innovate after a painful product failure shows what the company is doing wrong. But executives need not wait that long. A diagnostic exercise targeted at identifying if a company has the right strategy, supplier relationship management process, and overall structure to adopt external innovations can illuminate how much hidebound behavior prevents outside ideas from improving a company’s bottom line. These can often match or surpass procurement teams’ cost-focused initiatives.

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