



Dauids + Goliaths = Collaborative Innovation

Lessons from the Front Lines of Open Innovation

Key Learnings from the Fall 2007
Entrepreneurship, Innovation and Growth Symposium



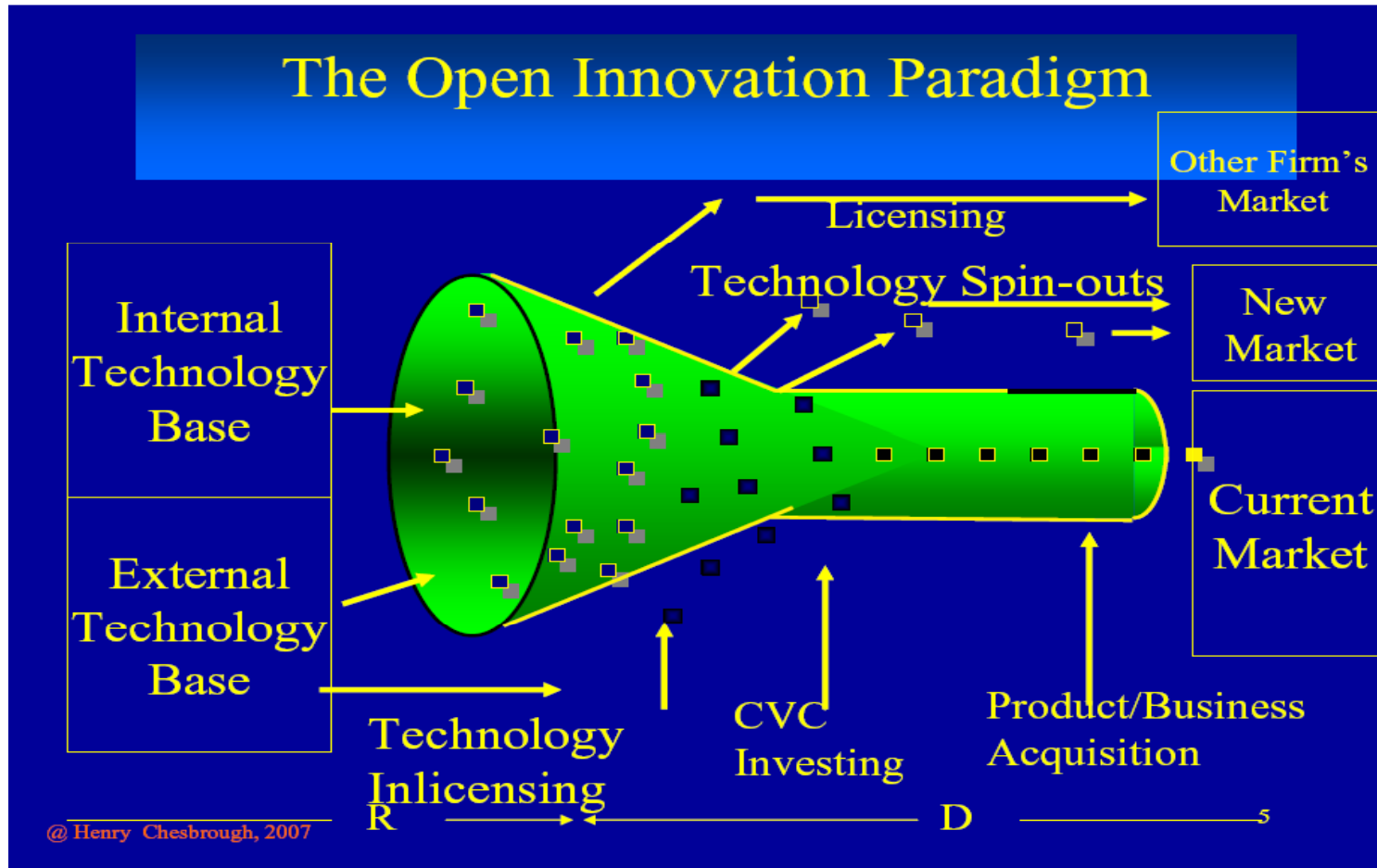
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Participating Companies

ACA Ventures	Mayfield Fund	SAP
Acsera	Microsoft	Scale Venture Partners
Appleton Papers	MIT Materials Processing Center	Siemens
Applied Materials	MIT/Stanford Venture Lab	Takeda Research Investment
Atlas Venture	Moen	Technology Partners
Barclays Global Investors	MP Healthcare Venture Management	TEL Venture Capital
Coronis Medical Ventures	New Venture Partners	Dow Chemical
Danfoss	Nike	The Levin Institute at SUNY
Dupont	NOVA Chemicals	The NVCA
French Embassy	NYPPEX	TLM Advisors
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General Motors	PepsiCo	Unilever
Hitachi	Philips	UC Santa Barbara
Honda	PowerLynx	UC Berkeley, Hass School of Business
IBM	Procter & Gamble	UPS
IMC	Product Genesis	US Venture Partners
IN-Q-Tel	QEA Japan	Van Pelt, Yi & James
Institute for Pediatric Innovation	Radical Innovation Group	Visa Internatioal
Kaiser Permanente	Respironics Children's Medical Venture	Walden International
Lockheed Martin	S.R. One	Zebra Technologies



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The Language and Myths of Innovation...

Innovation \neq Invention or Intellectual Property

Innovation $>$ Creativity



Creativity = Company Wide Responsibility

Innovation = Emerging Management Discipline

Innovation is: “The management discipline that transforms creative ideas into market successes.”

**Applies to all forms of innovation in a company:
Technology-based, business model, process, services, etc.**



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Open Innovation is...

1. **Invention:** Creation of something that was previously unknown.
2. **Discovery:** Becoming aware of something known in other venues but not known to the company.
3. **Open Innovation Model =**
 - a) Invention activities from internally focused research
 - b) Discovery activities within and outside the company.

**Open Innovation shortens time to understand market value
and accelerates commercialization.**



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Cultural Perceptions and Realities...

Goliath's View of David

1. Unfocused
2. Inexperienced
3. Immature Technology
4. Demanding
5. Unrealistic Expectations

Yet...

6. Incredible Opportunity to Fill Competency Gaps and Source Emerging Technologies

David's View of Goliath

1. Bureaucratic
2. Risk Averse
3. Analysis Paralysis
4. Resource Drain
5. Opportunistic

Yet...

6. Incredible Assets (Brand, Channels, People, etc.), Global Reach and Economies of Scale



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Structuring and Organizing for Open Innovation

Creating Sustainable David + Goliath Relationships



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Lesson 1: C-Suite Sponsorship Is Key.

- Open Innovation is philosophically foreign to most organizations.
- Natural reactions will throw up internal barriers to success.
- CEO (or at least C-Suite) sponsorship.
 - Essential to break through the internal barriers.
 - Drive organizational behaviors in tune with successful partnering.



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Lesson 2: Start Small and Build.

- You do not have to tackle all the elements of Open Innovation at once to create a successful program.
- Start with a few elements.
 - Out-licensing IP or one strategic partnership.
 - Build on early successes.
- Make the initial program meaningful, but manageable.
 - Don't start too small, or too large.
 - Pick multiple element test cases.



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Lesson 3: Don't Limit Your Options.

- Build a flexible Open Innovation capability.
- Be willing to work with **ANYONE**.
 - Even, or especially your competitors.
- Embrace the value of multiple business models.
 - Match the model to the situation and partner.
 - There is no “one-size-fits-all”.



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Lesson 4: Be a Trusted Partner.

- Be responsive.
- See the long-term picture.
 - Not just a deal.
 - See the multi-deal relationship.
- Be up-front about expectations, challenges.
- Seek win-win solutions.



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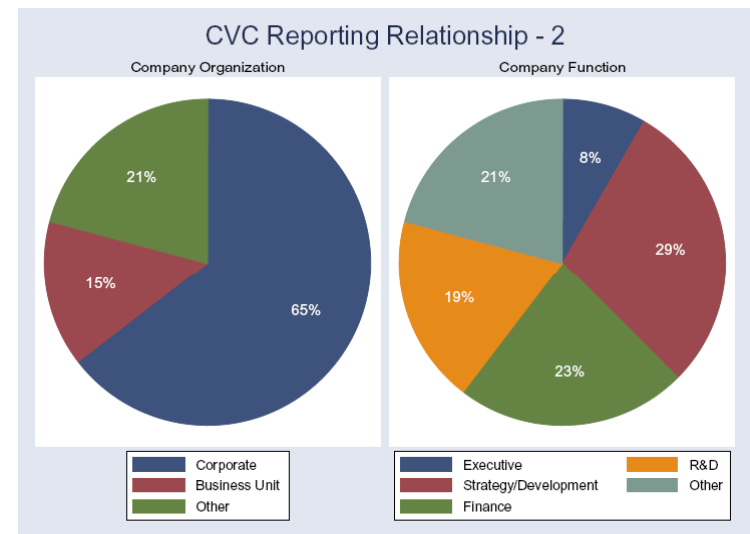
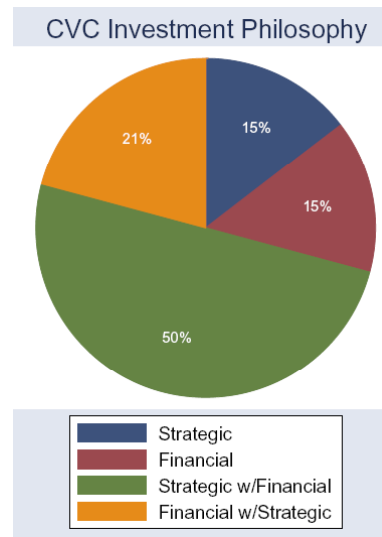
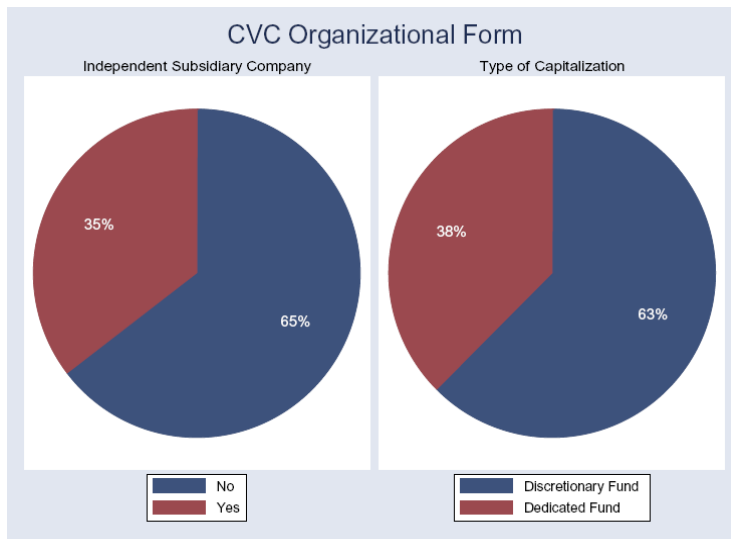
The Role of Corporate Venture Capital in Open Innovation

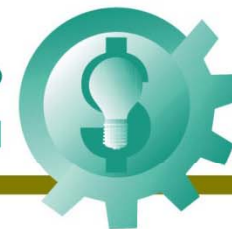
Many Models, Many Roles...



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Lesson 5: Many Shapes and Sizes of Corporate Venture Capital (CVC).





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Lesson 6: CVC is a Valuable Enabler.

- CVC can enable:
 - Spin-outs.
 - Spin-ins.
 - Joint venturing.
 - In-market learning.
 - An Open Innovation “ecosystem”.



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Lesson 7: CVC Can Accelerate Your Open Innovation Strategy.

- Create critical mass in the “ecosystem”.
- Drive and influence standards battles.
- Provide options for “off-budget” R&D.
- Deliver a safe “test” environment.



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Lesson 8: CVC Helps Technologies Find Business Models.

- False negative inventions can find a home.
- No substitute for in-market learning.
- Pay to play, pay to learn.
- Early detection of competition, threats.



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Creating Products and Services through Open Innovation

Successes and Challenges
in David + Goliath Collaborations





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Lesson 9: The Essential Champion.

- Dedicate a relationship champion to each partnership.
- Actively manage the relationship.
- Take time to translate and reconfirm.
- Collaborative relationships are much harder than they look from the outside.
- Champion must have empathy for partner.





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Lesson 10: The Lesson of 7 “Dones”.

- Clearly define “done” for the product or service development.
- Don’t assume the Open Innovation partner will understand your corporate requirements.
 - Legal
 - IP
 - Regulatory
 - Safety
 - Documentation
 - ...
- Be honest about timeframes.



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Lesson 11: Establish IP Ownership Up Front.

- Contractually document who owns what.
 - IP that was brought into the relationship.
 - IP generated through the relationship.
 - IP generated after the relationship.
 - IP generated “independently”.
- Catalog everything.
- Assume the unexpected happens – what then?



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Lesson 12: Value Chain Alignment and Gap Filling

- Pick product and services partners close to your layer in the value chain.
 - Greater influence on success.
 - Faster execution.
 - Collaborations with too many layers are difficult to manage.
- Use partners to fill gaps.
 - Can produce maximum value added.
- Use collaboration to disintermediate the value chain.





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Collaborative Innovation

How do two dissimilar organizations learn to communicate and work effectively together?



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Building an effective partnership starts with...

1. Understanding different worlds and the risks.
2. Respecting each other and the value each brings.
3. Defining mutual objectives, scope and what constitutes success.
4. Identifying roles, responsibilities and expectations of each party.
5. Ensuring competent people negotiate an equitable partnership and remain committed throughout.
6. Accepting that *partnering requirements change over time* through different phases of business maturity.
7. Learning to live with chaos and embrace change!



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Dauids: Keys to finding a match...

1. Prepare your *value proposition* being realistic about what you can do (having a lead customer helps all!).
 - a. Understand the breadth and depth of your potential market applications.
 - b. Protect your core patent and most promising applications or fields of use.
 - c. Develop a succinct elevator speech.
2. Learn about the *strategic drivers* of the targeted larger company to position the value of your company and technology (address the questions in your proposals).
3. Find the *right group* in the larger company, most often a New Business Development versus Operating Group.



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Goliaths: Keys to finding a match...

1. Focus on understanding the *motivations* of a small business to uncover inherent value.
2. Create and facilitate an *open innovation environment* that recognizes the tension among your *internal dynamics* of entrepreneurial orientation versus operational excellence, the needs of a small business and customer requirements.
3. Identify *value chain and business model gaps* as well as your *likely market entry strategy* to be clear about technologies you are seeking to close the gaps.
4. Develop reputation for being *reasonable on IP licensing fee* given uncertainty this creates for a small business.



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Partnership preparation process...

1. Establish a **strategy** that aligns with company goals and vision based on core competencies, current capabilities and gaps as well as level of risk tolerance.
2. Conduct partner **due diligence** to uncover and analyze all the issues likely to impact the partnership and most importantly assess cultural fit.
3. Establish a **governance structure** for decision-making and to reduce ambiguity related to strategic objectives.
4. Develop a **scorecard** to measure success of the partnership based on key goals and milestones.



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Summary

and Questions...



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Open Innovation is an Emerging Management Discipline.

- Real world application provides continuing adaptation.
 - No single model for everyone.
- Senior-level sponsorship is essential.
 - Resource commitment.
 - Time horizon.
- CVC can be a valuable enabler.
- Product and service Open Innovation requires active and continuous management of the relationship.



ENTREPRENEURSHIP
INNOVATION AND GROWTH



Innovation... Cultivating a Discipline

Entrepreneurship Innovation and Growth Symposium, 2008

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Contact Information

Joanne Hyland

President and Founding Partner

Radical Innovation Group

+1 207-646-3182

joanne@hylandvaluecreation.com

www.radicalinnovation.com

Jeff Hovis

Managing Principal

Product Genesis

+1 617-234-0070 x385

jeff_hovis@productgenesis.com

www.productgenesis.com