

## Creating Innovation Networks

Mike Docherty - CEO, Venture2 Inc.

### Introduction

Open innovation business models and collaborative approaches to innovation are moving beyond 'nice to haves' to 'must haves'. Joint ventures and strategic alliances are on a growth path. '*Open-market innovation*' is included for the first time among twenty-five management tools studied in Bain & Company's 2005 Management Tools and Trends Survey. The survey of 960 executives shows that open-market innovation methods are now being employed by more than 24% of respondents.

But are companies succeeding? A select group of leading companies have successfully adopted open innovation, and are demonstrating impressive results. Due in part to their commitment to open innovation, P&G is seeing double digit sales growth with better than 50% gross margins. And by leveraging external partners, P&G has achieved this growth, while their R&D as percentage of sales has gone from 4.8% to 3.4% over the same period. But many others are moving slowly or stumbling along the way.

Too many are incorrectly equating open innovation with technology scouting. Technology scouting has both strengths and limitations in supporting open innovation.

#### *Benefits of technology scouting:*

- *Develop understanding of key technology drivers - today and future*
- *Opportunity for cross-pollination of ideas across industry segments*
- *Often able to identify 'ready to commercialize' solutions*

#### *Limitations of technology scouting:*

- *Presumes linear approach to innovation*
- *Transactional mentality - it's about the technology, not the relationship*
- *Does not address critical need to also "attract the best ideas"*

So while technology scouting remains important, open innovation is broader and incorporates other important aspects including the development of ongoing partnerships and informal relationships with networks of external innovators.

The best companies are learning to identify areas of interest and then develop both formal and informal mechanisms to create innovation networks. It's an ongoing process that requires a company to approach business in a fundamentally different way, both externally and internally.

### Open Innovation as an Ecosystem

I propose that open innovation business models are a lot like ecosystems. Both ecosystems and open innovation business models have elements of partnership, cooperation and competition. Both are about inter-dependent - inter-dependent - groups. They depend on each other in a delicate balance of support.

Creating an innovation network, relying on external partners for innovation...it means operating at a higher level. Just like in nature when people go from dependence at childhood to independence at adulthood to inter-dependence as a family. So, just like an ecosystem, your approach to open innovation partnerships need to be built on inter-dependence. You need your partners as much as they need you.

Innovation networks can take many forms. They can be peer-to-peer networks that bring together non-competitive, or even competitive players to share insights or co-develop. They can be supply chain networks that collaborate across the value chain. Innovation networks can be internal forums and mechanisms to leverage expertise, technologies and ideas within large de-centralized organizations. They can be feeder networks that create linkages between a large central company with external start-ups, universities, technology companies and inventors. Below are some of the more common types of networks that can be used to build an innovation ecosystem.

Examples of Innovation Networks:

- **Peer to peer networks:** Non-competitive, or even competitive companies sharing insights and co-developing
- **Supply chain networks:** Innovation across the value chain
- **Internal networks:** Forums and mechanisms to share knowledge and ideas within large, distributed organizations
- **“Feeder” networks:** Larger, centralized entity leveraging external partners in coordinated development
- **Customer/User group networks:** Advisory groups or other forums designed to involve customers in bringing forward both needs and customer-developed solutions
- **Events and forums:** Discrete events aimed at creating and nurturing a network of innovators

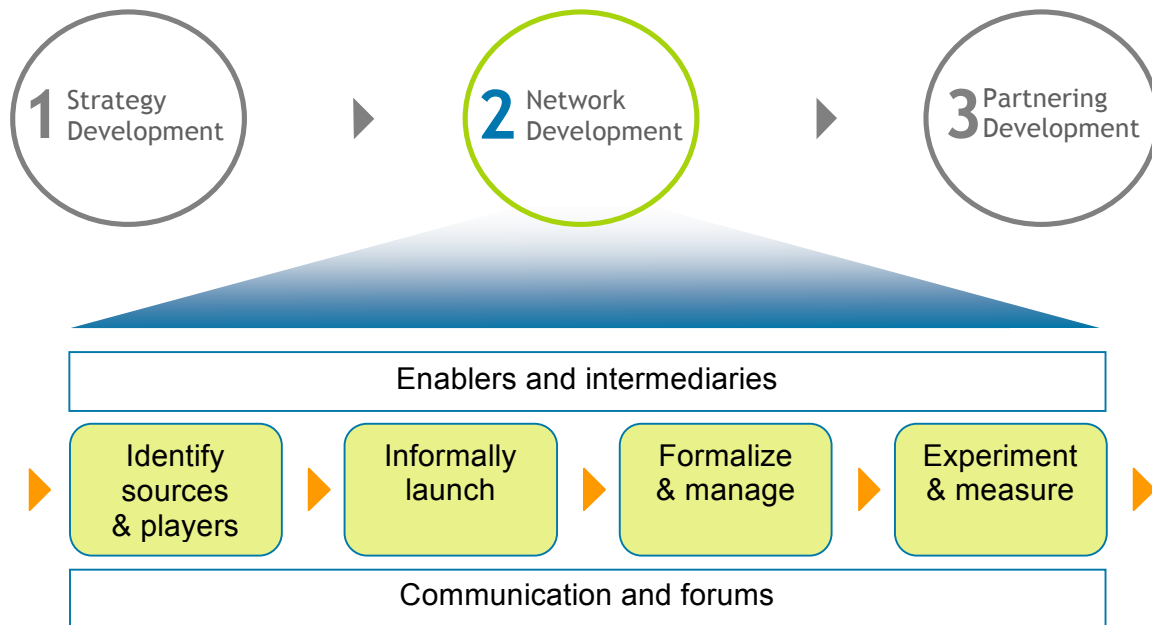
### **Creating and Managing Innovation Networks**

The first step in creating any network for supporting innovation should be the development of a statement of ‘strategic intent’. This can take many forms but in general is focused on defining the innovation growth paths, whether any or all of the following: new geographies, markets, channels, business models. The development of strategic intent must also address how your innovation efforts will leverage core competencies such as brands, distribution channels or unique skills. This may seem simple and obvious, but I can tell you from first-hand experience that some very sophisticated and mature companies often skip this step under the mistaken philosophy that open innovation should cast a wide net, without limitations. Strategic intent should define in clear, but high-level terms, the areas of focus for open innovation, and be worded around gaps in the market and un-served (or under-served) segments and needs.

The next step in developing innovation networks is the first round of an ongoing process of translating goals into problem statements and charters. These problem statements should have the following characteristics:

- Charter based upon macro trend or problem to be addressed
- Problem should be market or customer-driven, not internally driven
- Problem statements should be challenging and longer term horizon
- Networks should not be designed as ‘permanent’

With a strategy in place that includes strategic intent as well as problem statements and charters, the real work can begin in building networks to help address these needs. Below is an overview of Venture2’s 3-phase methodology for creating innovation networks. In this diagram, we are providing the key activities within Phase 2: Network Development. Below the diagram is a discussion of each of these key activities.



**Identify sources and players:**

Use your strategic and technology goals to identify sources of ideas for your areas of interest. Look broadly and outside of your industry for specific groups, people and organizations focused on innovation and technology development for these areas. For example, a medical products company may look to groups and companies that are developing breakthrough MEMS flow sensors for industrial applications as a source of new innovation that can be applied to medical device flow measurement.

Network members may cut across technology and market expertise. Begin with influential and respected players in the technology or market space. Recruit these members with a promise of access to other thought leaders in the arena and the opportunity for them to learn as well as share. Interestingly, these early players will likely help you identify additional ‘non-obvious’ sources of ideas and information for further exploration.

At Venture2, we often use a process we call “Speed-dating for Innovation” to identify and screen sources and players. We identify an arena of interest, for example ‘wearable health monitoring technologies’. Then we diligently conduct online research, expert interviews and scouting to identify potential players. From this, we hold speed-dating events where 5-minute meetings allow for a broad spectrum of players to connect and evaluate fit and interest.

**Informally launch:**

Create early relationships via informal interaction events and forums. The focus of these early efforts can simply be the sharing of best practices across the group. From these interactions, nurture one-to-one relationship building. As the catalyst and host of these events, you’ll be uniquely positioned to establish you and your company as the connector and glue for positive relationships.

Why launch informally? Because it provides everyone with the opportunity to test interest and fit without the pressure of formal evaluation and judgment for acceptance and rejection. Announcing upfront that events will result in invitation and rejections only risks alienating individuals and groups that might provide value in the future, or worse can poison your ability to attract other influential members.

Keep it low key and let the right relationships develop over time. The network will emerge and evolve over time. Don't force it too quickly or too formally. And don't get 'stuck' in your views of what the network should look like. I'd take passionate involvement over 'perfect' partners any time. Remember, these early and active partners can help you attract others over time.

Spalding is one of my examples of a company that is using a very informal innovation very effectively. Dan Touhey, Spalding's VP of Marketing and their technical groups don't have a formal process for open innovation, or a formal network in place for finding and evaluating ideas. They are just cultivating relationships with inventors and entrepreneurs and slowly developing the reputation as a 'partner of choice' for external innovators.

#### **Formalize and manage the network:**

As the informal events continue, it becomes important for more formal mechanisms to be put in place to more efficiently manage the process and to ensure that the network is focused on addressing the problem statements in the original charter. Often this includes online collaboration tools and forums to permit synchronous or asynchronous collaboration around problems and ideas. This is where our relationship with Ovo Innovation really helps us in managing the process. Ovo's suite of innovation tools, in particular Incubator and Shuffle can be leveraged very effectively as the glue to help these diverse players interact and build on each others' ideas. One of the great features of the product is the ability to manage and limit access in order to protect confidentiality of certain information, while still inviting broad participation in other areas.

The goal in formalizing innovation networks is to create the same 'sense of community' that exists in places like eDiets for consumers. We find that an effective way to create this sense of community is to create opportunities for shared experiences. For example, we use a process called Collective Insights<sup>tm</sup> to create collaborate cross-company learning initiatives focused on joint consumer research, technology pilot projects, or other joint activities that create new learning, beyond sharing of existing knowledge within the group.

#### **Experiment and measure:**

Open innovation is not a linear process. Linear thinking works well for simple problems and systems. But, as complexity increases, these approaches often fail. Innovation is complex. Open innovation is more complex. More players, fast paced, hard to predict. So, if you use a linear process, and only that, for your open innovation efforts - thinking "first we'll define our needs, then we'll do technology scouting, then we'll put that into our phase-gate system and we'll predict an 18.7% increase in our R&D efficiency by year 3." If you use linear thinking in complex situations, then "Expect to be surprised". And not necessarily in a good way.

The key is to use your innovation networks to continually scan for both needs (trends, problems, opportunities) and solutions (technologies, products, companies). You can't always predict which will come first, so an innovation network helps you continually look for the intersections of unmet needs, enabling solutions and market opportunities. 3M provides one of the best examples of a company that solves real needs with its products, but doesn't always start with the consumer research. And they're one of the best at leveraging networks of customers to help them identify and co-develop solutions.

Open innovation needs to be an open-ended process, but it still needs to be measured. The key difference between metrics here versus traditional phase-gate metrics is that traditional metrics are rightly focused almost exclusively on deliverables and results. But in open innovation and innovation networks, the focus should be just as much on learning as it is on results. By its nature, these exploratory, disruptive opportunities are filled with unknowns. So your focus, and your measures of success should be on how

well and how quickly you're learning - removing uncertainty, discovering what 'not to do', etc. Treat these networks and the initiatives within them as strategic experiments. I often recommend the book "Ten Rules for Strategic Innovators" (Govindarajan and Trimble) because they devote the latter part of the book to this philosophy of strategic experimentation and learning objectives.

### **Get Beyond Ideas**

As the marketing author Seth Godin said "There's no shortage of remarkable ideas... what's missing is the will to execute them". I firmly believe that open innovation and innovation networks provide one of the best mechanisms for overcoming our fixation on creating more ideas and fear of implementing them. Because open innovation let's everyone do what they're best at. Too much invention and innovation is taking place by individuals and start-ups to ignore. These creative entrepreneurs are a wonderful source of innovation for large companies. And these large companies are uniquely positioned, through the strengths of their brands and distribution channels, to scale up big ideas into big businesses.

Let innovation networks be the catalyst to help you collaborate effectively with external innovators.

#### *About the author:*

Mike brings to Venture2 over 25 years of broad-based leadership experience in general management, marketing and new product development. Prior to Venture2, Mike was a Vice President and General Manager for Sunbeam Products, Inc. (now Jarden), in the successful turnaround of the company. His previous career includes consulting as well as corporate positions in marketing and planning leadership at Ford, General Electric and Rohm & Haas. Mike holds an MBA degree from Northwestern University's Kellogg Graduate School and BSME degree from Drexel University.