

# The new buzz of 'open innovation networks'

**Laurence Knight**, fletcher-knight, shows how companies are casting a wider net for ideas – but still find it hard to tap consumers

**'OPEN NETWORKS'**, the latest buzz in innovation, is transforming how companies develop new product and service ideas by creating a network of innovation partners outside the traditional organisation. But, still central to 'upstream' innovation, and where open networks have not been proven, is 'connecting' directly with consumers to generate insights that can identify 'where to play'.

## Where can open networks add value?

In a recent IBM survey, CEOs in media-telecoms and petrochemical companies said they now source more than 50% of their ideas from outside the organisation. Through its 'connect and develop' model for innovation, P&G claims that more than 35% of its new product ideas now come from outside the company (up from 15% in 2000); and 45% of the initiatives in its product development portfolio have key elements that were discovered externally.

These successes have been attributed to 'open networks', which are based on the simple 'business enlightenment' that better ideas and innovation breakthroughs will come from sharing and collaboration that transcends the boundaries of the company itself. In other words, embracing 'not invented here'. Open networks have been facilitated by the surge of collaboration enabled over the internet between individuals and companies.

By understanding how these networks have radically changed the way we innovate, we can understand their limitations and reduce the risk of being sidetracked, and even potentially blind-sided – keeping the consumer central to all we do in innovation.

## Changing how we look for breakthroughs

The benefits of open networks are now well understood on the R&D and sourcing side of business. Scouting for technical inventions/solutions, brokering of experts' advice, sharing risk and outsourcing of non-strategic development activities have become mainstream with-

in the open networks system and have led to significant improvements in the way companies search for and identify new technologies and solutions.

As a result, four basic 'network' roles, and associated benefits, have emerged on the R&D and sourcing side of innovation:

- 1. Agent/Broker:** scouts and puts the right parties together.
- 2. Outsourced Innovator/Inventor:** seeks and manages the best technical solution input.
- 3. Strategic Partner:** enables the sharing or outsourcing of risk.
- 4. Community:** self-motivated community dedicated to continuous improvement

This may sound like fairly traditional language; they are in fact traditional activities, as great innovators have always embraced these roles. These are classic Myers-Briggs 'Resource Investigator' characteristics. The difference today is that new online collaboration tools allow traditionally constrained and inward-focused R&D and sourcing departments to blur the boundaries of their resources to become more outward-oriented as they seek valid, more affordable answers.

Many great pioneer companies are helping to facilitate this wave of activity. For instance NineSigma Inc, a Cleveland-based company that P&G helped to create, facilitates online problem-solving by presenting its client's technical briefs to a global community of scientists, academics and home-based inventors and hobbyists. Non-confidential proposals are presented back to NineSigma and, if the client company likes the proposal, a working contract is pursued. Innocentive is a similar company, established by Eli Lilly, but rather than connect companies to contract resources to solve problems, it actually seeks solutions from a pool of 75,000 contract scientists. Yet2.com is more of an agent, which brokers existing technology solutions in and out of companies, universities and government laboratories.

The most obvious place for this type of downstream open network thinking is in software development, where the digital product can be transferred and worked on around the globe. Outsourcing software-module development to India,

community development of Linux (alternative operating system to Windows) and more targeted software collaborative solutions companies like LiveOps Inc, are evidence of networking successes in the software development world.

## What about consumers?

Deeper connection and collaboration with technical partners has led to big breakthroughs in technical solutions. But can open networks drive a deeper connection and collaboration with consumers?

## Open networks have changed the way we partner with customers

In 2004, Whirlpool and Lowe's partnered to create a new co-branded water line product. Whirlpool claims that it generated \$800 million in revenues in 2005 alone from co-developed and co-marketed innovations. It now values the innovation in its pipeline at \$3.3 billion, a 66% increase since 2004.

## Truly open networks are rare on the consumer-inspired side of innovation

By definition and proven success in the marketplace, 'open' innovation networks improve the way we innovate by driving deeper connections and collaboration with partners. However, open networks have a limited ability to deeply connect with and collaborate directly with the consumer.

There are many examples of 'simple networks' that link 'indirectly' to the consumer, but these networks can only inspire innovation by:

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- ▶ analysis of unmet needs for existing products and services
- ▶ solicited survey response to proposed new ideas.

Many companies, including packaged goods companies, have little direct contact with all their consumers and therefore struggle to form even 'simple networks.' Instead, these companies have continued to create 'pseudo' networks like syndicated or tracking panels. Other businesses that have direct access to shopper behaviour information are linked into a vast, but 'simple', one-way network of consumers. This consumer information is static and can only reflect existing behaviour.

DTC and online companies are one step closer to the consumer through real-time technology. From digital products like music and finance, travel booking and shopping bots to suggestion-based software like Amazon's, consumer needs can be identified by tracking the online behaviour of purchasers and users. And, in addition, predictive software can even suggest new solutions to unmet needs in real-time. But these needs are based on facts, patterns and data, not on consumer insights into what drives that need.

By default we don't, therefore, classify any of these 'simple network' examples as truly open networks. Such 'simple networks' have a limited connection with the consumer, typically one-way analysis or survey responses, and therefore the consumer has limited ability to collaborate in the innovation process.

#### **Limited examples of truly open networks on the consumer side of innovation**

Online sites like Match.com get the closest to deep connection and two-way collaboration with the consumer. In these types of 'consumer-participated services', consumers actually yield detailed information about themselves in an attempt to get to a better product. Match.com can understand who its 'best customers' are by analysing the attitudes and behaviours, needs, wants and desires of consumers who get the best hits. However, this kind of collaboration is rare.

Consumer open networks can also exist in the form of online chat rooms, which can be a potentially rich source of two-way interactions that may inspire consumer insights – but again, this commentary is often limited to explicit needs, providing a better understanding of how to improve what already exists, and to content that is subjective, not strategic. These approaches do not typically tap into upstream innovation drivers of latent consumer needs, desires and motivations – for that, direct personal consumer contact is truly the only way to go.

#### **Remain open-minded**

Some innovators are trying to change open networks to partner with the consumer, but watch out for the risks!

Here are some potential ways to get to breakthrough.

#### **Innovation platforms that establish 'where to play'**

When we establish insight-driven opportunity platforms that define 'new places to play', one of our greatest inspirations is outside-in expert opinion, or leading-edge consumer attitudes and behaviour. Some open networks are specifically set up to connect you quickly with a broad range of outside experts or leading-edge consumers. Royal Philips Electronics recently created an outside panel of experts called the 'Simplicity Advisory Board', which was brought together to help Philips navigate 'where to play' in the future. The Board comprises of four experts, mostly in creative fields – fashion, design, healthcare and architecture – to give Philips a fresh external perspective.

Experts can often express ideas as leading-edge consumers and early adopters themselves, which can be a great route to insights on latent needs. Open networks may also connect you with new experts or with leading-edge consumers that you may not originally have considered.

*Caveat:* the innovation 'value-add' comes with a carefully targeted search for the right experts, a direct contact interview with them, and a strategic interpretation of their commentary, translating into new opportunities. This is difficult to scale.

#### **Unearthing style or design aesthetics that achieve breakthrough**

Many brands rely on packaging or visual style to communicate on the shelf and there are some cutting-edge options emerging. Accelerating Rapid D Networks, which is Affinova Inc.'s IDEA (Interaction Design by Evolutionary Algorithm) used by Pepsi, Dannon and P&G, uses a series of online surveys in conjunction with a software algorithm to measure and react to consumer preferences.

*Caveat:* the real value-add here is more likely to be the algorithm and the design company that applies it, not the consumer open network as such.

#### **Brand-positioning innovation that establishes 'where your brand can play'**

Great brand positioning and repositioning innovation taps into current trends and heartfelt consumer insights in the form of emotional needs, wants and desires. The innovation requires a deep two-way connection with the consumer, which allows us to get to subtle emotions and their connections to the more (right, left? emotional/rational-meaning?) functional side of the brain. Creating positioning options and building them with consumers is still considered the territory of artisans, but open network algorithms similar to IDEA are being explored and are still in their early days.

*Caveat:* in their push to open networks some companies have relinquished some or all control of the brand and let consumers drive the ideas and direction for positioning; a case in point is Chevy's 'Make Your Own Tahoe Commercial'. Taking a more open-minded approach, Chevy asked prospective buyers to develop online commercials. Instead, people in masses grabbed at the opportunity to criticise Chevy and harmed the brand's image, yielding more negative consumer input than positive.

The Superbowl Ads for Doritos went looking for the same consumer input, but in a controlled fashion.

## Four simple rules

There are some simple rules that can help move open networks upstream into consumer insight generation:

### 1. Keep it simple

The first rule is to remember that innovation networks are no more than new, efficient ways of talking to people as we share and build ideas. They are not a silver bullet, and if not guided by consumer insight on 'where to play', they can seriously clutter your innovation processes.

### 2. Be disciplined

Successful innovation requires more than good ideas and creativity. It requires a disciplined approach that draws on experience, expertise, insight generation, great stimulus for disciplined research, careful analysis and refinement, and so on. Open network innovation systems cannot bypass this discipline. They can only make certain parts of the process more productive.

### 3. Know who/what

Innovation is traditionally organised inside companies around the hubs of consumer/customer insights, marketing ideation and technical solutions/discovery. Open innovation networks should be organized in exactly the same way. In opening up to these new ways of process, do not lose this organisational discipline.

### 4. Understand how different types of network bring values and how to harness them

For example, if the search for new technical solutions on open network activity is not guided by a consumer need, it becomes a random 'hit and see what sticks' review of technology. Without a clear consumer brief, breakthroughs are possible, but they become dependent on luck rather than managed risk. To maintain a degree of control over their open networks, many companies, including P&G, establish a list of top unmet functional consumer needs that require specific technical solutions, and use this list to steer and focus activity on the network.

If you work in the world of breakthrough consumer insights, we don't suggest that you wait for the jury before becoming an 'open network evangelist'. On the flipside, however, there's no need to abandon your more traditional approach to consumer connection. Just be more open-minded to tweaking it and use your networks to improve, not replace, the way you innovate! ■



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