

## **Innovating the Business Model**

### **Using Open Innovation to grow your business in new directions**

#### **Key Messages**

- Good ideas are widely distributed. If you accept that not all the smart people work for you, then you can recognise the need to open up the search for useful external ideas.
- Financial Managers must “play poker as well as chess” in that they must not disregard the potential value of projects which may fail conventional commercial assessments.
- Consider the need to Connect & Develop (C&D) as well as Research & Develop (R&D). To manage Intellectual Property (IP), we need to access external IP to develop our own businesses and we need to profit from our own IP by putting it into other business models.
- Business Model innovation is just as important as Technological innovation.
- Working in an Open Innovation environment requires an enormous level of trust between partners – it’s critical to maintain and guard this trust.
- By securing Global partnerships, smaller companies can scale globally.
- In terms of evolving new business models, managers need to challenge themselves to “think outside the box”
- Assistance with all aspects of licensing is available from Enterprise Ireland’s TechSearch service [www.techsearch.ie](http://www.techsearch.ie)

## **Background**

*“Competitive advantage now often comes from leveraging the discoveries of others.”*  
Prof Henry Chesbrough

The level of interest in this topic was demonstrated clearly by the large attendance at the Conference "Innovating the Business Model - Using Open Innovation to grow your business in new directions".

Open innovation is practised by firms that use external knowledge as well as internal ideas to create value and grow the business. An open business model enables a company to build effective partnerships with others to benefit from an exchange of technology and trade. It is a key enabling factor in the growth of world-class businesses. Irish companies that have successfully innovated their business model include Quinn Direct, Newbridge Silverware and Aer Lingus.

The objective of the conference was to provide a roadmap for business model innovation, and this was illustrated by practical examples of;

- Adopting a customer solutions model
- Exploiting a new market opportunity
- Engaging in licensing, partnerships and collaboration

A leading authority in the area of business model innovation, the Keynote Speaker Professor Chesbrough is executive director of the Centre for Open Innovation at the Haas School of Business at the University of California, Berkeley. He has advised and charted the changing patterns of innovation in leading companies such as IBM, Philips and Procter & Gamble and has published many works on Open Innovation.

## **Innovating the Business Model**

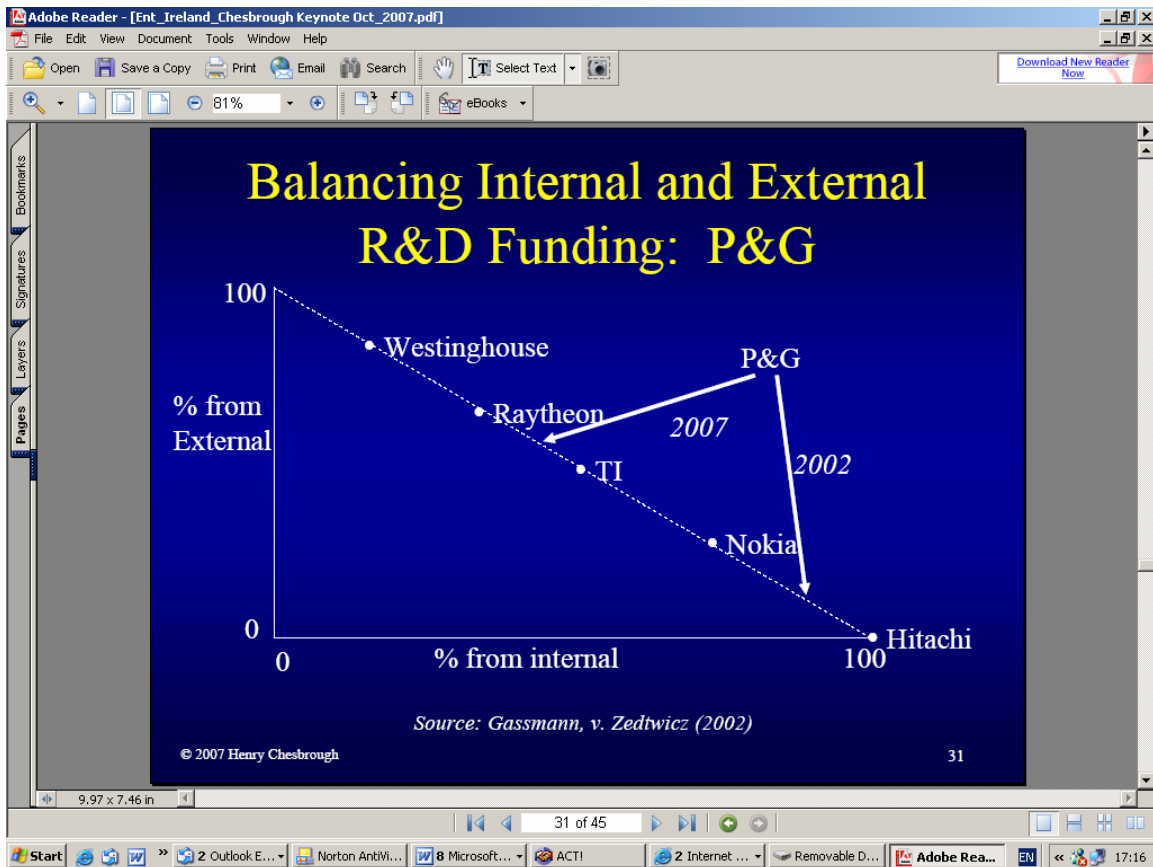
Prof Chesbrough outlined the logic of Open Innovation which is based on an acknowledgement that great ideas are widely spread. While closed innovation is based on the traditional method of internal Research and Development (R&D), financial analysis based on Net Present Value (NPV) and the use of existing distribution channels to launch onto the marketplace, Open Innovation looks to Connect and Develop (C&D) through external resources. It also requires the Finance function to “play poker” by investing in external sourcing and by being open to new opportunities. Equally all those involved in the business need to be willing to consider new business models and new ways to market.

A good example of re-inventing a business is Procter and Gamble, which had a financial crisis in 2000, when the share price fell by more than half in four months and the CEO was fired. Although they had leading products in many lines, there were few exciting developments on the horizon; it was a very closed company at that point. To re-

invigorate the company a number of steps were taken to drive Open Innovation. The company introduced;

- Technology scouts
- Legal templates for IP, partnering
- Investments in Innovation Intermediaries

Ultimately the goal has evolved for P&G to become *the* open innovation partner of choice and the growth in share price reflects the enormous development of the business since this move towards Open Innovation. The balance between internal and external R&D funding has also shifted enormously –



## *Open to iPod*

Prof Chesbrough outlined the process of development for the iPod, which went from conception to market in 6 months. It is a story of excellence in Collaborative Innovation. Tony Fadell developed the product in 8 weeks and when Steve Jobs took a personal interest in the product, Apple hired Tony to lead the development team. Participants in the development included Philips, IDEO, General Magic, Apple, Connectix, and WebTV. Apple developed the user interface and design. PortalPlayer managed the technical aspects of the design on the basis that they are paid \$15 per iPod sold. The success of the iPod is business history and Prof Chesbrough outlines the Critical Success factors as follows;

- Openness of development process
- Fast decision making
- Iterative collaborative relationship with PortalPlayer and other partners

## *The future's Open...*

This is an exciting time for innovation, according to Prof. Chesbrough. There are many new business models and many experiments. Irish companies should be aware that the job of innovation should no longer be delegated solely to R&D – the Business side of organisations and the Legal side of organisations have critical roles to play and Business Model innovation is as valuable as technological innovation – think Ryanair!

## **The Partnership Model**

Sean Keenan, CEO of Multis Group Ltd. detailed the development of their business model, **via partnerships and teamwork**. This new approach involved doing business with global electronics companies, to develop Multis into a multi-national player in the remanufacturing business. The Re-manufacturing market is estimated at 10 – 15% of new IT purchases (€billions) and Multis is already turning over €200 million and has revenues of \$30 million.

Multis offers a unique proposition to major OEM's in the electronics business. Traditionally, high-end technology platforms/servers, options and peripherals which were entering the second-use market were handled by independent Brokers who would re-sell into the market. However the manufacturers have no control over the re-marketing process and in some cases the result can be damaging to their business – either through lost revenues, insufficient product support availability (where the manufacturer has reached end-of-build for that product) or poor performance. Sean explained that Multis

stepped into the market by working directly with the OEM's, offering them more control over the Second-Use market. The approach has involved

- Alignment with the Brand Manufacturers
- The Logistical Management of Return Streams
- The Intelligent Routing of Product
- Recycling
- Non Brand processing and sale, where branding is not required
- Reclamation of Options/Components
- Sales and Marketing Support
- An Holistic and Integrated Model.

Sean outlined the enormous level of trust and co-operation that is involved as Multis pro-actively mines the customer databases of each OEM "We spent a considerable amount of time securing access to our client OEMs' systems – however this was essential to deliver a co-hesive service for them and for their customers".

By securing global brands to work with, Multis itself can scale globally. It can also use this business model and partnership approach to explore new markets. Multis looks forward to exploring new horizons "through customer solutions, innovation and partnership".

## **Land Based Applications of Space Technologies**

The European Space Agency is a fertile breeding ground for the development of new technologies and this presentation demonstrated the manner in which these technologies **have been licensed by business** in order to commercialize and exploit them in land-based applications. Danny Gleeson, G&L Technologies Ireland is a consultant in the ESA Space Technology Transfer Programme, visit [www.spaceskills.net](http://www.spaceskills.net) .

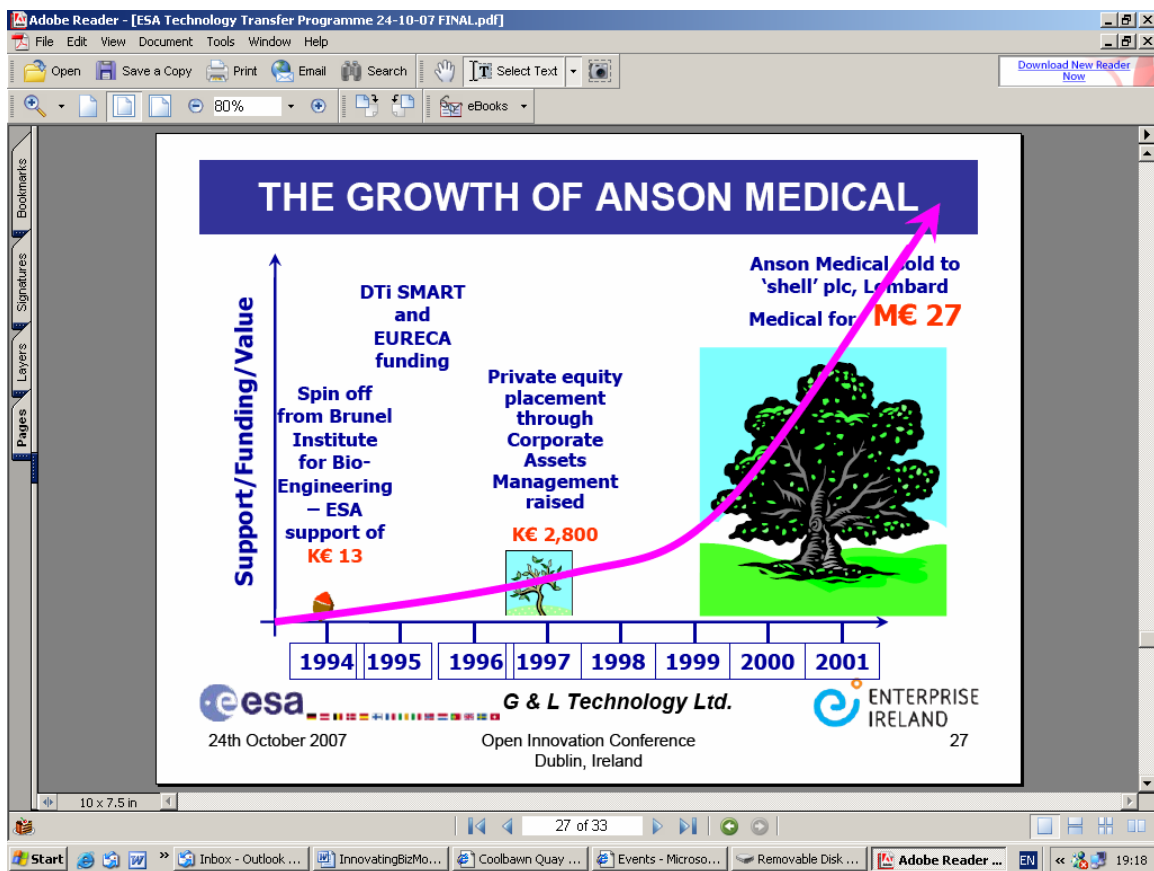
The ESA budget is €3 billion p.a. (a third of the annual European spend on dog food!) and the technology spin-off benefits have been enormous - €200 million of the budget is spent directly on technology programmes. The ESA Technology Transfer programme (ESA TTP) offers Seed Funding for start-ups through its European Space Incubator and it operates a network of technology brokers in Member States who act as intermediaries between space & non-space industries.

Danny outlined the huge variety of technology spin-offs across different sectors including the auto industry, leisure and sport sector and in health and medicine. "Parthus now supplies more than one third of the World's intellectual property relating to 'Bluetooth' wireless communications standard through their 'Bluestream' product developed under an ESA program".

In the health sector alone for example, many devices and commonly used technologies originated from the ESA programme such as

- Sensor and monitoring system to help prevent Sudden Infant Death syndrome
- Innovative cold and dry sterilisation device
- Electronic nose capable of detecting bacterial infections
- Early detection of skin cancer with handheld tool
- Blood flow imaging to detect blood vessel restrictions
- Flywheel exercise machine developed for astronauts
- Needleless injection system

According to Danny, the ESA TTP activities demonstrate there is considerable potential for growth in companies who are using space technologies or space infrastructures. The growth of Anson Medical demonstrates this clearly.



There is no reason why Irish companies cannot also benefit significantly from the programme. “Space Technology Transfer in Ireland makes good business sense for innovative companies, the process is open to all sectors and Networks are formed within industry & supporting organisations” The programme already has a successful track record in Ireland and more Irish businesses are invited to work with ESA-TTP which can be accessed through Enterprise Ireland’s Technology Transfer Dept. , [www.techsearch.ie](http://www.techsearch.ie) , as well as through [danny.gleeson@gltechnology.ie](mailto:danny.gleeson@gltechnology.ie)

## The Nortel Story

The Nortel story was presented by Dave Quane, MD Nortel Networks Ireland and it outlines how a business can face challenging times and learn to re-invent itself, in the face of changing market conditions.

Headquartered in Toronto, Canada, Nortel now has over 30,000 employees and an annual spend of over \$2 Billion on R&D. However around 2000/2001, the company had made significant investments in Digital technologies and it was heavily impacted when the DotCom bubble burst. Nortel recognised at that point that business transformation was essential for future growth, and established a Business Transformation office reporting directly to the new CEO to plan and push through the reforms. They conceived an “Operating Rhythm” which coordinated:

- People
- Strategy
- Product
- Budget

Arising out of this, the strategy for the Irish plant in Galway involved a commitment to R&D, and to couple it with a Customer Relations function whereby customers could develop a relationship with the R&D people assigned to their project.

Overall, the company looked at the evolving market, which was moving towards Hyperconnectivity. If you consider that 98% of the CPU's in the world are not currently connected to a communications network, you get some idea of the potential. Dave said “We decided to work on the basis that anything that could be connected and would benefit from being connected, would be connected”. The business focussed on Communications Enabled Applications, which merged the sources of information with the tools of communication. Central to this has been Nortel's **partnership with Microsoft** where Nortel provides the networking with the devices, and Microsoft provides the unified communication channel. Strategically this proved to be the right move as Hyperconnectivity has been, and will continue to be, a key market driver. Further strategic alliances have now been established with LG and Dell. Responding to a question from the audience regarding the service opportunity related to a product, Dave replied that many new business opportunities will be feasible as more and more CPU's are connected.

Visit [www.nortel.com](http://www.nortel.com)

## Using Intellectual Assets to transform your Business

Jane Watters and Maria Weir of the Intellectual Assets Agency, Scotland, outlined how the Scottish IA Centre helps organisations to take the first steps in identifying, safeguarding and managing their IA for commercial advantage. This is more vital than ever given that it is now estimated that the proportion of market value which can be attributed to intangible assets is 75%.

While Intellectual Property (IP) includes Patents, Registered Designs, Trademarks and Copyright, Intellectual Assets also includes Know-How, Process Procedures (e.g. manuals), Unregistered Trademarks, Contracts and more.

Companies are keen to protect Intellectual Assets for a variety of reasons;

- Investment
- Sale or exit
- New product development
- Changes in marketplace
- Strategy development
- Peace of mind
- New Business Models

Protecting these assets can be difficult as it's both legally complex and broad and requires specialist knowledge. However it can also be a lucrative exercise, as St Andrew's Links Trust discovered. The Trust had an issue in that there is such a strong brand awareness with golfers and visitors that many items were stolen as mementos. The Trust assessed their Intellectual Assets and made the decision to introduce branded merchandise, by **licencing out use of the brand** to Burberry.



By trading in the value of the Brand, the Trust saw that their entire business strategy could change and that significant revenue streams could be generated from the licencing agreement. Ultimately the Trust now operates in a more innovative and lucrative market space.

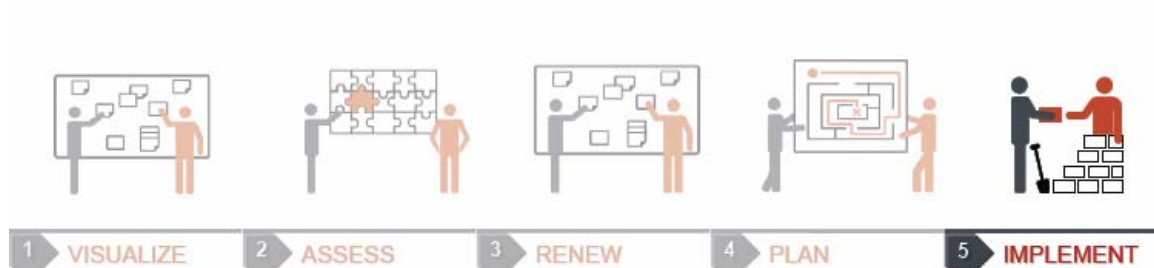
There are a number of Case Studies and other supports available at the IA Centre website, visit [www.ia-centre.org.uk](http://www.ia-centre.org.uk)

## Identify and Improve your Business Model

Alexander Osterwalder, Managing Partner of Arvetica, based in Geneva, Switzerland presented a roadmap to business model innovation, using Arvetica's proven 9-step methodology.

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In applying the methodology, a business should visualise the existing business model, then assess its strengths and weaknesses. The team can then brainstorm opportunities and improvements which could be made with the business model. A planning phase would then turn this into a Project Roadmap, which would ultimately enable the implementation of a new business model.



Alexander outlined the example of Amazon, who re-invented their business model after an assessment stage which involved asking

- where are some of Amazon.com's highest costs located?
- what are some of Amazon.com's core competencies?
- how could they leverage these competencies?
- how could they leverage investments?

The company recognised that a core competency included the extensive inhouse IT skills and resources – not just the ability to sell off the Amazon site. The business subsequently leveraged off this asset by creating new revenue streams, via offering eCommerce facilities, paid storage options, search engine revenues and more. Ultimately this has re-invented the entire business model for Amazon.

In terms of businesses looking to change their model, Alexander said “The greatest challenge to companies is the need to “think outside the box” – that’s a critical factor.”

Arvetica’s website is [www.arvetica.com](http://www.arvetica.com) and Alexander operates two highly informative blogs at

- <http://www.privatebankinginnovation.com>
- <http://business-model-design.blogspot.com>

## **Online Tools**

Jim Cuddy, Manager for Innovation and Technology Transfer at Enterprise Ireland, concluded the Conference by re-iterating the supports available for companies eager to explore the technology licensing option.

- [www.techsearch.ie](http://www.techsearch.ie) is Enterprise Ireland's licensing website which provides information and on-line tools to inform the licensing process.
- Technology searches can be performed on-line through the site using a simple keyword process, or companies can contact the TechSearch team for one-to-one assistance.
- Financial supports for licensing and technology acquisition are available through the RTI scheme (for R&D), the Productivity Improvement Fund (for market-ready new products and technologies) and Exploring New Opportunities (for market research and feasibility).