

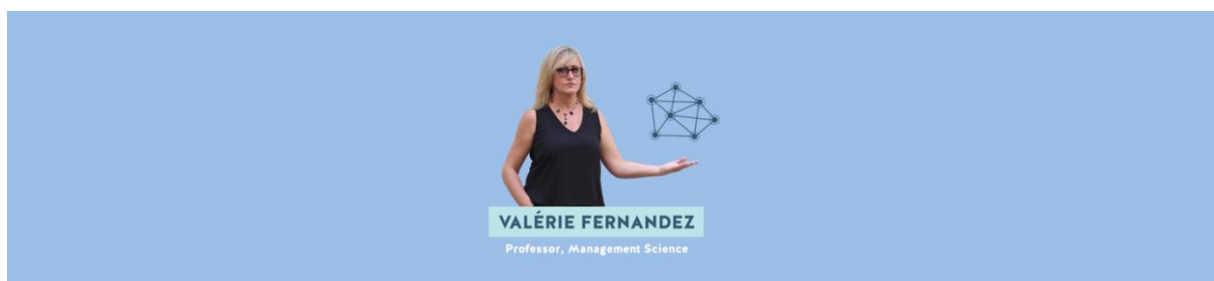


# MOOC

## Innovating in a Digital World

### Lesson: Digital open innovation

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## Introduction

Pivot Power is a flexible surge-protector. This is Quirky's star product, an internet platform used to co-create products between multiple individuals. And this is the brainchild of high school student, Jake, who conceived Pivot Power with the help and influence of 709 community contributors. In less than two months, 400,000 copies were sold and \$ 350,000 went into Jake's pocket.

What is exactly is open innovation? It's a new way of innovating based on collaboration between companies, their suppliers, their customers, and thanks to the internet, online users...

So how does this work?

Who is capturing the economic value?

Let's look at some answers through three forms of open innovation.

## Open innovation between companies

In the competitive economic climate of the early 2000s, intensive innovation along with the creation of new products and markets was an economic imperative. In order to bring a faster innovative pace, R & D branches became open to the ideas and innovations from outside firms. From the "outside-in" process, they would purchase patents, licenses. From the "inside-out" process, promoting spin-off products. Another form of open innovation was the forming of partnerships between different business sectors; and Henry Chesbrough, professor at Berkley University begins talking about "open innovation".

In 1998, the Smart Car is launched. Co-produced by Swiss watchmaker Swatch and the German automotive giant Mercedes-Benz, this brand new concept car in shared automotive construction is a win-win strategy of sharing economic value, generated by the success of this partnership.

In 2008: Apple launches the AppStore. This is one of the first two-sided platforms through which Apple sells to its customers content developed by other parties such as: music producers, film makers, authors and game and software developers. Apple collaborates with other players from various markets without lending its technology: applications from the AppStore only work with Apple devices. Apple is only "opening " its business model: therefore independent companies and developers merely provide content that increases the value of the iPhone and iPad as a systems good. Apple pays a percentage of their revenue from the profits of the applications.

## Open innovation spreads to consumers

Through the idea of "lead user", Eric Von Hippel, Professor at the MIT Sloan School underlines that the Schumpeterian paradigm, focused on innovation from the producers, is

challenged by a paradigm where innovation is driven by the users. This type of open innovation is all the more multiplied through the Internet: communities of users, who innovate, collaborate and improve their production between them, using a peer to peer distribution model.

For example, KiteSurfing is a market created by water sports enthusiasts highly competent in design and innovation of their product to the point that companies who tried to compete, are now committed to being mere service providers in producing their board and sail models.

In 2001, Procter & Gamble launched Connect & Develop; an emblem in "crowdsourcing", a strategy that enables a company, through a website, to appeal to the masses and its creative potential. The amateur service providers are rewarded or compensated if their idea is accepted by the company.

Procter & Gamble as such, do not participate in the costs needed during the creative phase. The company benefits other "positive externalities" of the platform: Internet users vote to designate the best ideas, Procter & Gamble therefore minimizes risks of failure inherent when launching a new product. The ideas and innovation coming from the internet users makes for a fantastic data base for R & D and marketing.

Involving internet users is part of the "economy of contribution" inherent to the Internet. The exchange of data and ideas are made by amateur contributors who, for the most part, are not paid. The work can be described as invisible, a "Digital Labor," which raises the question with no apparent answer: "Who captures the economic value"?

In these types of open innovation, lead-user and crowdsourcing, the user innovates and the producer produces.

## **User funded innovation**

In 2009, the crowdfunding platform Kickstarter was launched.

This method is quite simple: a project creator presents his or her idea, and then sets a fundraising goal along with a deadline. Rewards are established for the support of Internet-investors, in the form of small donations (a prize, a free ticket for a show, etc.); or a participation in the equity of the company created or even paid loan. Kickstarter then takes a percentage of the funds.

The digital era, its web sites and its trading platforms have multiplied the possibilities of open innovation, enabling the exchange of ideas, services and profit. Some see a democratization of innovation; others a new trend in capitalism.