Open Innovation: What's New?

Henry Chesbrough

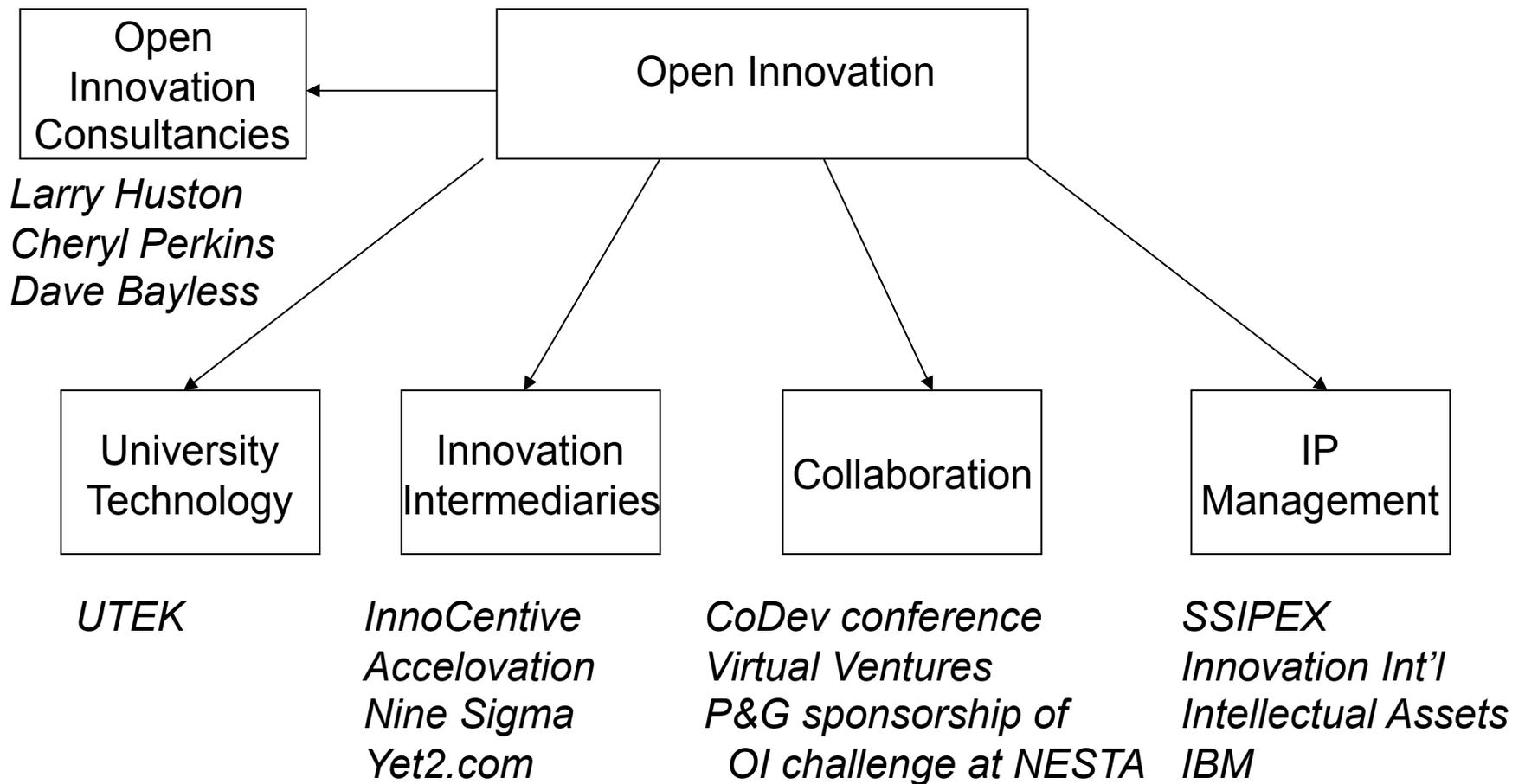Berkeley Innovation Forum

November 1, 2007

What I've been doing

- Lots of talks to promote Open Innovation and Open Business models
  - 68 talks this year, up from 53 in 2006 and 35 in 2005
- Open innovation message is getting through
- Open business model message is not (yet)
- Launched a course on Open Innovation
  - Philips
  - Air Products
  - Coming here at Berkeley, Feb. 25-29: Open Innovation and Corporate Entrepreneurship

More

- Lots of articles and publicity
  - See handouts and list of articles on your memory drive
  - But is this a leading or a lagging indicator?
- Open Innovation blog for the BIF
- Partnership with PRTM

What others have been doing

Open Innovation Consultancies

Larry Huston
Cheryl Perkins
Dave Bayless

Open Innovation

University Technology

UTEK

Innovation Intermediaries

InnoCentive
Accelovation
Nine Sigma
Yet2.com

Collaboration

CoDev conference
Virtual Ventures
P&G sponsorship of
   OI challenge at NESTA

IP Management

SSIPEX
Innovation Int'l
Intellectual Assets
IBM

IBM Patent on Making Money from Patents

BOSTON (AP) -- IBM Corp. says it has dreamed up a new method for profiting from its vast storehouse of patents. And by the way, the company wants to patent the idea.   Beyond the circularity of the concept, IBM's application is notable because the company -- the world's top patent holder -- has been campaigning to improve the quality of patent filings and reduce so-called "business method" patents.

"I think this is absolutely a business method patent," said Barbara Fiacco, a patent attorney with Foley Hoag LLP.

The new patent application was initially filed in April 2006, updated last April and published by the U.S. Patent and Trademark Office last Thursday. It covers what IBM calls **"a system and methods for extracting value from a portfolio of assets, for example a patent portfolio."**

Specifically, IBM -- which collects more than $1 billion in patent royalties every year -- describes a new process for licensing patents. Instead of smaller companies licensing technologies from patent holders like IBM in a plodding, one-by-one manner, IBM envisions a more dynamic system with "floating privileges," in which patents could be licensed quickly, as needed.

The application says this floating privilege, once purchased, could be activated by a patent-infringement lawsuit. In other words, companies would buy the right to use a patent portfolio like IBM's as a legal shield for themselves -- "just like purchasing a fire insurance policy," IBM's application contends.

IBM's application regarding patent licensing: http://tinyurl.com/2detov

And growing academic interest

Recent academic activity

- Special issue of R&D Management, June 2006
- Academic conferences on Open Innovation
  – Copenhagen Business School
  – Ohio State
  – Imperial College, London
- Laursen and Salter – openness improves innovation performance, up to a point
- Simcoe, Graham and Feldman-Platform Paradox
- New Ph.D. students launching dissertations on open innovation topics

HP's New Research Leader

- "Open innovation recognizes that there are people outside your own organization who are as smart as you, or perhaps even smarter. In the past, research labs focused on closed innovation – they did the work on their own and then tried to funnel it to the businesses inside their own companies. The idea behind open innovation is that by working with others – PhD students at universities, entrepreneurs, startups, etc. – you can tap into their ideas."

More from Prith Banerjee

- But with open innovation comes open output as well. I'd like to bring some startup DNA into HP Labs, so if there isn't a place in an HP business for an innovation, researchers can start a company or HP can license the technology.

- It's better to do that than keep technologies hidden inside HP Labs. As long as the research done within HP Labs ultimately benefits society, you have done something, right? Society benefits and HP as a company would get some licensing revenue or some equity share in a company.

Open Innovation Events Calendar [!]

- **Innovating the business model: open innovation**

Oct 24, 2007 - Ireland - link

This half-day conference will provide a roadmap for business model innovation, illustrated with examples of how Open Business Models can be used in its different dimensions. Keynote speaker: Henry Chesbrough.

- **Creativity World Forum**

Oct 30-31, 2007 - Qingdao, China - link

The Forum will bring together entrepreneurs, knowledge workers, and policy makers from around the world.

- **Global Innovation Exchange 2007 - TIP**

Nov 7-9, 2007 - Global - link

A virtual online conference focused on sharing and diffusing innovation insights, strategies and next practices from around the world.

- **Corporate Entrepreneurship and Open Innovation master class**

Nov 8-14, 2007 - Deurne, Netherlands - link

- **Value Network Creation master class**

Dec 10/11, 2007 (kick-off) - Netherlands - link

More events

CoDev 2008: Open Innovation - TIP

Jan 21-23, 2008 - Scottsdale, AZ - link

A powerful, unifying event on how to maximize product development partnerships, value networks, and other external relationships. Receive strategies, tactics and an implementation roadmap to achieve goals.

- **InnoTown Innovation Conference**

June 2-4, 2008 - link

The conference takes a broader view, and emphasises innovation, vision, inspiration, strategy, creativity, promotion, and internationalisation.

- **Enterprise 2.0: The collaborative technologies conference**

June 9-12, 2008 - Boston, MA - link

The conference will provide you with the opportunity to see the best learn how to successfully implement them and compare notes with other early adopters

- **The 2008 ISPIM Conference - Open Innovation - TIP**

June 15-18, 2008 - Tours, France - link

Source: www.openinnovators.net

Haas Conference on Innovation November 15-16, 2007

- Celebrating the school's repositioning around "Leading Through Innovation"
- 50th Anniversary of California Management Review
- Dinner Friday, papers Saturday
- Let me know if you'd like to come!!

Two recent studies to share

- Open Innovation and Strategy
- Case on Sun Microsystems

Open Innovation and Strategy

- Open behavior is not well explained by traditional theories of business strategy
  - Michael Porter's Five Forces
- Yet openness appears to act as a powerful agent of value creation
- So, our theories of strategy need to be updated!

Yet….

- Open source development itself has been well studied
  - But the accounts are all one-sided
- Is the whole world going over to open source methodologies?
  - Sourceforge.net: most projects languish
  - Open Source Development Labs and Free Software Foundation merged into Linux Fndn
    - Board seats cost $500,000

The threat to sustainability

- If open source is no longer a meritocracy
- How will open source projects attract independent contributors?
- If independent contributors conclude that one or more large companies have taken over control of the project, they may leave
- Once enough people perceive a threat, this could lead to a self-fulfilling prophecy

How to make open source more sustainable?

- Enable ways for participants to differentiate themselves

- Allow certain paths for interested parties to profit from their involvement

- This starts to sound like business strategy!

- So open source and strategy need each other after all

Sun: Back to the Future

- In the beginning, Sun pioneered the use of open standards for workstation market
  - BSD Unix
  - Motorola microprocessor
  - *Apollo had a machine that was incompatible with other machines, higher in price and, by most measures, the superior product on the market. Sun, the newcomer, had a standardized machine, which was cheaper to produce, easier to sell to a varied market, and even easier to discount*. Wall Street Journal, 1987.
- Huge success, leading to a big IPO.

But then….

- Sun's openness began to run out of steam
- HP and IBM enter the market, with powerful (and proprietary) architectures
- Sun fights back, with a big bet on RISC
  - The SPARC
  - Later, Solaris
  - *By controlling the integrated computing system – from the microprocessor to the server and client OS – Sun can build 'the whole house' while other vendors 'just give you prefabricated living room'*
    - Bill Raduchel - Chief Strategy Officer, Sun, 1994

The Dot in Dot.com

- Sun enters the server market
- The internet market explodes
  - Sun's business explodes with it
- Sun becomes "the dot in dot.com"
- The company grew revenue, profit, and headcount as the market grew
- Then, the bubble collapsed

Sun Today: Back to the Future?

- McNealy retired from Sun
- Schwartz takes over
- New strategy: openness
  - Solaris now going to open source
  - Sun has donated thousands of its patents
  - Sun now buying microprocessors from AMD and even Intel
- Revenues are starting to grow again, and so are profits.