

Yet2.com: Yet2.com was an online marketplace for intellectual property exchange. It was used to transfer the technology both within and outside the company, universities and government labs. It worked with the clients by briefly describing the technology. For example, P&G was able to license its low cost microneedle technology to a company specializing in drug delivery.

By using C&D model, P&G had launched more than 100 products and 35 % of its new products in market had elements that originated from outside P&G,²¹ up from about 15 % in 2000. 45 % of the initiatives in its product development portfolio had key elements that were discovered externally. Through C&D, along with improvements in other aspects of innovation related to product cost, design, and marketing, P&G's R&D productivity increased by nearly 60%. Its innovation success rate had more than doubled, while the cost of innovation had fallen. R&D investment as a percentage of sales was down from 4.8 % in 2000 to 3.4 % in 2006.²²

Universal Model?

Though companies which used 'open innovation' succeeded in controlling their businesses, several companies undervalued the ideas that were generated externally and some found it difficult to work on the external ideas using their internal R&D. An analyst said "*Most companies are still clinging to what we call the invention model, centered on a bricks-and-mortar R&D infrastructure and the idea that their innovation must principally reside within their own four walls. To be sure, these companies are increasingly trying to buttress their laboring R&D departments with acquisitions, alliances, licensing, and selective innovation outsourcing. And they're launching Skunk Works, improving collaboration between marketing and R&D, tightening go-to-market criteria, and strengthening product portfolio management.*"²³

Analysts felt that it would be the dominant innovation model in the twenty-first century.²⁴ Chesbrough commented, "*Open innovation will unlock the economic value latent in your company's ideas and technologies. If you don't unlock this value, chances are someone else will.*"²⁵ Would this model be adopted by the companies which were struggling to leverage their businesses?

²¹ A French wound-healing technology in Olay's Regenerist line, for instance, helped pump up Olay's volume 30% in the past year. Health and beauty care today represents 48% of P&G's revenues and 53% of its profits, vs. 36% for both in 2000.

²² Jim, 'P&G Connect and Develop Innovation Model' www.advancinginsights.com/mybiz/p-g-connect-and-develop-innovation-model

²³ Op cit "open nnovation": The New Imperative for Creating and Profiting from Technology

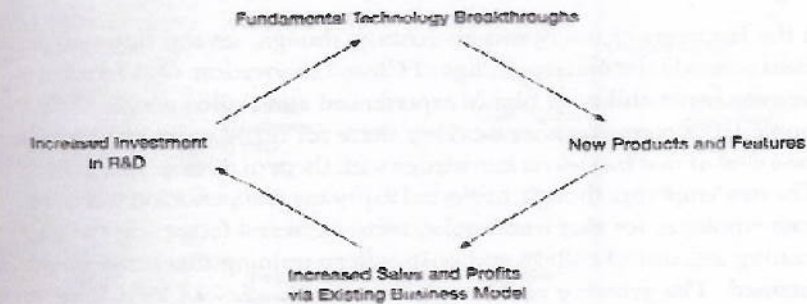
²⁴ P&G's New Innovation Model' <http://hbswk.hbs.edu/archive/5258.html>

²⁵ Op cit "open nnovation": The New Imperative for Creating and Profiting from Technology

Annexure I Virtuous cycle

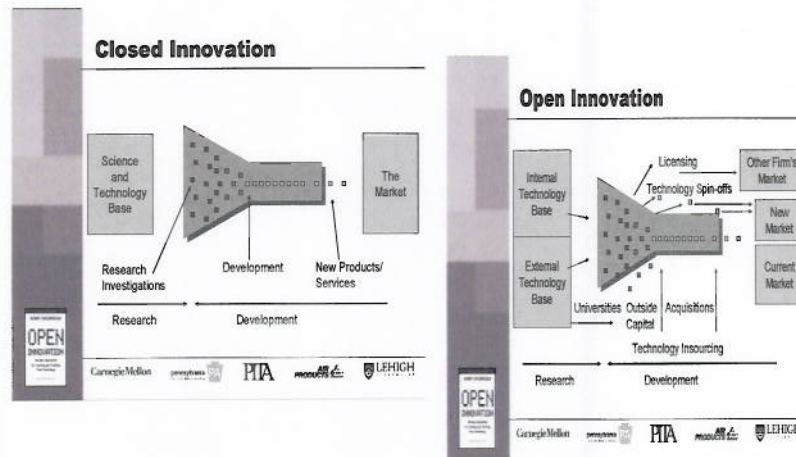
FIGURE I-1

The Virtuous Circle



Source: www.smartbooks.com/

Annexure II Closed and 'open nnovation'



Source:

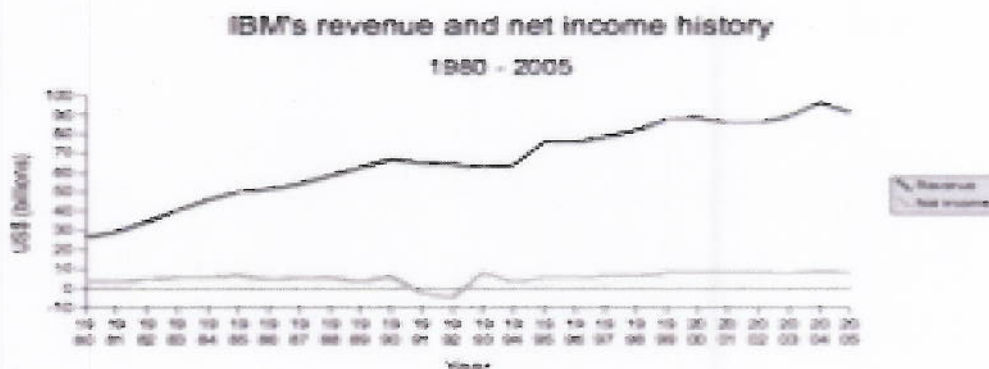
<http://app.outreach.psu.edu/HEECDS2005/Presentations/SupposingOpenInnovation.ppt>

Annexure III

Open innovation in different companies

IBM

IBM for several years was a dominant innovator in the industry, earning the lion's share of the industry's profits, performing long-term research driving the technology, and obtaining the majority of the patents in the industry. But IBM witnessed a loss of \$4.97 billion in its sales in early 2000 as IBM's R&D was not successful in developing and launching their ideas immediately in the market. But the Japanese were getting their ideas into the market much faster than IBM and the mobility of disk-drive engineers caused IBM's leadership to erode over time as they moved to other companies. An industry observer said *"IBM was close to technical insolvency when he came on board. The situation was drastic and quite severe. In my own view, if it hadn't have been so bad, it would have been much harder for IBM to make the transition to an 'open innovation' model."* IBM open technology solutions for product lifecycle management (PLM) integrated enterprises and legacy applications to reduce data conversion errors, lower the business risk by leveraging industry standards. IBM moved from the 'closed innovation' paradigm to the 'open innovation' and gained \$1 billion in the year 2003.



Xerox

In the 1970s and 1980s, PARC proved to be an exceptionally innovative research institution within Xerox. Yet for years, its inventions contributed little to the corporation's bottom-line. During that period, PARC practically created the modern era of personal computers and networks through inventions so deeply novel that no one could see how to use them immediately to improve the company's existing lines of lightlens copier and duplicator products. Eventually, these innovations became the basis for Xerox's highly successful DocuTech line of networked digital production presses that created the print-on-demand industry in the 1990s.

However, those same inventions, when acquired by other companies and modified for other purposes, created new industries and generated far more value for others than for Xerox. The combined value of the companies founded on work at Xerox PARC—3Com, Adobe, and others—is now more than twice the value of Xerox itself.

Dell

Dell, used a more open and effective approach to R&D by gathering the requirements through customer interactions, organized events and customer panels. Dell developed most of its products within Dell R&D organizations enabling industry standards and technologies through industry