

Open innovation in action process:
Case study illustrations

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H-I Network



 Procter & Gamble	 Philips	 BP	 Alliance Boots	 KLM Royal Dutch Airlines	 DSM
 Shell	 Unilever	 Health Protection Agency	 EDF Energy	 Mars	 Sony
 British American Tobacco	 BAE Systems	 Hewlett Packard	 South East England Development Agency	 GlaxoSmithKline	 QinetiQ
 Eon	 NESTA	 Ordnance Survey	 Premier Foods	 Carbon Trust	 McLaren
 Syngenta	 National Grid	 South West Water	 E6 Ventures	 Molins ITCM	 BASF Ventures

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OPEN INNOVATION IN ACTION

How to be strategic in the search for new sources of value.



"Open Innovation in Action is a good compilation of H-I tools and examples of open Innovation in various leading companies."

"Simple is good; otherwise it will not be put in practice."

Robert Kirschbaum, VP
Innovation, DSM



"Good book, demonstrating strong links to leading companies."

Matthew Roberts, Financial Advisor,
Corporate Venture Funds, Nestle Acquisitions
& Business Development

"A timely, clearly written, and convincing book that includes useful methods and case examples. Extremely relevant and timely for BAE."

Glenn Gapper, Industrial Technology
Acquisition Manager, BAE Systems

"Open Innovation in Action" summarises a number of innovation & business growth theories / strategies in a comprehensive & concise way. It is a useful thought-starter for anyone involved in driving innovation within their organisation."

"Reviewing GSK innovation strategy against the H-I 5Ps of Innovation has helped to highlight potential pitfalls & areas for improvement."

Frances Crewdson, Category Director, Innovation, GlaxoSmithKline

Available from H-I.com or Amazon.co.uk

Open Innovation represents a logical evolution of thinking in the topic of innovation



Closed Innovation Model

- 20th century virtuous cycle of involvement in innovation
- Top talent gathered through remuneration, location and culture
- Correlation between proprietary knowledge and sales / financial performance
- R & D becomes a barrier to entry
- Increased competency in idea commercialisation



Principles

- Smart people in the field work for us
- If we discover it ourselves we will get it to market first
- To profit from R & D we must discover, deliver and ship it ourselves
- If you create the most and best ideas in the industry, you win

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- Drivers of Change**
- Advances in information and communication technology
 - Increased mobility of staff
 - Increased access to venture capital
 - Rising quality and dependency on suppliers
 - Increasingly commercial academic institutions

Open Innovation Model

- Combine internal and external ideas to shape new business models
- We should profit from others use of our IP and we should buy others IP where it advances us
- Recognise that the changing businesses and social context creates new models and opportunities for learning



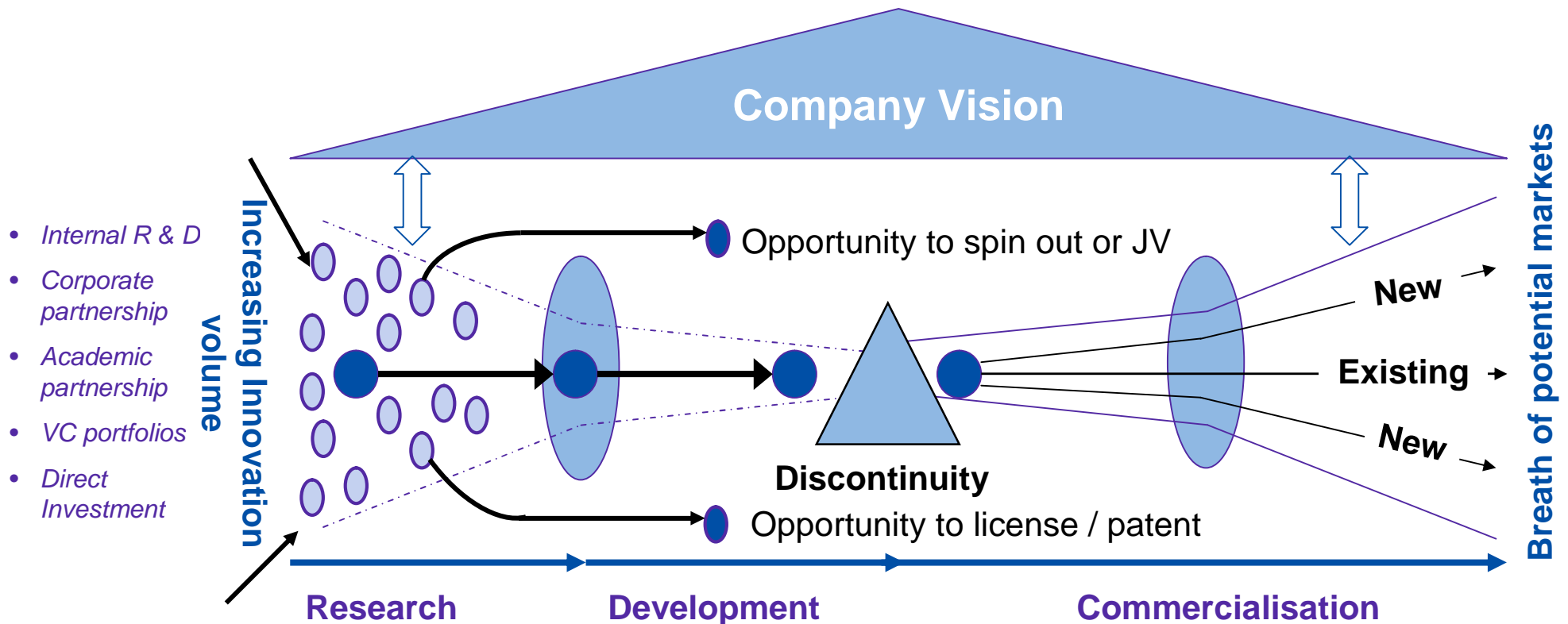
Principles

- Not all of the smart people work for us
- External R & D can create significant value.
- Internal R & D is required to claim some portion of it
- You don't have to originate the idea to profit from it

Innovation needs to satisfy three considerations if it is to succeed...



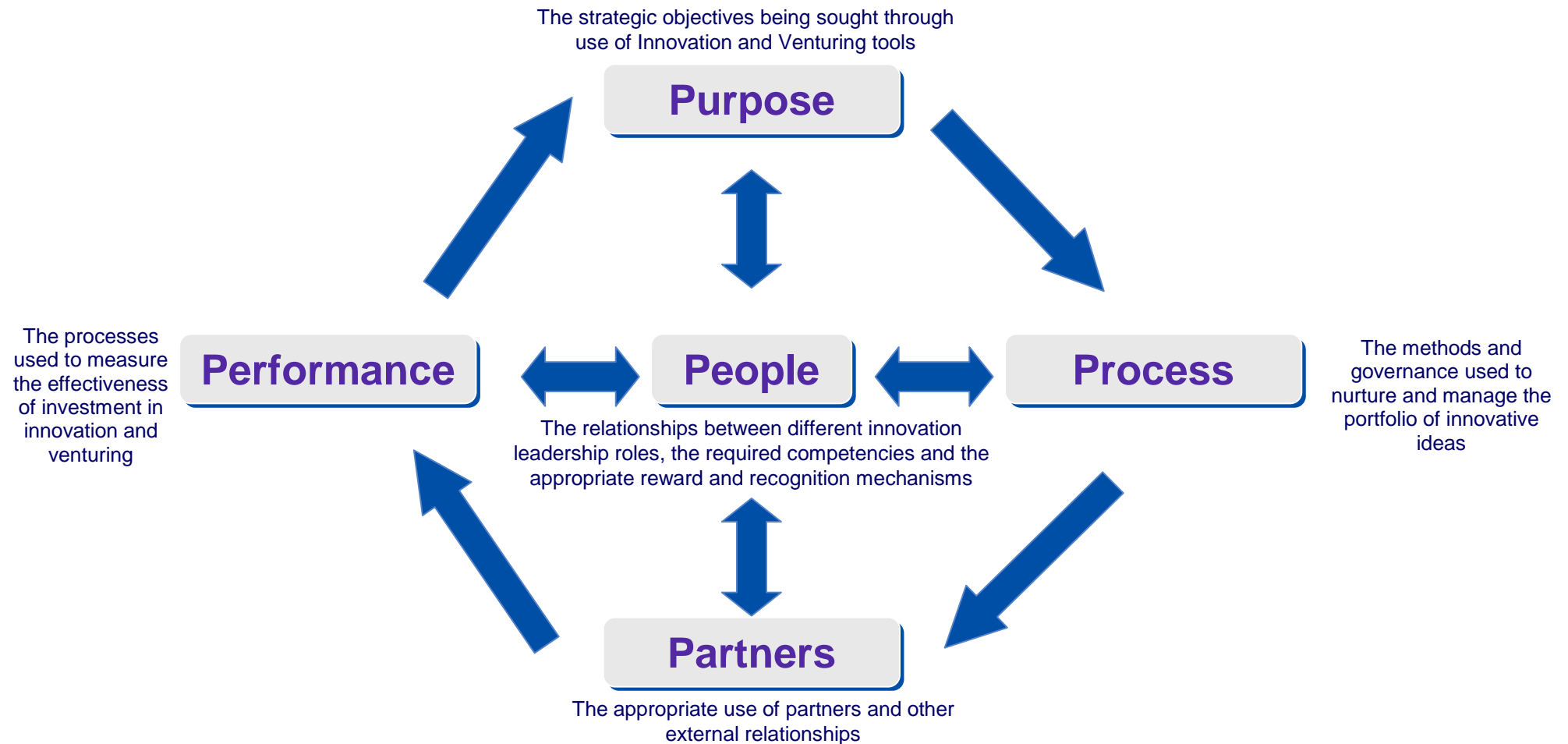
- 1) openness to ideas from outside, 2) commercial discipline, 3) alignment with strategy,



The 5Ps of Innovation and Venturing



The 5Ps consider the key elements of creating an Innovation Process which is aligned with corporate goals and effective in the delivery of measurable results



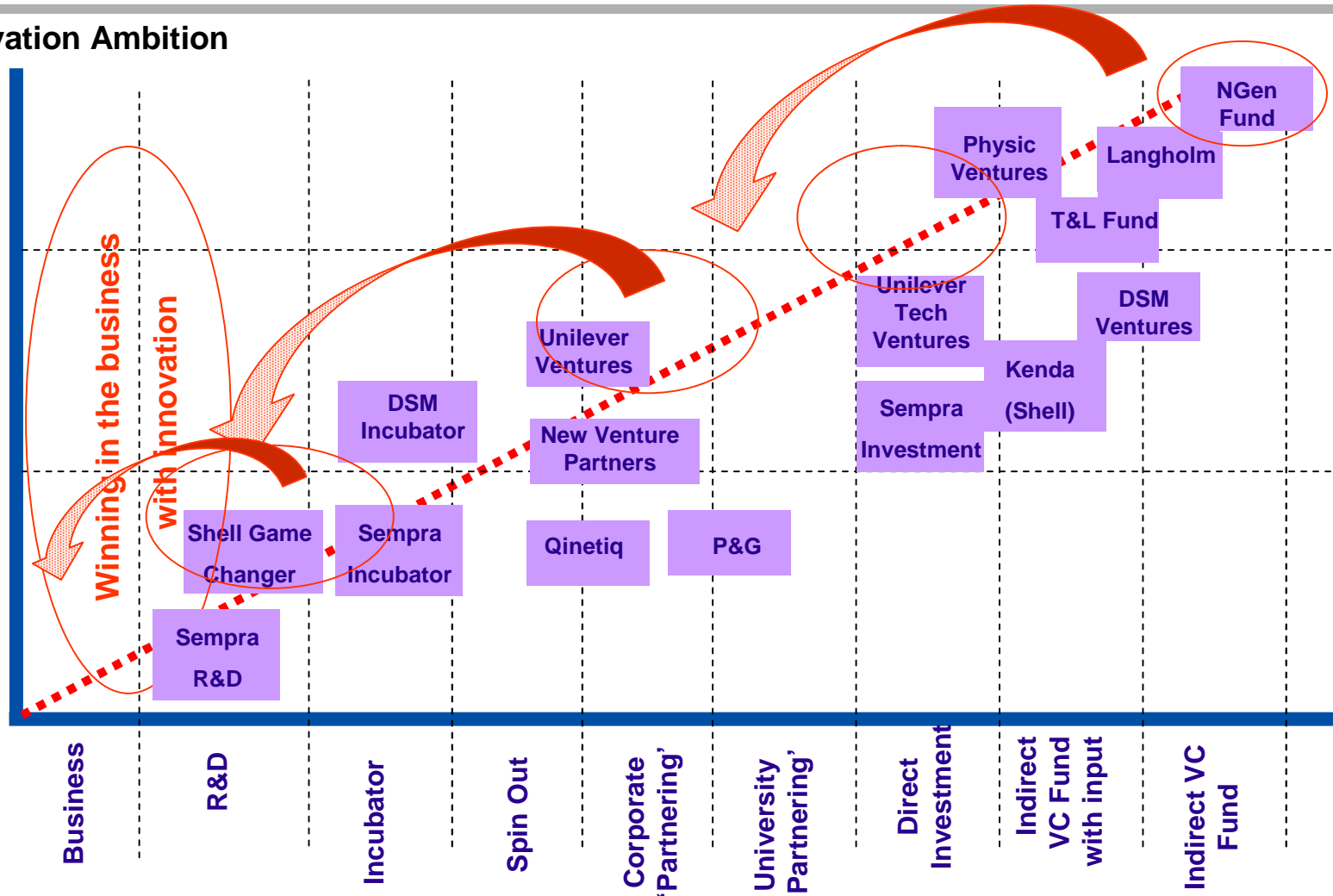
Organisations need different approaches along the innovation spectrum



Innovation Ambition

Strategic /
Transformational

Tactical /
Incremental



- There are many approaches which deliver 'innovation'
- Is the balance between these horizons correct?
- Linking the processes is critical to win strategic innovation.

Successful innovation strategies recognise the importance and interrelationship of the various potential approaches



Procter & Gamble	
Purpose	<ul style="list-style-type: none"> ◆ Grow core business – in 2000 ~ 50% of net sales -> 2007 66% of net sales and >70% profit ◆ Migrate to faster growing higher margin more asset efficient businesses e.g. beauty ◆ Win with lower income consumers – especially faster growing markets ◆ Creates connections for technology and business partnerships ◆ Gateway for companies to partner with P&G on technology and product development
Process	<ul style="list-style-type: none"> ◆ Corporate Innovation Fund (CIF) - Central 'seed money' to create new business ◆ Future Works - 'seek out innovation opportunities that create new consumption' ◆ New Business Development (NBD) in a Business Unit - Partial or fully external resource ◆ External Business Development - "brokerage house" for innovation
People	<ul style="list-style-type: none"> ◆ Connect and Develop team members with the skills ◆ Being Open is key to the organisation and culture ◆ This is about culture and team spirit
Partners	<ul style="list-style-type: none"> ◆ A.G. Lafley – CEO of P&G – Connect and Develop <ul style="list-style-type: none"> ◆ 'now in the era of open, networked corporation' ◆ "reapply with pride" ◆ "we will partner 50% of our innovations with outsiders"
Performance	<ul style="list-style-type: none"> ◆ Grow twice as fast as the industry; grow one-an-a-half to two times GDP ◆ Innovate to drive strong top line growth and focus on gross margins and productivity to deliver double-digit earnings growth ◆ Focus on organic growth first then acquisition for long term strategic growth

Sources: The Game-Changer A.G. Lafley & Ram Charan, Company websites, Case studies in public domain and H-I reports



DSM	
Purpose	<ul style="list-style-type: none"> ◆ Continue the transformation of the business from 'Dutch State Mines' to a speciality materials and nutrition business ◆ Develop significant 'EBA's (Emerging Business Areas) ◆ 1) Biomedical materials 2) Specialty Packaging 3) Personalized Nutrition 4) White biotech
Process	<ul style="list-style-type: none"> ◆ Strategic areas clearly defined in the 2005 and 2010 five year plans ◆ Accelerated growth areas identified ◆ DSM Innovation and Venturing incubator ◆ DSM Venture fund
People	<ul style="list-style-type: none"> ◆ Business development incubator team ◆ Dedicated venture team members
Partners	<ul style="list-style-type: none"> ◆ Universities and technology centres ◆ Partners in new ventures ◆ VC partner funds and indirect investments in funds
Performance	<ul style="list-style-type: none"> ◆ New revenue generation in the five year plan ◆ VC returns on funds

Sources: Company websites, Case studies in public domain and H-I reports

Tate and Lyle



Tate and Lyle	
Purpose	<ul style="list-style-type: none">◆ Move business from a commodity carbohydrate business to an added value renewable ingredients business◆ Gain insights to Horizon Three new areas
Process	<ul style="list-style-type: none">◆ Created dedicated Tate & Lyle Venture fund in 2006 of \$40mill◆ Scoped broad strategic areas◆ Invested across start ups, corporates and funds
People	<ul style="list-style-type: none">◆ Recruited two dedicated outside fund managers from the food and VC areas
Partners	<ul style="list-style-type: none">◆ VC network and partners◆ Corporate network of contacts and investments
Performance	<ul style="list-style-type: none">◆ VC structure – management fee, carried interest and VC returns to the LP

Sources: Company websites, Case studies in public domain and H-I reports



Unilever	
Purpose	<ul style="list-style-type: none"> ◆ Take options for growth in interesting companies ◆ Access emerging technologies ◆ Exploit Unilever IP in spin outs
Processes	<ul style="list-style-type: none"> ◆ Unilever Ventures - Focussed Venture delivery of New Businesses ◆ Unilever Technology Ventures - Dedicated Technology investment fund ◆ Physic Ventures ◆ Langholm, NGen etc - Stake in shared investment funds
People	<ul style="list-style-type: none"> ◆ Teams are dedicated to the different processes ◆ Aligned to the skills and connections to core business ◆ Team members brought in from out side and 'acquired' in the funds
Partners	<ul style="list-style-type: none"> ◆ Appropriate partners to deliver joint opportunities e.g. Sainsbury Retailer, Agricultural College. ◆ VC funds
Performance	<ul style="list-style-type: none"> ◆ Portfolio returns and ventures fund focus ◆ Within strict time lines bring in external partners ◆ Venture Capital Measures in the elements of the Euro 250mill investment

Sources: Company websites, Case studies in public domain and H-I reports



New Venture Partners	
Purpose	◆ Dedicated to working closely with leading global technology corporations to support and leverage their internal innovations through spinouts and/or external investments – e.g., recent spinouts related to BT, Freescale, Unilever
Process	◆ Bring an experience-based and well-refined process to effectively address finding, incubating, spinning out, and managing to success new business opportunities
People	◆ Leverage a global team of investment professionals with years developing expertise ranging from corporate R&D labs to spinout ventures
Partners	◆ Able to bridge and leverage entrepreneurial resources and the venture community and a network of corporate relationships for the success of the spinout activity
Performance	◆ Key performance measures include providing strategic advantage by developing opportunities in the corporation's business ecosystem, enhancing the culture and motivation of the labs, and providing additional financial return on a corporation's R&D investment

Sources: Company websites, Case studies in public domain and H-I reports



Sempra Energy utilities	
Purpose	<ul style="list-style-type: none"> ◆ Create value for our customers ◆ Enhance utility operations ◆ Accelerate the development of innovative technologies and products
Process	<ul style="list-style-type: none"> ◆ Monitor short and longer term consumer/company needs and trends ◆ Identify potential technology investment opportunities ◆ Obtain executive client sponsor/champion ◆ Conduct due diligence ◆ Present recommendations to Investment Committee
People	<ul style="list-style-type: none"> ◆ Small, robust project/venture team drives the process ◆ Corporate stakeholders review work and validate recommendations ◆ Outside resources contracted as necessary (e.g., IP assessments) ◆ Considering forming technology advisory council
Partners	<ul style="list-style-type: none"> ◆ Energy-focused venture funds ◆ Strategic investment partners (typically corporations) ◆ Technology developers, laboratories, universities
Performance	<ul style="list-style-type: none"> ◆ Products ◆ Technology milestones ◆ Financial return ◆ Reputation as a leading innovator in the industry

Sources: Company websites, Case studies in public domain and H-I reports

Shell GameChanger



Shell GameChanger	
Purpose	◆ Mission is to deliver new business opportunities to the Royal Dutch/Shell Group of Companies by stimulating breakthrough innovation in Exploration & Production
Process	◆ Internal idea generation supported by external partners
People	◆ Team members in divisions as facilitators for innovation and idea development. Engineers and scientists.
Partners	◆ Partner involvement to provide capabilities technology
Performance	◆ Cost, Benefit analysis with Option Theory methods to assess upside potential

Sources: Company websites, Case studies in public domain and H-I reports

Shell Technology Ventures



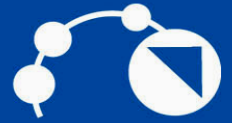
Shell Technology Ventures Fund (Managed by Kenda Capital)

Purpose	<ul style="list-style-type: none"> ◆ STV invests in organisations that offer valuable new technologies/capabilities in areas directly related to Shell's core E&P business. ◆ To support the innovative process STV provides companies with access to Shell Research Labs, network of third-party scientists, entrepreneurs, other research entities, and extensive internal knowledge transfer.
Process	<ul style="list-style-type: none"> ◆ Firstly look within organisation to see what ideas needs to be progressed and also the research currently underway, then look outside organisation to see who else is working on similar ideas and could potentially add value to the proposition. ◆ Will look for ownership of 30% to 100% with evaluation criteria similar to that of 'PE' investors: entrepreneurs with commercially viable technologies, effective management team and an executable business plan. ◆ STV prefers to invest in companies who are in the market penetration/growth stage and target a five year exit strategy. Once a company stands on its own and Shell have maximised ROI, they sell their share and invest in other promising new ventures.
People <small>(8 individuals mentioned here now sit within Kenda Capital)</small>	<ul style="list-style-type: none"> ◆ Venture team consists of 8 people with venturing experience which report to a senior board empowered to make decisions on venture activity investments. All venture activity tied to Shell's strategy for growth. ◆ Once an equity stake is purchased in a new venture Shell place one of their own people on the board of the new company. On occasions these individuals remain permanently with the new organisation. This allows network of sponsors/contacts to grow throughout industry, therefore improving potential for future partnerships.
Partners	<ul style="list-style-type: none"> ◆ Shell has a variety of JV's for example with Halliburton Energy Services, which between them own joint investments in a number of small innovative organisations. ◆ Shell are not concerned that potentially new technology could eventually leak into the open market as by this point they have already benefited from early adoption.
Performance	<ul style="list-style-type: none"> ◆ Identify innovation opportunities that fit with Shell's tenets regarding sustainable development, diversity, capital discipline, operational excellence and cost leadership. Without this fit, Shell is reluctant to proceed. Where Shell has a large stake in a business they will expect that business to report against stringent KPI's around environmental and social factors. Those businesses which continuously fail to hit KPI requirements will be divested. ◆ Shell set an exit strategy of 5 years duration. After this point they would have expected to have generated sufficient ROI, and also benefited from early adoption and testing of new innovative technologies.

Source: <http://www.shelltechnologyventures.com>

H-I Network – Innovation Introduction

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The H-I Network comprises senior executives and key influencers of leading global organisations committed to fostering innovation, growth and operational excellence.

- **Innovation Network**
- **Operational Excellence Network**

“The H-I Network has been supporting Unilever Ventures for over 7 years, providing great network contacts and insights into venturing. They are the best connected and networked partner to Corporate Venturing groups in Europe, which has proven invaluable to us in identifying new investment opportunities, co investors, new management and sourcing solutions. I have been recommending to other leading organisations that they actively participate in the H-I Network if they are looking to achieve value from their corporate venturing activities.”




John Coombs, Managing Director of Unilever Ventures Ltd

“For Philips the value of the H-I Network comes from high quality networking, learning from other organisations and access to research and thought leadership in innovation which is core to Philips Research. I have particularly benefited from thinking beyond traditional players in the value chain for early market introduction of Philips products and services. Keep up the good work.”

Dr Terry Doyle, Managing Director Philips Research UK

H-I tailored programmes



Format	Description	Benefits	Examples			
Collaborative Programmes	Network members collaborate to address a issue for a member which provides mutual benefits.	Delivering insights and solutions to an organisation opportunity or challenge. Building ongoing collaboration and joint opportunities.	 <p><i>Meeting with Philips to discuss sensor technology</i></p>			
Member Centric programmes	An engagement with a member to bring external leading thinking to address a specific opportunity or challenge. Understand the issue, desk research, workshop and report back.	Gain leading thinking from research and practical examples. The programme builds the understanding for business benefit and connections in the Network over the year.	 <p><i>See cases from DHL, T&L, QinetiQ etc.</i></p>			
Special Interest Programmes	Leading organisations collaborating on topics of common interest and value.	Sharing research and insights to leverage knowledge gained. Potential ongoing collaboration opportunities.	 <table border="0" data-bbox="1323 1189 2069 1372"> <tr> <td data-bbox="1323 1189 1579 1372"> <p><i>IT Management</i></p> <p>ING Bank, EDF, BA, DHL Express, Cancer Research UK, NYK Logistics,</p> </td> <td data-bbox="1583 1189 1803 1372"> <p><i>Renewable & Sustainable Energy</i></p> <p>BOC, Eon, The Carbon Trust, Shell</p> </td> <td data-bbox="1807 1189 2069 1372"> <p><i>Ageing Population, Health & Wellness</i></p> <p>Axa PPP, GSK, HPA, Philips, Premier Foods, Kodak, Cambridge University, Unilever</p> </td> </tr> </table>	<p><i>IT Management</i></p> <p>ING Bank, EDF, BA, DHL Express, Cancer Research UK, NYK Logistics,</p>	<p><i>Renewable & Sustainable Energy</i></p> <p>BOC, Eon, The Carbon Trust, Shell</p>	<p><i>Ageing Population, Health & Wellness</i></p> <p>Axa PPP, GSK, HPA, Philips, Premier Foods, Kodak, Cambridge University, Unilever</p>
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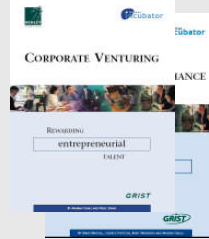


H-I Network programmes



Format	Description	Benefits	Examples
Thought Leadership Forums	Executives from leading organisations meet for an evening 'board room style' meeting and dinner.	Sharing current leading thinking and addressing challenges to gain business benefits. Contacts and content shared	 <p><i>TLF on Management and Governance</i></p>
Key Speaker Events	Leading speakers and practitioners addressing key business issues at innovative location. Approximately 50 executive attendees from leading global organisations.	Listen to thought provoking topic and discuss the issues with peers. Build your network to enable you to address issues in your organisation.	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p><i>Will Hutton on China</i></p> </div> <div style="text-align: center;">  <p><i>Will Hutton on China</i></p> </div> <div style="text-align: center;">  <p><i>Iain Fergusson on Transformation of T&L</i></p> </div> <div style="text-align: center;">  <p><i>Iain Fergusson on Transformation of T&L</i></p> </div> </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="text-align: center;">  <p><i>Sir John Chisholm, Chairman of QinetiQ</i></p> </div> <div style="text-align: center;">  <p><i>Lord Kalms</i></p> </div> </div>
Interest Tours	Immersion in a issue in a particular geography or topic - visiting experts, academics and business leaders	Gain insights on how other leading organisations are addressing business issues.	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p><i>USA Innovation Programmes</i></p> </div> <div style="text-align: center;"> <p><i>China programme</i></p>  </div> </div>

H-I Network research and reports



Format	Description	Benefits	Examples
Members Research Reports	Comprehensive and practical reports addressing current business issues. Reports include up to date case studies from leading organisations.	Insights and output from H-I research and thought leadership forums presented in a practical form which can be implemented in the organisation.	 <p><i>Rewarding Entrepreneurial Talent</i> <i>Going Beyond the Idea</i> <i>Innovation Leadership</i> <i>Performance Measurement</i> <i>Winning Ideas For Strategic Growth</i> <i>And Venturing</i> <i>Lean Principles</i> <i>Continuous Improvement</i></p>
Member Case Studies	Focussed case studies highlighting issues and solutions addressed by H-I Network members.	Gain perspectives on other organisations' issues and share your issues and solutions.	 <p><i>Review of Corporate Venturing Models Study</i></p> <p><i>Case studies</i> <i>Procter & Gamble</i> <i>QinetiQ</i> <i>Shell</i> <i>DSM</i> <i>Tate & Lyle</i></p>
Publications	Leading publications providing overview of current thinking and leading new thoughts. Includes practical tools and case studies	Provides a framework and approach to build the thinking and solution for your organisation to gain business benefits.	 <p><i>Open Innovation in Action</i> <i>Strategic alignment</i> <i>Purpose</i> <i>Process</i> <i>People</i> <i>Partnerships</i> <i>Performance</i></p>