

Lecture 2

What is Open Innovation?

Professor Solomon Darwin
Haas School of Business
University of California, Berkeley

Agenda

- Conference Calls on Wed – frame 6 questions – 15 min.
- Why business models fail?
- What is strategy?
- What is innovation?
- What is closed innovation?
- What is open innovation?

Why do Business Models Fail?

1. Revenue Side:

- Solving the wrong problem; Wrong value proposition - Nespresso

2. Cost Side:

- Costs Exceed Revenues - Kodak

3. Culture:

- The 4 Elements of an Open Culture:
- Exchange, Empowerment, Enablement and Encouragement –Example: P&G – Vmware

4. Dynamic Capabilities:

- Lack of Orchestration - Poor Execution – wrong people on the bus

5. External Threats:

- Competitor's value prop – same or lower price – customer needs change – environmentally friendly – tech change - economy - Southwest

6. Leadership:

- lack of passion and vision – Apple/Starbucks/Winston Churchill

The Need For Wise Leadership



“Where there is no Vision people perish”

Passion Transforms Vision into a Reality



**“It is not the strongest of the species that survives,
nor the most intelligent that survives.
It is the one that is the most adaptable to
change.”**

Adaptation & Collaboration

- Darwin noted animal kind who collaborate and have prevailed
 - many animals display sympathize with each other's distress & danger grooming behaviors - horses nibble, cows lick, monkeys search for parasites, etc.

. . . Tomorrow,

- it won't be the largest
- or fastest companies
- who will succeed,
- but the most collaborative...

Positioning in the Global Landscape

1. **Think** globally to create the value
2. **Define** the right Business Model to capture that value
3. **Network** with larger ecosystems to distribute that value
4. **Engage** with customers /communities to enhance that value
5. **Invest** in cost effective resources to profit from that value
6. **Collaborate** for a win-win to share that value
7. **Device** ways to protect that value
8. **Sacrifice** the short-term for the long-term to sustain that value

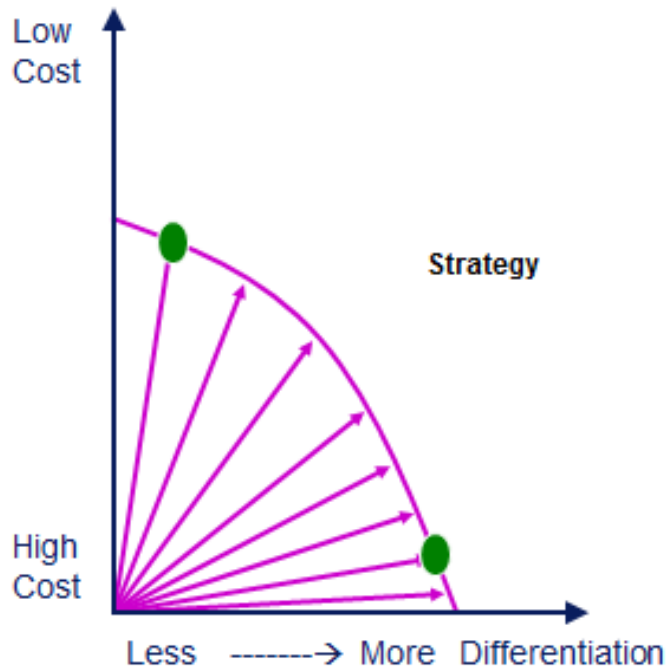
Write Down

One or two words that come to your mind

1. Strategy
2. Invention
3. Innovation
4. Closed Innovation
5. Open Innovation

What is Strategy?

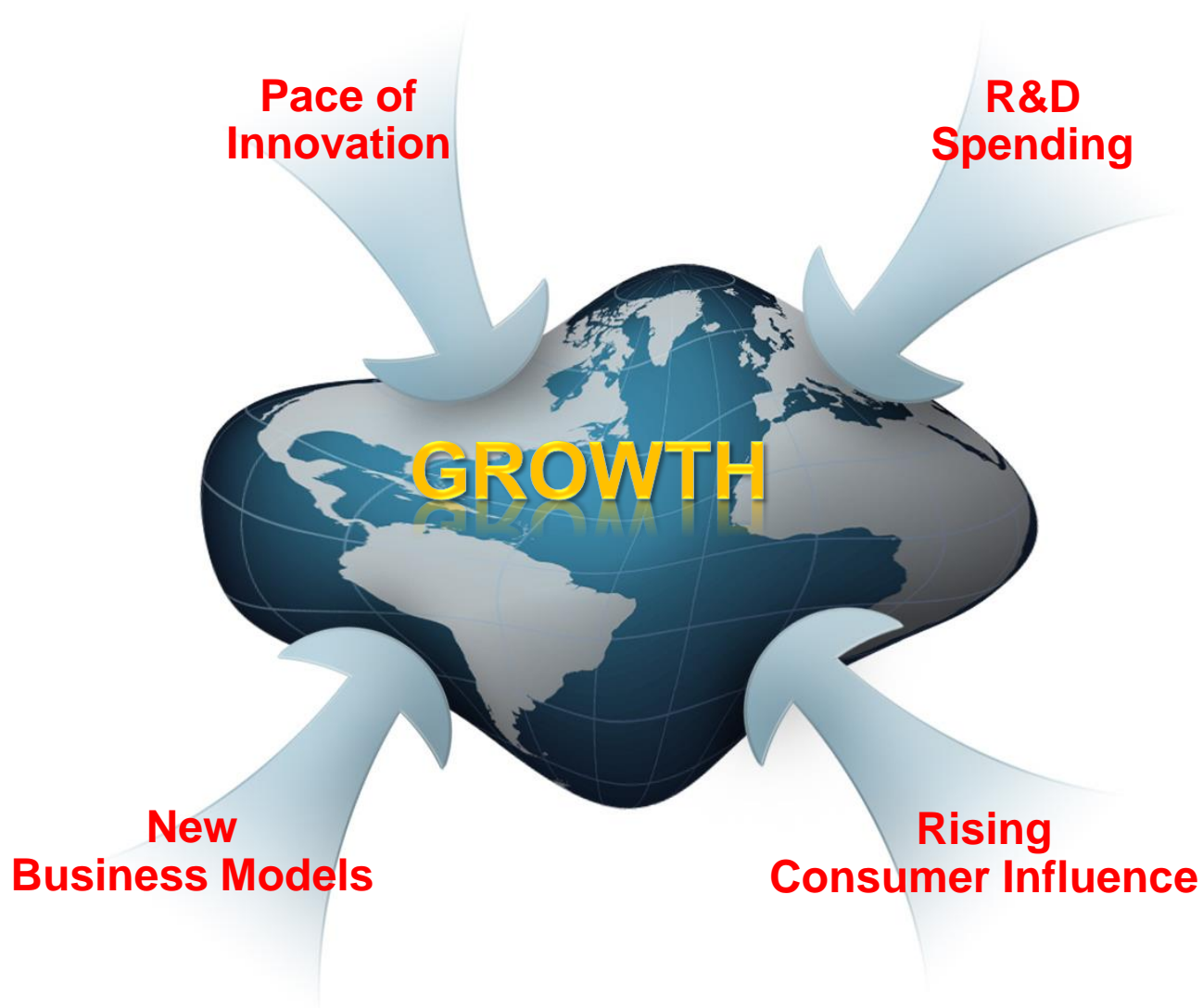
1. Matching capabilities with opportunities in the marketplace
2. Choosing your constraints: where on the frontier you want to be?



Innovation is: Breaking constraints & establishing a new frontier

Why is Innovation Needed?

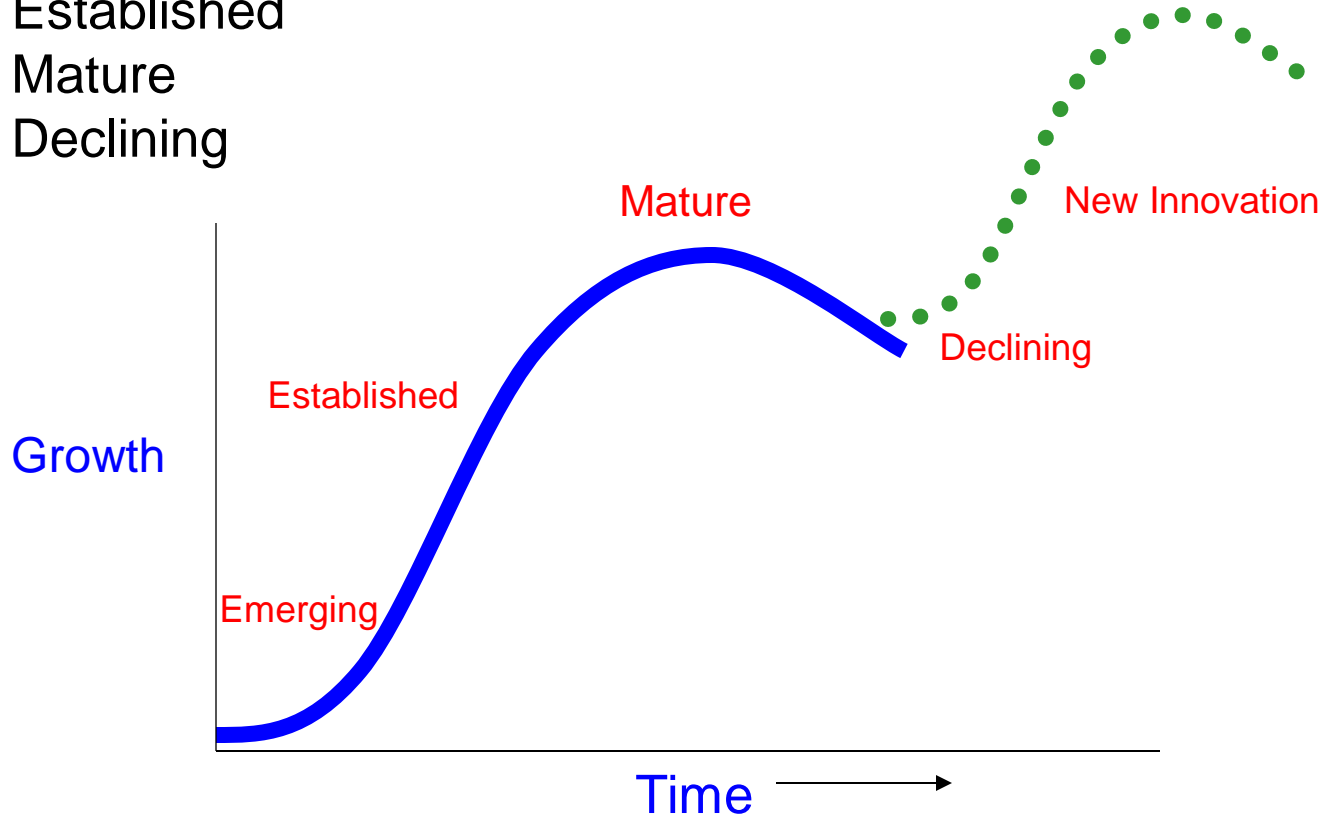
The Need for Open Innovation



Cashflow Analysis

Where is your company in its life cycle?

1. Emerging
2. Established
3. Mature
4. Declining



A company's lifecycle is evident by examining its financial statements

Closed Vs. Open Innovation

Professor Solomon N. Darwin

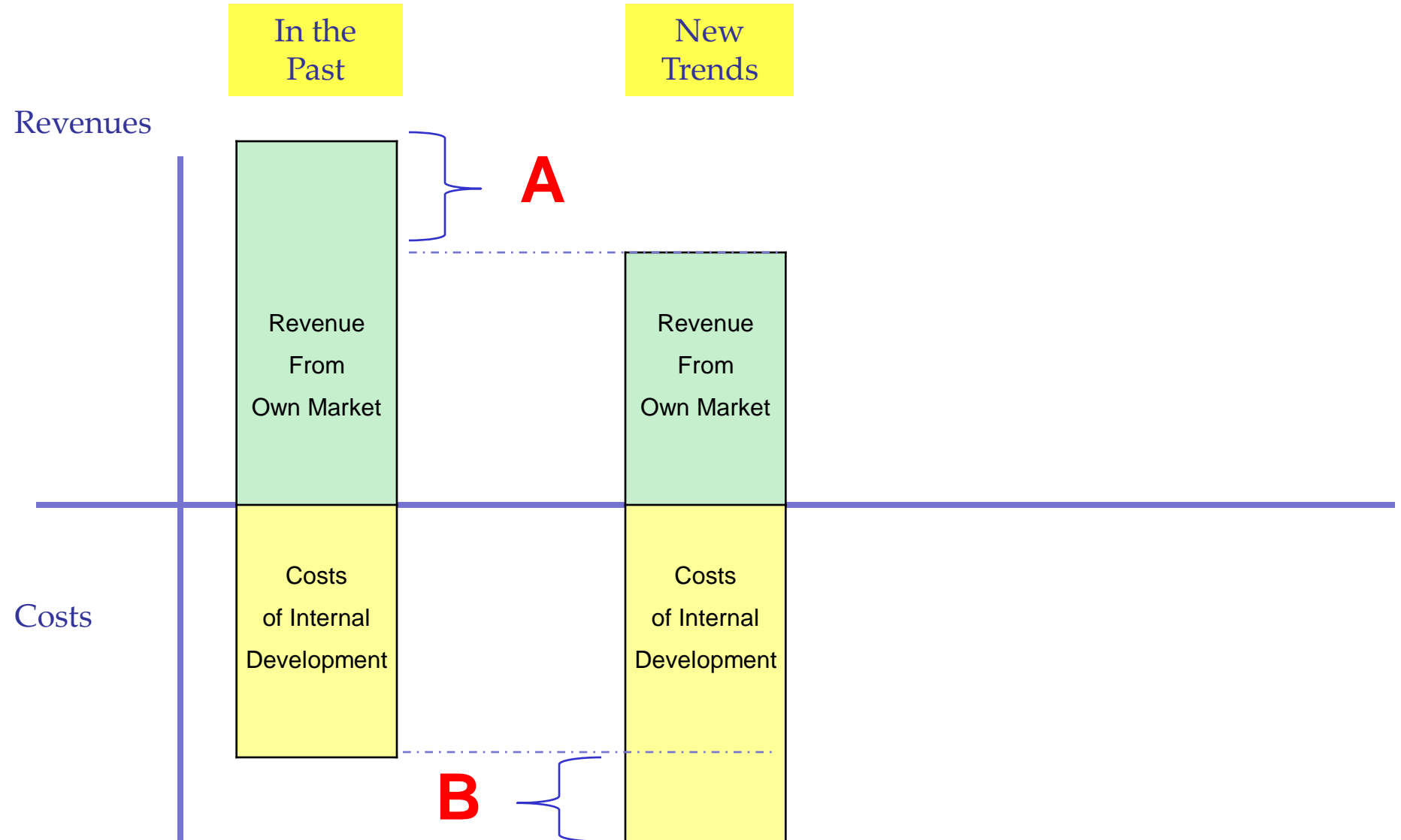
Haas School of Business

University of California, Berkeley

Motorola's Razr

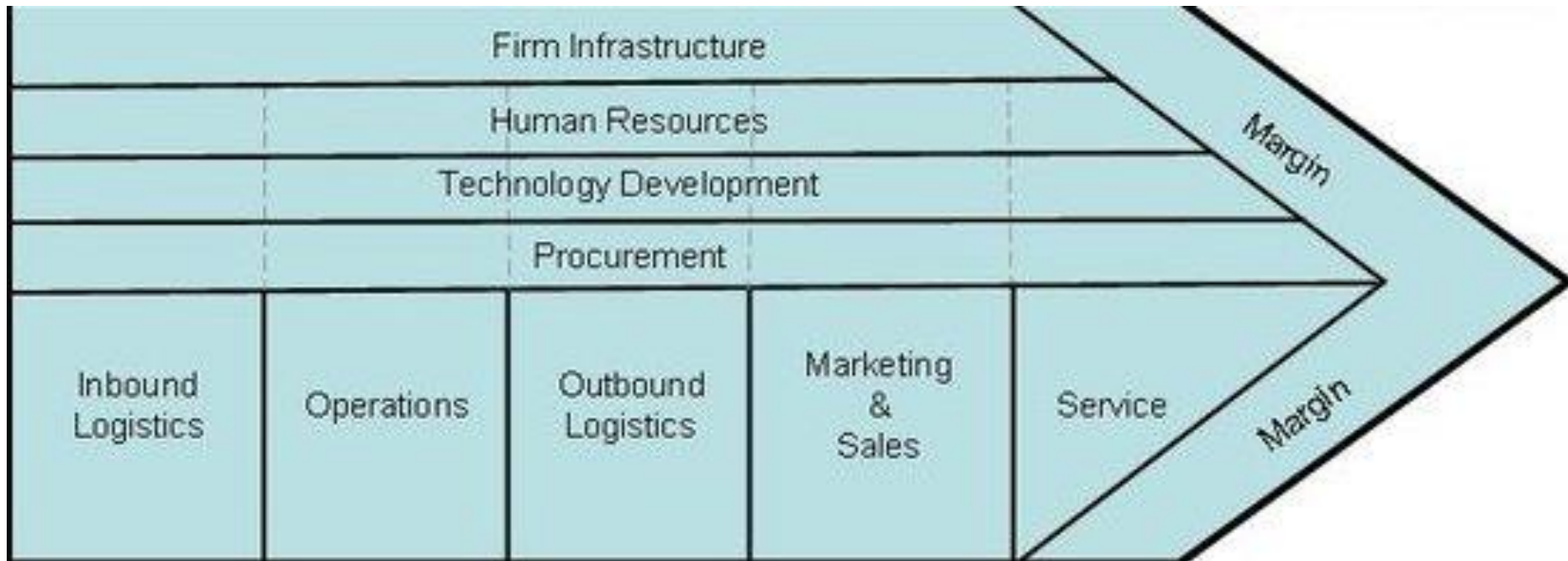


The Commodity Trap



Open Innovation in Services

Porter's Value Chain



What Does Open Innovation Promote?

