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**Key Insights from the studies around business models**  
DG Enterprise Project VALOR Forum  
on public private partnership  
in [financing] the commercialization of R&D results in Europe  
*April 1<sup>st</sup>, 2009, Schiphol Airport*

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- Innovation is not the same thing as research
  - Innovation does drive higher performance in firms
  - Only about 10% of firms are good at innovation
  - Money simply cannot buy effective innovation.
  - Patents generally don't drive profits.
  - Good looks different for different firms
  - Innovation Management is key and Innovation must be managed like any other business process in order to be successful on a sustainable basis
  - Creativity is good but less important than people think
  - Culture on the other hand is critical

# Innovation does not happen by itself

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- It is the result of hard work, well planned and executed and is no happening
- Innovation is work rather than genius,...and very much a matter of discipline (Peter F Drucker, 1985)**



**“Inspiration is fine, but above all, innovation is really a management process”**

*Business Week, 75th Anniversary Issue, October 2004*

**“If your cool new thing doesn’t generate enough money to cover costs and make a profit, it isn’t innovation. It’s art.”**

*Fast Company, January 2004*

# The objective of Innovation is to achieve one or more of the following outcomes:

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- Reduce Risk [Lower Discount Rate in NPV Calculation]
  - Enhance Long-term Value of Business [Drive FGV]
  - Enhance Cash Flow [Profitability]
  - Accelerate Cash Flow [Growth]
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- Innovation is and must be much more than technology to ensure this

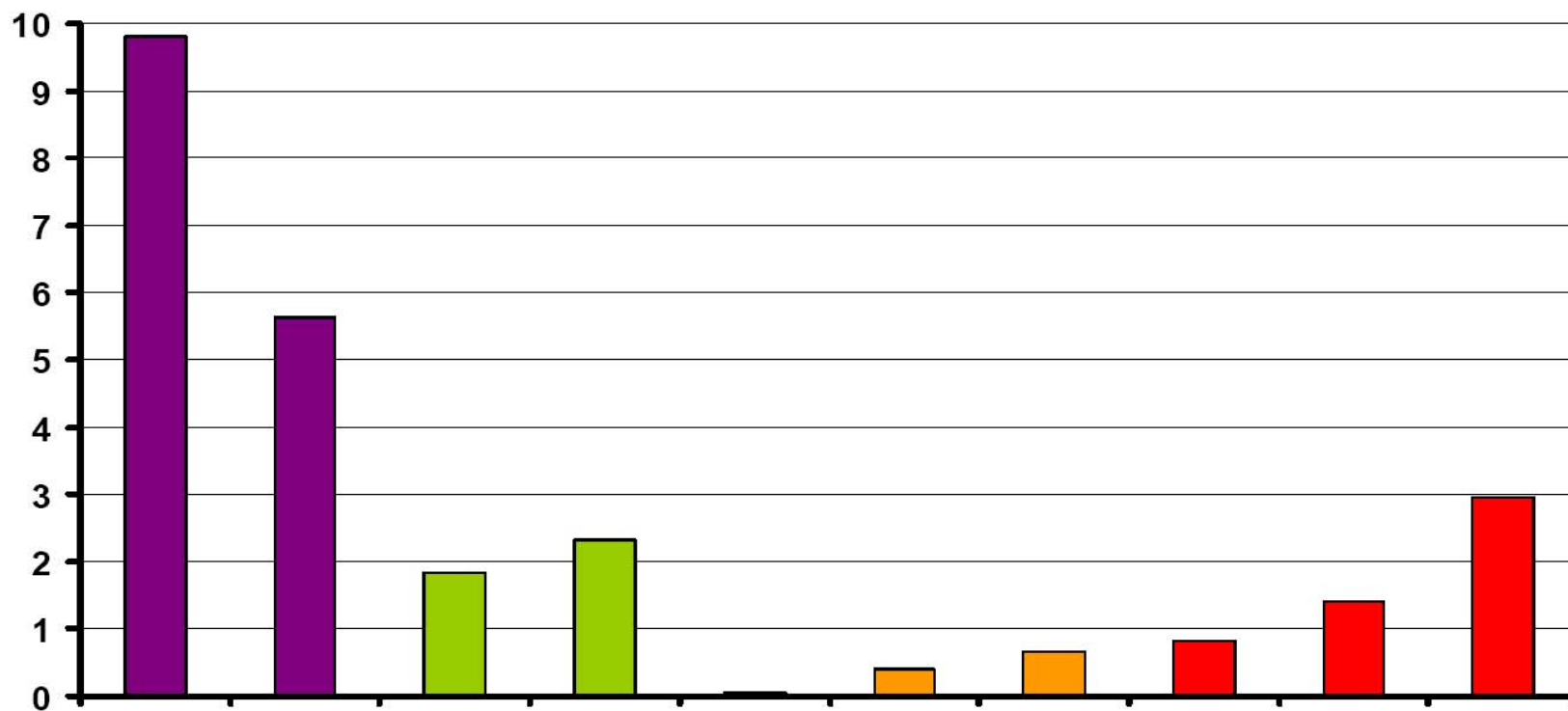
# Innovation must take place in all possible dimensions and Business Model Innovation is key

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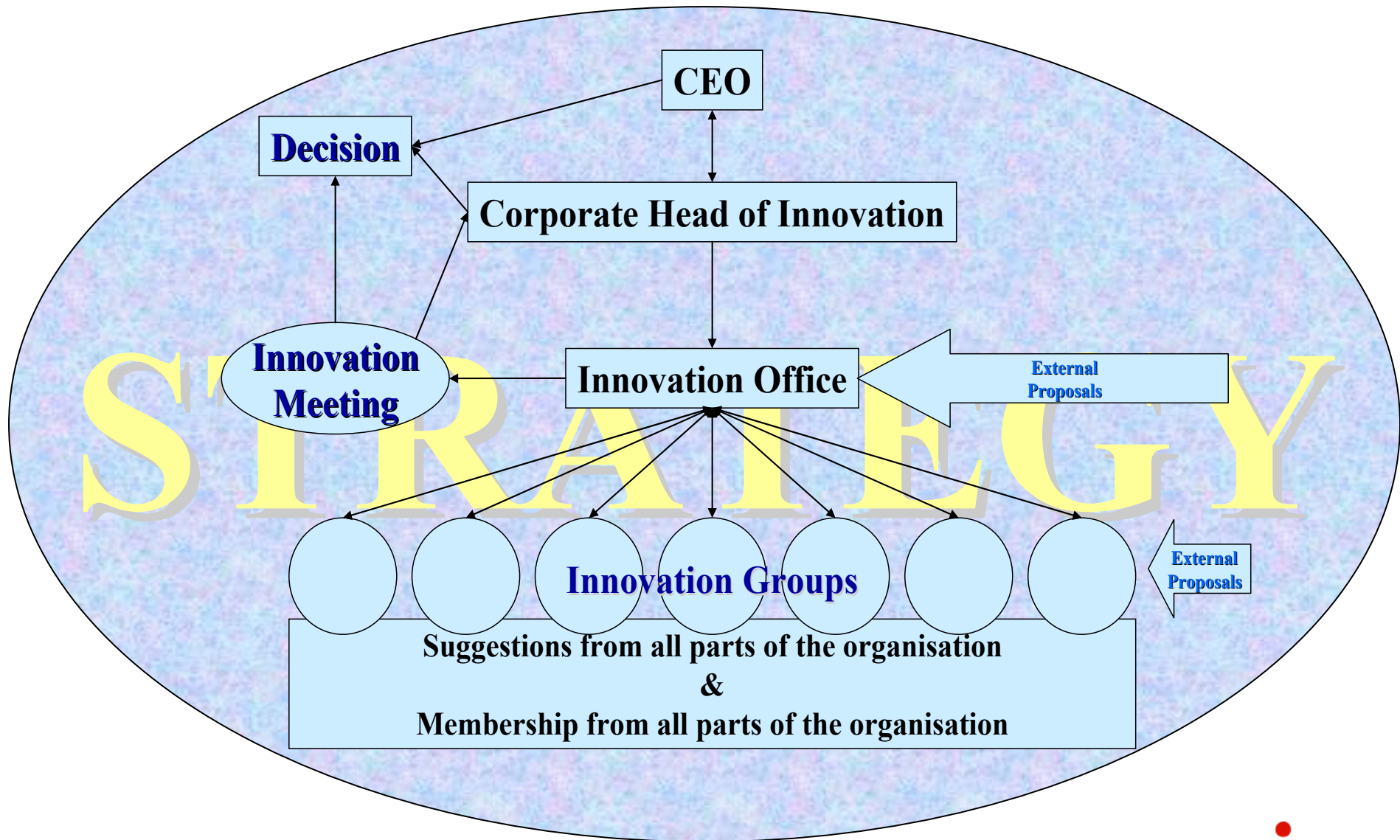
- A **Value Proposition** is an overall view of a company's bundle of products and services that are of value to the customer.
- The **Target Customer** is a segment of customers a company wants to offer value to.
- A **Distribution Channel** is a means of getting in touch with the customer.
- The **Relationship** describes the kind of link a company establishes between itself and the customer.
- The **Value Configuration** describes the arrangement of activities and resources that are necessary to create value for the customer. Normally these are expressed in IC-Navigator form and using the (Stabell and Fjeldstad 1998) Value Logics
- The identified **Resources** that can be deployed by the firm to create value including those that form the basis for a competitive advantage
- A **Partnership** is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer
- The **Cost Structure** is the representation in money of all the means employed in the business model.
- The **Revenue Model** describes the way a company makes money through a variety of revenue flows.

# Calculated rate of return on the innovation types

Finance		Process		Offering			Delivery		
Business model	Networking	Enabling process	Core process	Product performance	Product system	Service	Channel	Brand	Customer experience

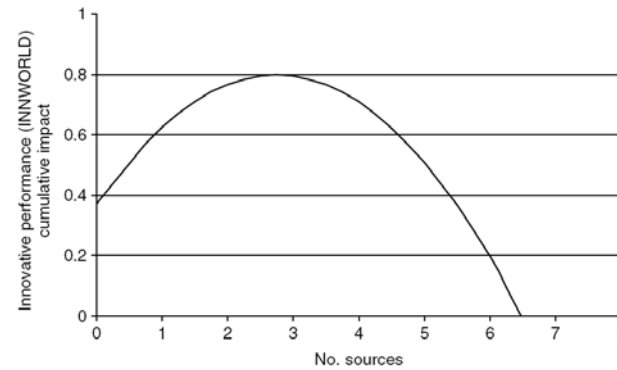


# The Components and Operation of a Best Practice Innovation Management System

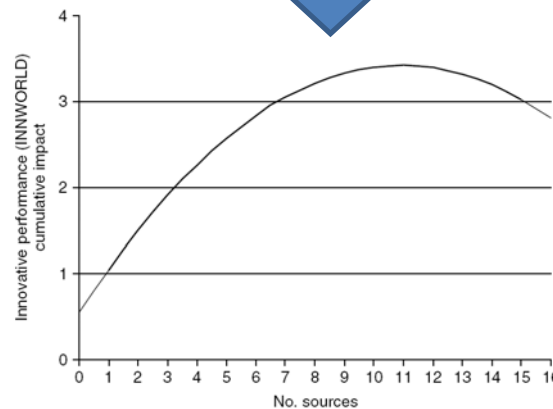
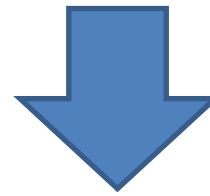


# What about open innovation?

- Today's innovation processes require firms to master highly specific knowledge about different users, technologies, and markets.
- Searching widely and deeply across a variety of search channels can provide ideas and resources that help firms gain and exploit innovative opportunities.
- Innovation search can be time consuming, expensive, and laborious. There are moments or tipping points after which openness—in terms of breadth and depth—can negatively affect innovative performance.
- The enthusiasm for openness needs to be tempered by an understanding of the costs of such search efforts.
- External sources need to be managed carefully so that search efforts are not dissipated across too many search channels.



Predicted relationship between innovative performance and the depth of search through external sources of innovation



Predicted relationship between innovative performance and the breadth of search through external sources of innovation

- In early stages of the product life cycle when the state of technology is in flux, innovative firms need to draw deeply from a small number of key sources of innovation, such as lead users, component suppliers, or universities. In these early stages, only a few actors may have knowledge of the key technologies underlying the evolution of the product. Innovators need to cling to these sources, drawing deeply from their knowledge and experience.
- As the technology and market mature and the network supporting innovation expands, more and more actors inside the innovation system retain specialist knowledge. In order to access the variety of knowledge sources in these networks, innovative firms need to scan across a wide number of search channels. In doing so, they seek to find new combinations of existing technologies to enable them to make significant improvements in their existing products.

Source: L. AURSEN, K. and A. SALTER, **OPEN FOR INNOVATION: THE ROLE OF OPENNESS IN EXPLAINING INNOVATION PERFORMANCE AMONG U.K. MANUFACTURING FIRMS**, *Strategic Management Journal*, 27: 131–150 (2006)

## Some key learning

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- Innovation evolves from sound business practices, good leadership, talented staff, and strong interpersonal relationships
- Innovation is not about waiting for creative sparks to go off in people's head; there are processes that can be applied
- Innovation to one company is chaos to another; effective innovation practices are organization and environment specific
- Innovation is not about thinking up exciting new services or products: it is about thinking up exciting new products and services, and delivering them in time and generating profits

# Concluding Statement

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- Technology based product or offering innovation is a cost of doing business not a source of supra-natural profits.
- A broader business model innovation approach that is achieved through a well functioning innovation management system is a basis for supra natural profits and a blue ocean strategy.
- **Open innovation is not worth its cost for most firms**