

The Explosion of Distributed Innovation: An Emerging Model to Identify, Fund and Exploit Innovation

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Introduction

The business innovation process is broken. This critical process, whereby corporations attain competitive advantage through change, is inherently inefficient and fragmented. Over \$2.2 billion *daily* is spent in the United States and the OECD countries on R&D.¹ And this is only the clearly defined, “hard” R&D; it does not include monies and efforts spent on “softer” innovations, such as branding, market positioning, process innovation and so on. The “success rate,” or yield, of these innovation-based investments is dismal. A recent *Economist* article described that every 3,000 ideas engender 400 proposed projects leading to 14 funded initiatives resulting in only 1 successful outcome. Another survey of venture capital firms finds that even with their investment scrutiny, tightened up significantly following the dot.com bubble, only 1 in 14 of their portfolio investments results in profit.

In spite of this poor investment performance, corporate demand for different types of innovation – business processes, applications, business models, products, services and culture - has never been more acute. Marketplace uncertainty, efficiency pressures, disruptive technologies, changing legislative and regulatory environments, global politics and other drivers of business transformation are forcing companies into tighter and tighter cycles of higher and higher performance. Because of this, they are being forced to innovate faster and more efficiently – to create new sources of revenue, and to maximize revenue and profit from existing sources. Consequently, it has become imperative to increase the effectiveness of innovation investments.

¹ Richard Razgaitis, *Valuation and Pricing of Technology-Based Intellectual Property* (New York: John Wiley & Sons, 2003), pp. 3-4, and Navi Radjou, *Innovation Networks*. Forrester Research, June 2004.

Increasingly, corporations are aggressively seeking to take advantage of innovation occurring “outside” or beyond organizational walls. We are at an early, but rapidly moving, stage of a dramatic market shift in which a large proportion of corporate R&D expenditure will be re-channeled from traditional, “on balance sheet” R&D activity to acquisition of market-tested innovation from new ventures and small companies as well as other large enterprises seeking to monetize “non-core” intellectual property. Companies that can execute in this new collaborative and distributed environment – what we call the *extended innovation value chain* - will be the primary beneficiaries of innovation and the engines of growth.

Emerging Business Opportunity

Much as venture capital and market makers injected efficiency into the once highly inefficient capital market, an opportunity exists to inject efficiency into the inherently inefficient and fragmented business innovation process. How so? By exploiting the “information mismatch” between what *large corporations* need, what the *innovation sources* (the start-ups, the newcos, the underutilized assets) supply, and what the *capital providers* demand as returns. And this is precisely the business opportunity where new revenue streams can be created and value created for all participants of this value chain.

Unique information advantage by exploiting this information mismatch. Financial, entrepreneurial, management and operational consulting experience can be brought to clients’ strategic innovation process to help them prioritize and rationalize opportunity and risk in an increasingly dynamic environment. This involvement results in *a unique information advantage* that helps to ‘telescope’ both what is needed, when, and how to take advantage of it effectively. Based on the information gleaned, emerging opportunities exist to create, redirect and/or fund innovation/invention ideas to accelerate their applicability to specific companies’ strategic requirements.

Such “build-to-suit” capabilities are opening up a significant shift in terms of how innovation is identified, funded and can be exploited – to accelerate the return of all parties involved in this Distributed Innovation chain. I will discuss how to “make sense” and “take action” on some of the emerging examples and models of distributed innovation – in terms of specific strategies and revenue streams that can be exploited both to help participate and accelerate the shift toward distributed innovation.

About Ralph

Ralph Welborn, Ph.D. has nearly 20 years of experience focused on business transformation, global sourcing, innovation strategies and large scale systems integration.

Ralph has co-authored two books with Vince Kasten, *Get It Done! A Blueprint for Business Execution* (Wiley, 2006) on how to close the ‘execution gap’ and *The Jericho Principle: How Companies Use Strategic Collaboration to Find New Sources of Value* (Wiley, 2003) as well as a number of articles on different business and technology topics.

Ralph has been managing partner of Business Transformation at Unisys and BearingPoint as well as Senior Vice President of Global Solutions and Strategy & Systems Integration for Financial Services at BearingPoint and KPMG Consulting, Director of Strategic Initiatives at Charles Schwab, Director of a Bay Area start-up as well as other places. He has published many papers and articles as well as led or participated in numerous workshops, seminars, and talks around the world with business and technology leaders.