

Case Study - Open Innovation

Business Model Development

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A group of four young craftsmen, Thomas, Peter, Matthew and Frank who have run successfully their entrepreneurial activities in mid-size town, decided to found a company which would offer facility management services. Needless to say that up to present each of them has been considered relatively successful businessman in his own branch. Thomas was a plumber, Peter was an electrician, Matthew was a locksmith and eventually Frank was a construction engineer. They were able to provide customers with high quality services and by this way they gradually increase their reputation. They know each other very well since they usually served the same customers. It has almost become a rule that they had composed a sort of affiliation which then approached customers jointly. From the economic and administrative point of view working as self-employed persons was quite advantageous. They paid low income tax and little effort had to be dedicated to keeping all administrative matters on record. In addition there was little demand to properly evidence all production costs as well. Notwithstanding these benefits they were aware of constraints which resulted from their fragmented business. Local companies and municipal administration, when announcing tenders for any services supply, preferred well established companies to individual entrepreneurs because of lower effort to be dedicated to the control of these relationships. The endeavour to break existing restrictions was eventually the impetus for setting up own company which would be able to compete with well-established companies. They were pretty sure that they would be able to generate synergic effects while offering bundle of services to be consolidated under one umbrella.

At the very beginning the question about the legal status of the company had to be raised. The discussion about this topic was relatively short. Inasmuch as they haven't been affluent persons at all they opted for limited company (Ltd). The point was that establishment of a limited company was contingent upon relatively low investment into registered capital. Establishment of a business model proved to be the stickiest point of their business. Each of them as a craftsman possessed good skills in customers approaching and contract negotiations. No surprise that the model which fully fit in with small business needs appeared to be far from optimum in a larger company.

Functional business model was still missing and they fell short in capabilities to design viable business model by themselves. They intuitively knew that business model in question should be fully adopted by end-users otherwise the company would not be able to outplay competitors. The bright idea which crossed their minds was that highly competitive business model can be developed by the very end-users only. If this is the case it is necessary to allow external subjects to participate in business model creation.

After thorough consideration they mapped out how the participation of external subjects should look like. First of all it was inevitable to decompose a bit complex nature of a business model to simpler and more understandable parts. Each of them was structured and addressed separately so as to have a deeper insight into problematic:

1. Elucidation of external subjects on open innovation technique so that they might not be aware of the very existence of Open innovation concept.
2. Decomposition of this demanding task into set of sub-task to be easily solved in cooperation with external subjects.
3. To open up freely accessible cooperation and communication platform to enable participants to discuss problems and confront their opinions. To make the project feasible, all the participants were allowed to access common platform through *SharePoint application*, which fully answered demands.
4. To appoint evaluation panel, comprising internal and external people, which would screen ideas, set up milestones and give “green light” to the project to be passed on to the next stage.
5. This panel should also validate the model and test it on respective Business Case.
6. Setting up tools to observe and control functionality and viability of the process/model, making suggestions for improvement.
7. Key points of Business model functionality should be properly described and recorded including source codes of SW support to allow all the participants to freely utilize this model and possibly to adopt it for the use in other branches than facility management.

In order to accomplish this task it was desirable to break down the model into following subcategories which were then addressed accordingly

1. Raising demand for services in terms of material nature, lead time and quality. Defining ways through which can customers learn more about company products/services and competences.
2. Execution of service requested. In which way the company accommodate customer’s requirement. Basically by the combination of own workforce and sub-contractors.
3. Post implementation review focused on examination of customer’s satisfaction with key parameters of service provided (quality, lead time, responsiveness). Incorporation of lessons learned into existing business model to keep on “permanent improvement principle”.
4. Enabling sharing this know-how among all participants concerned.

The goal of this study is:

- to practice entrepreneurial thinking to be combined with open innovation approach;
- to set up a platform to be suitable for external subjects involvement;
- familiarizing with possible approaches to sharing know-how with external subjects;
- learning how to make Open innovation viable through sustainable improvement;
- to set an example how open innovation may contribute to customer satisfaction, creation of competitive advantage and shareholders' value;

Time to get Study resolved:

- 1, 5 hrs.

Key questions to be properly addressed:

1. What other reasons, besides registered capital financial demand, should be considered for opting for company legal status?
2. Try to point out which other techniques to be used for setting up business model can be applied instead of Open innovation approach. What are pros and cons of these techniques as compared to OI techniques?
3. Try to plunge deeper in the problematic and propose detailed specification of the business model.
4. What mistakes did Thomas, Peter, Matthew and Frank make when executing Open Innovation process? Could they do it more efficiently?
5. Should the know-how which was created through the participation of discreet number external subjects be spread among any other external subject or among those which directly participated in business model development?
6. How to ensure permanent improvement of the business model.
7. How can the company generate competitive advantage while sharing its own know how with (almost) any external subjects?