

Open Innovation Tips for Small Business

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Small businesses are the vanguard of innovation. They create the most jobs, account for an increasing share of patents, and introduce new disruptions to the market.

In order to succeed these days, though, a small business has to be smart. With manufacturing and even R&D itself becoming increasingly global, it is getting harder and harder for small businesses to sustain any kind of competitive advantage. Small businesses face a “commodity trap” that captures their business, condemning it to profitless growth at best, and oblivion at worst.

If your business is facing such a commodity trap, what can you do? One escape path is to stop thinking about your business as a product business, and start thinking of it as a service business instead.

Once you make this mental shift, other parts of your business change as well. Revenues, for example, move from lumpy, occasional transactions to smoother recurring revenues. Customer relationships no longer end with the sale of a product, but continue indefinitely through installation, operation, maintenance, and even end-of-life replacement or upgrade. Instead of tracking your gross margin on each product sold, you start to track the lifetime value of each customer you have, as well as how much it costs to attract your next customer, and how frequently you lose a customer.

You also discover a new lever to improve your profitability: customer satisfaction. Satisfied customers stick with you longer, spend more with you, are less likely to switch to competitors, and have a higher lifetime value for your business. Once you realize this, you also learn to prioritize the people and processes in your business that delight your customers.

These are steps any small business can take. Knowing your customers better, satisfying them more, and keeping them longer is a sustainable way to increase your profits in the longer term.

Getting There

Once you embrace a services approach to your business, how can you make it happen? Two local Berkeley businesses provide different answers. The Olympic Circle Sailing Club is a Niche business on the marina in San Francisco Bay. It began life as a sailing school, but found that its revenues rose and fell with sailing lessons, which were popular in the summer, but virtually absent in the rainy winter. The Club learned to focus less on sailing lessons (the equivalent of „products“ in the narrative above), and more on offering memberships that would be recurring sources of revenues. Once they shifted their focus to the recurring revenues, the task then became one of how to provide new sailing experiences to its members so that they would keep their memberships active for a longer period of time. One key investment was to build a database of all the members, and then allow each member to query the database for sailing partners for the next outing. Now the club gets most of its revenues from its members, not from the newbies taking sailing classes. And the members get a better experience, and use the Club's boats more often.

A second example is Computer Structures, Inc. CSI is a Specialist business makes software to test the mechanical stresses of major structures such as bridges, towers, and office buildings. Virtually all of the tallest buildings in the world have been tested with its software. CSI's founders realized that architects needed new tools to be able to test their designs for structural integrity before those designs were built. Instead of doing a product for one architectural firm, CSI realized that it made more sense to offer its software to all architects. This meant that CSI had to train customers to use its software. It soon learned that engineers were more effective sales people and trainers than traditional marketing and sales staff.

CSI also learned to give away copies of its software to public agencies who had to review and approve designs, so that buildings could be reviewed with the same tools used to design them. It works closely with public agencies and allows its data to be used by other programs that review other aspects of building design.

CSI's openness has paid off. Now the company has 100 people on its payroll, and its software is in its 14th iteration. It has become something of a de facto standard for building design and review around the world.

Lessons for Small Businesses

- **Think about relationships, not transactions, in order to build more sustainable, profitable businesses**
- **Make your sales people problem solvers for your customers, not deal closers. Reward them for customer satisfaction, not gross margin.**
- **Be open. Let others utilize your services, and find ways to create even more value by blending your stuff with others'.**