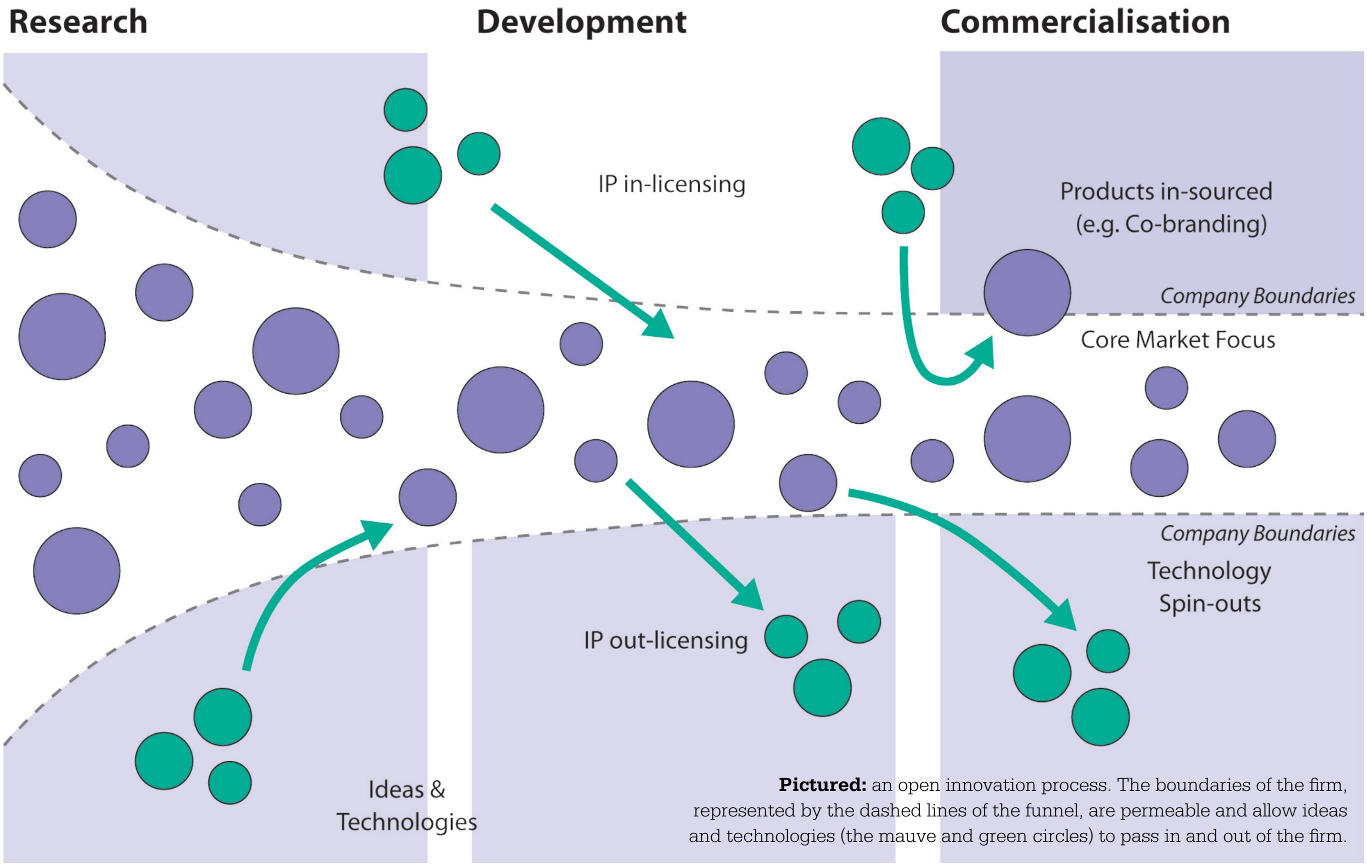

Pictured: an open innovation process. The boundaries of the firm, represented by the dashed lines of the funnel, are permeable and allow ideas and technologies (the mauve and green circles) to pass in and out of the firm.

The importance of open innovation in the FMCG sector

Dominic Oughton discusses the importance of encouraging and embracing innovation in the industry

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In a sector characterised by the need to reduce time to market and find new ideas to generate new products, firms are constantly searching for ideas and innovations that will give them a competitive edge. Major corporations need access to new ideas and technologies to feed their innovation processes. Small firms are significant generators of innovation but are typically resource-constrained.

Bringing together small and large companies in mutually beneficial partnerships harnesses the speed, entrepreneurship and innovative capacity of small firms to feed the channels, brands and resources of the large company, creating new value for consumers they could not deliver alone.

Open innovation (OI) can facilitate this process. OI was defined by Henry Chesbrough, a professor at the Center for Open Innovation at the University of California, Berkeley, as "the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively" (Chesbrough, 2003).

It is a strategy by which companies allow a flow of knowledge across their boundaries as they seek to enhance their innovation capability.

To implement OI, companies must tackle four key issues: culture, procedures, skills and motivation. It typically requires the involvement of top management, independent OI teams working within a traditional company configuration, training and incentives to adopt open practices.

In the FMCG sector, OI is an opportunity to innovate and increase competitive advantage. Research by the Institute for Manufacturing (IfM), at the University of Cambridge, shows the key advantages of OI cited by firms are a shorter time to market and greater access to competencies.

As large companies adopt OI models and look beyond their boundaries for ideas, small companies are one obvious source. Small firms, especially