

Innovation Outsourcing

Boosting Innovation Success

Significant parts of the innovation value chain are outsourced to service providers and the proportion of those external activities has constantly grown over the last decades. Depending on the industry and the actual stage, up to 70% of innovation activities are externalised and the fully virtual start-ups depend totally on the executional muscle of service providers. Thanks to this growing footprint, outsourcing gains increasing relevance for innovation success.

Lowest Bidder Approach

Driven by the growing investments in the field, innovation outsourcing has been more and more transformed to a sourcing driven “Lowest-Bidder” approach, selecting the cheapest service provider through a bidding process which frequently runs via a cloud-based platform. Innovation outsourcing is reduced to a simple business process of “quote-order- execute-pay”, treating the external services mainly as a commodity.

As a result, service providers deliver exactly the commodity ordered and paid for by the client - and nothing else. Scientific challenges, creativity challenges and the selection of the best, the fastest or the most efficient way to move forward remain exclusively with the client. Keeping in mind the relevance of outsourcing for innovation success, this does not seem to be a helpful trend.

Source- of-Knowledge Approach

An alternative model aims at boosting innovation by regarding service providers as a potential and considerable source of knowledge. This approach takes into account that good service providers have a great depth and breadth of experience at their disposal. Depth of experience through being in their special business for decades, thus allowing for example a quite reliable forecast of upcoming trends and patterns. Breadth of experience through working for a multitude of clients, thus gaining insight in the challenges faced by the industry and in the various solution strategies applied, both the successful and the frequently failing ones. Seen from the client’s perspective, the service provider’s knowledge excels especially in the latter aspect, since clients rarely gain insight into their competitor’s activities but the service provider does.

„Get what you pay for.“

„Competitor Insight.“

Alignment Pays Off

Clients managing to align the depth and breadth of their service provider's experiences – the service provider's organisational memory – with their own objectives can significantly boost their own innovation performance. Scientific and creativity challenges are addressed in a joined effort and the selection of the perfect way forward is supported by the service provider's vast knowledge about possible solution strategies and the insight in their likelihood of success or failure.

While the lowest bidder approach will most likely deliver the cheapest way to run an outsourcing activity, it must not necessarily be the most cost effective, especially in the innovation field. The inherent complexity and uncertainty of innovation adds challenges that far exceed those of the predictable and repetitive processes of a back office or a service centre. In worst case scenarios, the lowest bidder outsourcing fails entirely by not matching the client's needs, leading to costly repetitions and to loss of time, ultimately the hardest currency on the innovation market.

Compared to the "run my mess for less" model, the source of knowledge approach by closely aligning client's and service provider's capabilities and focusing on a joined objective delivers superior results and is therefore preferable, especially since it saves in the long term significant amounts of time and money.

More to the outsourcing topic in one of the next issues.

*„Bonus: Second
Organisational
Memory for free.“*



*„Save time and
money.“*