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Business

InnoCentive
A market for ideas

Sep 17th 2009 | NEW YORK
 From *The Economist* print edition

A pioneering "innovation marketplace" is making steady progress

A PROBLEM shared is a problem solved: that is the belief that inspired InnoCentive, a firm that describes itself as the "world's first open innovation marketplace". Conceived in 1998 by three scientists working for Eli Lilly, a big drug company, InnoCentive was spun off as an independent start-up three years later. It is based on a simple idea: if a firm cannot solve a problem on its own, why not use the reach of the internet to see if someone else can come up with the answer?

Companies, which InnoCentive calls "seekers", post their challenges on the firm's website. "Solvers", who number almost 180,000, compete to win cash "prizes" offered by the seekers. Around 900 challenges have been posted so far by some 150 firms including big multinationals such as Procter & Gamble and Dow Chemicals. More than 400 have been solved. InnoCentive reckons the approach can work for innovations in all sorts of fields, from chemistry to business processes and even economic development. It has formed a partnership with the Rockefeller Foundation, a charity, to help solve problems posted by non-profits working in poor countries, with some initial success.

Forrester, a consultancy, studied a pilot partnership between InnoCentive and SCA, a Swedish maker of personal-hygiene products with over 50,000 employees and annual sales of €10 billion (\$14.6 billion). It found that challenges posted by the firm generated an average return on investment of 74%, with a payback period of less than three months. Forrester also found cost savings, a faster research process and a more innovative culture.

SCA was attracted by the fact that InnoCentive took great care in managing the intellectual-property issues that result from its approach, and that it paid for results rather than mere effort. According to one SCA executive, the firm piloted the relationship by posting several chemistry challenges, "some of which worked and some didn't." Phrasing the challenge turned out to be key. Rather than posting a problem specific to the firm, SCA got much better results when it posed a general problem (how to make a material more absorbent, say). That way the potential network of experts was wider. So far the challenges have been small: the largest prize paid was \$25,000. But SCA now expects to expand its use of InnoCentive into the mainstream of its innovation process.

InnoCentive recently raised a second round of venture capital to pay for what it hopes will be rapid growth. Sceptics worry that its success on incremental, scientific challenges may not extend to broader, more substantial innovation because the research culture in most firms is incapable of posing the right questions or knowing what to do with the sort of answers produced by InnoCentive's solvers.

A recent innovation may help. Called InnoCentive@Work, this replicates the solver network inside a firm, so that challenges are first offered to "seeker" companies' own employees. Only if they cannot help is the outside network brought into play. "Companies often don't know how much they already know," says Dwayne Spradlin, InnoCentive's chief. An early challenge at one firm was to find a source of some data, which, it turned out, had already been acquired by another division.

One of the first firms to test the @Work model was InnoCentive's mother ship, Eli Lilly. That firm is struggling: on September 14th it announced plans to shed 5,500 jobs. The fact that Eli Lilly is making ever more use of InnoCentive to drive innovation even as it is making cuts elsewhere proves that it pays, says Mr Spradlin.

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