



# Open Services Innovation: Rethinking Your Business to Grow and Compete in a New Era

*Henry Chesbrough*

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## **Open Services Innovation: Rethinking Your Business to Grow and Compete in a New Era** Henry Chesbrough

The father of “open innovation” is back with his most significant book yet. Henry Chesbrough’s acclaimed book *Open Innovation* described a new paradigm for management in the 21st century. *Open Services Innovation* offers a new approach that demonstrates how open innovation combined with a services approach to business is an effective and powerful way to grow and compete in our increasingly services-driven economy. Chesbrough shows how companies in any industry can make the critical shift from product- to service-centric thinking, from closed to open innovation where co-creating with customers enables sustainable business models that drive continuous value creation for customers. He maps out a strategic approach and proven framework that any individual, business unit, company, or industry can put to work for renewed growth and profits. The book includes guidance and compelling examples for small and large companies, services businesses, and emerging economies, as well as a path forward for the innovation industry.

“Whether you are managing a product or a service, your business needs to become more open and more inclusive in order to be more innovative. *Open Services Innovation* will be an invaluable guide to intrepid managers who commit to making that journey.”

—GARY HAMEL, visiting professor, London Business School; director, Management Lab; and author, *The Future of Management*

“I tore out page after page to share with my leaders. Chesbrough has pioneered an entire rethink of business innovation that’s rich in concept, deeply explained, with tools ready to use in every industry.”

—SCOTT COOK, founder and chairman of the executive committee, Intuit

“Focusing on core competence often tempts managers to keep continuing what succeeded in the past. A far more important question is what capabilities are critical in the future, and Chesbrough shows how to ask and answer these issues.”

—CLAYTON CHRISTENSEN, Robert & Jane Cizik Professor of Business Administration, Harvard Business School, and author, *The Innovator’s Dilemma*

“To thrive, businesses will need to master the lessons of open service innovation. Here is their one-stop guidebook with important lessons clearly and compellingly presented.”

—JAMES C. SPOHRER, director, IBM University Programs World-Wide

“Open Innovation pioneer Henry Chesbrough breaks new ground with *Open Services Innovation*, a persuasive argument for the power of co-creation in the world of services.”

—TOM KELLEY, general manager, IDEO, and author, *The Ten Faces of Innovation*, *The Art of Innovation*

“With his trademark style of beautifully explained examples, Henry Chesbrough shows how open service innovation and new business models can help you escape this product commodity trap and bring you to the next level of competition.”

—ALEX OSTERWALDER, author, *Business Model Generation*

“*Open Services Innovation* shows how a business can redefine itself as a service organisation and tap into

faster growth through shared innovation.”

—SIR TERRY LEAHY, chief executive, Tesco

“Chesbrough shows how innovating openly with a services mindset can make you a market leader.”

—CHARLENE LI, author, *Open Leadership*, and founder, Altimeter Group

### **Case Study: Car2Go from Daimler-Benz**

Open Services Innovation provides an alternative way to think about products like cars. It is important to realize that people are usually buying the utility provided by a product and the product itself is only a means to this end. So, with automobiles, one is really obtaining transportation services.

Most of us only drive or utilize our vehicles a small portion of each day (typically less than 10%) and the rest of the time it just sits idle. Yet, we bear 100% (!) of the costs associated with this expensive asset (acquisition, service, parking, insurance, etc.). An Open Services approach seeks to exploit utilization differentials like this to get more value or ROI from underutilized assets. Raising the utilization of a car to even 50% can spread the many costs of owning and operating it over many more hours and people.

Daimler makes the world-renowned Mercedes Benz vehicles and most of them are sold in traditional ways, through dealers. And customers purchase or lease them, using them mostly for themselves.

But Daimler is innovating an alternative way for people to obtain transportation services. Called Car2Go, this service allows customers to pick up a car at a nearby location, use it for as long as they wish, drop it off wherever they like, and they are only charged for the miles they accrue. An intelligent sensor and GPS system allows Daimler to locate their vehicles and show the location of all available vehicles to interested customers online. There is no membership fee to sign up or drop-off fee. This is a very flexible, convenient service.

First tested in Ulm, Germany in 2008, this service was launched in Austin, Texas in 2010. While it is too early to measure success, offering highly flexible transportation services where customers can customize the offering and co-create value is a perfect example of Open Services Innovation (more examples of utilization differential in the book).

### **Case Study: Mint.com’s Answers Community**

The Great Recession of 2008 and 2009 traumatized many investors. Even now, after the carnage has subsided, investors remain wary about what to do with their money. And the advice of many “established” brokers and advisors has shown to be unhelpful for many people, creating a hunger for good information about options for saving and investing money.

Mint.com (which is owned by Intuit) is a rapidly growing website that serves this hunger for information and unlike traditional brokerage and financial advisory services, Mint.com takes an open services approach to supplying it. The website has an entire section called Mint Answers that allows users to post questions that are puzzling them, and enables anyone in the Mint.com community to post answers to those questions.

For example, one recent user asked “I have a mortgage that has an interest rate of 5.25%. I have the cash to pay it off. Should I?” To this question, Mint Answers shows three different answers to the question from different people in the community. Each person raised a question that the user needed to consider in making their decision and together these answers were more helpful than any single one. To highlight the best, the user can assign a point for any answer they found to be helpful.

Mint Answers also tracks who the most active contributors of answers to the site are and shows which contributors have accumulated the most points. Notice that all Mint.com is doing is supplying a medium or platform for its viewers to search for and provide information. It costs Mint very little to provide this service (just the cost of the website and tracking the points). The site becomes more valuable the more people use it, as more questions are asked, and as more answers are given.

This example illustrates the idea of using Open Services Innovation to create a platform others build on (more examples in the book).

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