

Business Insights: Open Innovation in Nutraceuticals & Functional Foods

An open business model that shares ideas and technologies may offer industry companies significant benefits.

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Increasingly diverse industry thought leaders, corporate executives and academics are touting the benefits of open business models to increase speed to market, enhance execution, fill the new product pipeline and diversify and drive growth. So it follows that tremendous opportunities for growth must exist within the nutraceutical and functional food industries for those organizations that choose to adopt an open innovation business model. However, not everyone

has a clear understanding of what open innovation is, let alone the barriers and opportunities that exist when undertaking initiatives that involve ideas, technologies and resources flowing in and out of one's organization.

Although an in-depth review of the challenges and opportunities that an open innovation business model represents is beyond the scope of this article, we hope to provide a summary overview of open innovation and offer a few relevant examples of industry players actively involved in open innovation initiatives. In Part 2 of this article series (coming in April) we'll share some open innovation success stories, perspectives and experiences contributed from food industry peers.

What Does Open Innovation Mean?

Dr. Henry Chesbrough, executive director of the Program in Open Innovation, University of California, Berkeley, Haas School of Business, coined the term, "open innovation," in 2003, in his book, *Open Innovation: The New Imperative for Creating And Profiting from Technology* (Harvard Business Press, 2003).

In his other book, *Open Business Models, How to Thrive in the New Innovation Landscape* (Harvard Business School Press, 2006), Dr. Chesbrough defined open innovation this way: "Open innovation means that companies should make much greater use of external ideas and technologies in their own business, while letting their unused ideas be used by other companies. This requires each company to open up its business model to let more external ideas and technology flow in from the outside and let more internal knowledge flow to the outside. With a more open business model, Open Innovation offers the prospect of lower costs for innovation, faster times to market, and the chance to share risks with others."

Evolution of Open Innovation (OI)

An article posted by the Product Development and Management Association (PDMA), "The State of Open Innovation," (May 2, 2011) stated that since the publication of Dr. Chesbrough's book in 2003, "Open innovation has been an increasingly hot topic ... Open Innovation has improved time to market, the creation of new product features, cost, technology scouting, and line additions ... This enthusiasm, and rightly so, comes from delivering nice gains in the efficiency of new product development." However, the article followed this statement with a sobering statistic: "60-80% of executives are disappointed with the results from growth initiatives and investments (recent Boston Consulting Group survey)."

Large CPGs & Pharmaceutical Companies Drive OI

Despite some gloomy scenarios, consumer packaged goods (CPG) and pharmaceutical companies are investing significant resources into open innovation and other initiatives by partnering with other companies, inventors and competitors and/or launching internal innovation centers. Many of these internal innovation centers offer scientific research, technology, consumer insights and application efforts all under the same roof. For example, Tate & Lyle recently launched its Commercial and Food Innovation

Center, in Hoffman Estates, a suburb of Chicago, IL; the Irish food ingredients company, Kerry Group recently announced plans to invest in a new global technology and innovation center in Ireland to open in 2016. Other open innovation players include General Mills, with its Worldwide Innovation Network (G-WIN), which is designed to “actively seek partners who can help us deliver breakthrough innovation;” Kraft Foods and its Collaboration Kitchen; and Pfizer, which has a Partnering Program to address multiple areas of interest, including consumer healthcare and nutrition.

More OI Partnerships

A few interesting examples of open innovation and other innovation activity in the food industry include Nestlé’s recent partnership with Chromacell to develop ingredients for reduced-salt foods that align with consumer taste expectations, as well as a new Innovation Centre from Cereal Partners Worldwide (CPW), which was launched in Switzerland in 2011. CPW represents a successful 20-year collaboration between two industry giants, Nestlé and General Mills. Nestlé also recently invested in Accera, Inc., to support clinical development and commercialization of Axona, a medical food intended for the clinical dietary management of metabolic processes associated with Alzheimer’s disease. The Dairy Research Institute (DRI), established under the leadership of America’s dairy farmers, also recently launched its open innovation program. DRI’s submission site is www.DRIResearchSubmission.com, a platform, “designed to seek existing solutions and technologies from within and outside the dairy industry to help accelerate research and meet specific dairy industry needs.”

How To Take Advantage of OI

It may not be feasible for small- or mid-sized ingredient suppliers or dietary supplement manufacturers to launch an innovation center, or to develop and maintain an online open innovation marketplace such as G-WIN, but they can partner with CPGs, pharmaceutical companies, retailers, co-manufacturers and competitor companies to create new products, and drive growth and revenues. One benefit of partnering with a CPG and/or a retailer, for example, is that it would provide direct access to consumer insights and to the retail channel that otherwise may not be available to a small- or mid-size supplier or manufacturer.

Such partnerships involve shared resources and risks, require that appropriate agreements be put into place to protect intellectual property rights, and necessitate a high level of trust between the partnering organizations. Obviously, there are significant challenges and opportunities involved when engaging in open innovation initiatives. In Part 2 of our open innovation series, we’ll feature a few stories from those in the food industry who are directly involved in open innovation initiatives. Through the lens of their experiences, we’ll learn more about some of the challenges they’ve encountered, what they’ve found contributes to successful OI partnerships, plus other observations and anecdotes about OI in the food industry.

We invite you to share your experience in open innovation with us—both successes and those that may not have lived up to expectations. Sharing is a cornerstone to successful open innovation.

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