



# Raymond A. Mason School of Business

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LEADERSHIP & BUSINESS PODCAST

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## EPISODE 15: MAX RAPP – OPEN INNOVATION AND ITS BENEFITS TO ORGANIZATIONS

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### Ken White

From the College of William & Mary in Williamsburg, Virginia. This is Leadership & Business. The weekly podcast that brings you the latest and best thinking from today's business leaders from all across the world. We share the strategies, tactics, and information that can make you a more effective leader, communicator, and professional. I'm your host Ken White. Thanks for listening. Companies and organizations are constantly looking to improve. That might mean developing a new product, launching a new service, or improving the existing model. Well, in the old days' organizations would rely mostly on the talent within the organization to create the product or service. That's not the case today. More and more companies and organizations are turning to open innovation to determine their next steps. Open innovation helps organizations use internal and external ideas to improve. The concept being that companies can no longer rely only on their own ideas. Instead, they need to solicit ideas from external parties. Sometimes external parties who are competitors. Hyve, spelled H-Y-V-E, is an innovation company in Munich, Germany. Hyve uses an open innovation approach that integrates consumers and users in the development of new products and services. Hyve's clients include more than half the companies on the German stock exchange as well as companies more familiar to Americans, like Intel, Procter and Gamble, and BMW. Max Rapp is team lead for innovation campaigns and North America at Hyve. He joins us today to discuss open innovation and its benefits to organizations. Here's our conversation with Max Rapp of Hyve.

### Ken White

Well, Max. Thank you. We've been spending some time together the last day or so talking about open innovation and we thought this is a great time to ask you to be a part of the podcast and talk about this. How would you define for someone who's never heard of it? What is open innovation?

### Max Rapp

Open innovation is actually, yeah, the intention to open up my company, my institution, my organization in order to co-create or to create something new like product services

together with end consumers, with citizens who or whoever is actually out there not just in the internet but also offline. So I try to co-create something with other people for my own organization. So it's really leaving like the internal barriers of my institution and opening it up for people and consumers and everybody who wants to participate.

Ken White

You had shared a story earlier with me that sort of explains why open innovation. Can you share that story?

Max Rapp

Yeah sure. So it's an anecdote actually because everybody thinks that open innovation or like co-creation is very new and very modern. But there is actually like a nice example from the 19th century that it isn't. So there was Napoleon the third, who was searching in the 19th century for a substitute product for margarine because he was trying to feed his forces out in the or the army when they were going to battle. And so he was searching for actually more cheap product for it. And so he was having an ideation or like an idea competition and say okay, whoever is out there help me and I want to have a substitute product for that. And there was actually a guy who was coming up with a great idea. He was actually inventing the margarine with this idea, and so it was an incredible nice innovation because he was not searching just with his own people in the government. He was really like sourcing it out of the institution or of the government to all the people and friends and but the story behind it actually is quite interesting because the guy who invented the margarine, in the end, said okay, perfect. Do I get any reward for it? And Napoleon said no, it should be honor enough to work for me. And so what happened actually is he was taking the IP rights for it have a copyright on it, and he was selling it to a company which is called Jurgens which was later on actually absorbed by Unilever. So you see, I think two points, on the one hand, you see not just all the smart people are working for me like that's I think a very big learning for big companies. So it's not just all my employees or my own research department can do the magic. It could be also outside of my company. But the other thing is obviously if I try to include other people from outside of the company it would be good to at least give them a bit of a benefit or like an incentive for their work and for their experience what they share with me.

Ken White

There are, basically, and you and I discussed right before we started recording three pillars or three different reasons to engage in open innovation. What are those?

Max Rapp

Yeah. So usually, like, when companies coming to us and say we want to have open innovation or we want to co-create products or ideas, usually they have three different things in mind. So on the one hand it's definitely like research and development. So I think

it's a very big and successful tool in the research and development because it's whenever I try to innovate my own company I try to innovate my services or my products. Usually, I always have yeah the same research department, maybe since 20 years which are always working in the same mood in the same atmosphere, maybe a couple of times with young blood. But usually, sometimes they just see always with the same glass. Right. And so it's nice to try to get off that board and saying it would be nice to co-create with people outside of my company because they have maybe totally different experience with it, and obviously, they have because like the people outside of the companies they are the guys actually who are wearing products, were using products, who are doing anything with products on an everyday basis. And so they have an incredible insight and an incredible experience with that, and they want to share that with the companies because obviously, their interest is also to have better products in the future on the market, right? And so that is like a big successful story actually with research and development departments around the globe are doing with open innovation already since couple of years. They try on a continuous level to integrate people to get their experience with products, and this can be totally on a different scale. So we are working for a company which is based in Austria. It's a small, medium enterprise. It's called Patonga, and Patonga is actually a market leader in trailers for tractors. And so they came to us with an incredible interesting challenge because they said since five years, their research and development department is searching for a fix because they have a trailer which is incredible big it's called the jumbo, Patonga Jumbo. That's a product name. And so it has an integrated cutting system. And whenever, like, the trailer is going over the cut field, and it's picking up the grass, it isn't forwarding the grass into the integrated cutting system, and it's throwing those grass packages in the trailer, and these packages are then feed to the cows. And because whenever to have this pick-up process or the forward process going on the grass is very chaotic. And so it's not lined up and in perfect shape, right?

Ken White

Sure.

Max Rapp

So there is a lot of air in between those grass packages, and this air leads to that cows are giving 8 percent less milk because they eat a lot of air and get a lot out of methane, right?

Ken White

Of course.

Max Rapp

And so this is a very specific problem which their own research and development department were not able to fix in the last couple of years. And so they came to us and said do you think you can find actually somewhere people who can help us like engineers

or maybe designers also who come up can come up with great ideas and how we can fix that problem? And so we build up like an open innovation idea contest. It was like a community-based platform in the internet where I can register as an engineer but also as in people who are just interested in the whole material, and they were actually really coming up with incredible ideas. And so the reach was incredible. It last from 3D designs to like renderings to scribbles or whatever how they would actually fix their problem. So we were actually collecting hundreds of ideas and in the end, the combination of three or four ideas actually really fix that problem which is incredible.

Ken White

And so that what a great story. And again, it all online. The whole process was online. When you're getting input from, I guess, what in America, we would call it fresh set of eyes.

Max Rapp

Right.

Ken White

People who have a different they're not so close to the problem probably.

Max Rapp

Exactly. So that was online, obviously, whenever you have those ideas, it makes sense to take those ideas, give it to your research and development department and try to work on it and, you know, like making the last shapes out of it, etc. So that is happening offline? Also maybe with the idea contributors who will be invited maybe afterwards and try to also present their ideas and come into a nice communication with the whole company. And so it usually it's online, right, but it could be also a combination of online and offline.

Ken White

Sure.

Max Rapp

So yeah. That has been actually like more focus on the research and development department, but they're also like two different other pillars. Pillars, you call it, which could be interesting to use open innovation. So there are a lot of marketing departments out there who see the potential of open innovation. Why do they do that? Because they see obviously end, consumers share their ideas they share their experience. So why not actually using those insights also to market the products in a proper and more decent way? Right. And so there's a nice example we did that for the big car manufacturer Audi in English, not in Germany. So they have a new product which is called Audi sound plus it's

an audio system because they had a problem because whenever like new cars they produced were going out of the garage it was not possible to have like in usually they use Bang & Olufsen which is a very premium product for audio systems.

Ken White

Systems, yeah.

Max Rapp

And so they couldn't do it into the cars after they sold it from the garage. So they had to actually build their own audio system that the people who once in the aftermath a good audio system can buy something.

Ken White

Right.

Max Rapp

And so they created Audi sound plus, which is a premium product as well, and they sold it like nothing, actually. So and the problem was nobody knew about it. Right. And what we did actually we made an open innovation campaign where we tried to find product testers for this new product. And what we did is there could apply of being an official Audi Product Tester. And so we took out 20 of those people, and they were having like an Audi TT for a weekend and just has to like they just had to prove and check and control and experience the new system. And the only thing they have to do to do so is they should share the whole experience on their blogs, on their communities, and so on so forth. So that's actually open innovation because it's from outside the company. Somebody is testing my products and is sharing his thoughts and his experience about it. And in between weeks, we have actually build up like contact points which are around like couple of million million contact points because they were sharing it in like incredible influential sound testing community, sound testing forums, and so on so forth, and the whole community jumped on that bandwagon and were discussing the whole product and so on so forth. So we actually succeeded in filling the whole gap Audi had before that nobody knew the whole product before. And so everybody was talking about it, and there was spread of word of mouth in the internet.

Ken White

Wow. So you have R&D and then marketing. What's the third pillar?

Max Rapp

So the third pillar would be like HR. So interestingly enough, like the big company, Siemens is using open innovation since couple of years just with a perspective of human

resources. So how did they do that, and why do they do that? They see actually that all the people who participate in such open innovation challenges or in maybe also offline workshops or whatever are definitely high potentials. They are people who have a clue. They are people who have maybe higher education, maybe people who have totally insights into products and have a great talent, and so they say, okay, why should we not use an online community or an online challenge to actually have a source for smart people? And so they actually build up every year, which is called an open innovation student award. So it started with the Middle East. It was also in Brazil. It has been in Germany, where they just have a nice challenge for students to participate in. And so they're searching for ideas, for example, for smart grids. They're searching for ideas for new sustainability products. But in the end, they just try to find very smart people in an early stage. So they focus at the moment on university as I said with student awards. And so they try obviously afterwards to invite those people to Siemens get in touch with those people and then try actually to get those people in very early stage to Siemens because afterwards. They have to pay an incredible amount of money for headhunters.

Ken White

Sure.

Max Rapp

Whenever they had like working experience for a couple of years. Right. And that's interesting because I mentioned earlier the Patonga case, like the company from Austria with the trailers, and now like two of couple of winners of this competition are also now working for Patonga because they have seen they had such incredible good ideas and they are engineers and they are students. So why the hell should they not work for me? Right.

Ken White

Right. Amazing. That would turn internships on their ear because why bother with the internship when you can actually see what a student or a young person has in terms of capability online through one of these? Interesting. Now I would think the first thing that someone might say when they hear about open innovation is it is in fact open. So our competition can see everything we're talking about what how do you respond to that?

Max Rapp

Right. So there are actually like two different ways to deal with it. So, on the one hand, before I talk about this whole open stuff, there is still a way to make it more closed. So there are ways, for example, what we call a bit like open-closed innovation. So there is a couple of big companies who say, okay, I would like to have a view from outside our company, but I don't want to have it globally or everybody. Actually, it would be fine to have maybe like 200 or 300 people for me, and they should like work on an internal

community. So we still have the outside perspective, but it's a bit closed because not everybody can look into it.

Ken White

Right.

Max Rapp

So what happens there is actually we take 200 or 300 very smart people talents, and that is actually like the USP from Hyve. We find the right people for the companies who could contribute actually good ideas for the companies, and they are actually in this internal community, and they're all signing NDAs, and they're all actually working on a specific problem or a specific challenge. But in the end, it's still closed because just a company can see it right. So that is obviously a possibility when a company is very afraid of being totally open.

Ken White

Sure.

Max Rapp

To use it open innovation like that way. But on the other hand, talking about the really open crowdsourcing platforms where everybody can look into. So obviously this is a tradeoff because when I do open innovation really my competitors can look into those online communities or online challenges. But what happens there is actually that whenever a research and development department is having a specific problem like Patonga had, they say for themselves we are actually nine month ahead of the competition because we have focused and dealt with the whole problem already since couple of years. So we are on a stage where our competition is definitely not at the moment. So we pick out the good ideas we're in in the whole process of this ideation campaign, and we will fix it with the research and development department and then do a patent on it. So that's something which is also, I think, interesting. Usually, if you get ideas in such a campaign there, it's not possible to do a patent on it anymore because it's already been open and public in the internet, but usually, you won't have those gold nuggets which you can actually execute one to one. Usually, you have to do rework and refine the work on the whole process and ideas a bit more, and then afterwards, you do a patent on it. And so usually like this being ahead of the competition and seeing that still my research and development has to do some work in order to have a patent. That's the reason why then usually the companies say okay, anyways I want to have that input from outside of my company. I do open innovation.

## Ken White

That's our conversation with Max Rapp of Hyve, the innovation company in Munich, Germany. If you'd like to see open innovation live as it takes place, William & Mary's Mason School of Business is currently partnering with Max and Hyve on a project called Tomorrow's MBA co-creating the future of business education. The project is bringing together users of the MBA. Lawyers, executives, professionals, innovators, faculty, and students to discuss and create together the MBA of tomorrow. A very interesting project that's involving people from over 50 countries. To check it out, go to [tomorrowsmba.mason.wm.edu](http://tomorrowsmba.mason.wm.edu). That's [tomorrowsmba.mason.wm.edu](http://tomorrowsmba.mason.wm.edu). Invite you to share your ideas on tomorrow's MBA website. Well, that's our podcast for this week. Leadership & Business is brought to you by the Center for Corporate Education at the College of William & Mary's Raymond A. Mason School of Business. The Center for Corporate Education can help you and your organization by designing and delivering a customized leadership development program that specifically fits your needs. If you're interested in learning more about the opportunities at the Center for Corporate Education, check out our website at [wmleadership.com](http://wmleadership.com). That's [wmleadership.com](http://wmleadership.com). Thanks to our guest this week, Max Rapp, and thanks to you for joining us. I'm Ken White. Until next time have a safe, happy, and productive week.