Chapter 6

Open Innovation Practices Applied to Efficient Replenishment

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ABSTRACT

To collaborate with customers by making use of innovative strategies is today required. For this it is necessary to adapt the business innovation system to the characteristics of the market demands taking into account the technological and social change. The aim of this book chapter consists of proposing a model that allows the measurement of knowledge and the generation of organizational improvement in the initiatives of customers’ co-creation in innovative processes. The model explains how the relational capital in a firm increases as strategic generic actions are promoted in the supplier, in the product, in the customer, in the distribution channel and other general business variables. The model has already been applied to efficient replenishment practices in the Spanish market.

1. INTRODUCTION

In the information society, collaborative efforts with customers to innovate are essential (Benker, 2006; Levine & Choi, 2010). Business innovation must be based on distributed models and above all collaborative ones (Von Hippel, 2005).

Open innovation is presented as a new paradigm that put emphasis in opening up organizational boundaries to combine internal and external knowledge to develop and commercialize innovations of value in the market (Chesbrough, 2003). As it is textually cited open innovation is about “the use of
purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively (Chesbrough, 2006: 1). Hage doorn (2002) stresses that a particular and each time more interesting area within open innovation, combining information inflows and outflows, is the collaborative actions on innovation developed by multiple organizations (Hagedoorn, 2002; Vanhaverbeke, 2006). Verspagen and Duysters, 2004 and West et al., 2006 admit that an important increase in the value of such collaborative innovation, in terms of economic welfare and for firms’ competitive advantage has taken place in the last years. Arora et al., 2001 and Granstrand, 2000 admit too that patenting, licensing and markets for technology are considered each time more as a means to profit from innovation.

Enkel et al., 2009 and McEvily et al., 2004 describe how the tension between knowledge and protection in open innovation in general is not fully understood. Firms need to share valuable knowledge with key collaborators (Grindley & Teece, 1997; Gulati & Singh, 1998; Murray & O’Mahony, 2007; Simco, 2006).

Users are not just passive agents. They must have a much more active role (Von Hippel, 1998). In an open innovation process, the goal is to find ideas that can be successful wherever they are. From this perspective, customers are the focus of innovation processes where different agents interact (Von Hippel, 1986). They decide what the uses of new products and services will be (Gambardella, 2010).

One of the great challenges of this concept of innovation is identifying access and to incorporate the needed knowledge to develop a successful product or service. It is not a trivial task and requires, apart from being well informed, know how to use knowledge management tools.

The potential importance of knowledge management for competitive advantage has been widely discussed since the nineties (Nonaka & Takeuchi, 1995). However, little attention has been paid to the effects of knowledge management as firm’s objective (Lev, 2001). According to Rodriguez (2003) and Adner and Zemsky (2006), organizations need to apply management techniques to manage the knowledge and some firms are using practices to be more effective in these actions. Concretely in the efficient consumer response initiatives that firms develop we have found these innovative practices.

The Efficient Consumer Response (ECR) initiative was born in the United States after the Annual Conference of the Food Marketing Institute and before the Wal Mart action, to improve the supply chain’s productivity. Many consultants started to develop, between 1992 and 1993, the ECR concept inspired by the Toyota production system and, more concretely, by the “just in time” process. Afterwards, in 1996, the 1st Conference ECR-Europe was held. Same year, 10 organisations started the ECR-Spain project. In the year 2002 in Spain, more than 26,000 collaboration agreements on ECR practices were signed, according to the Accenture Report (2002) data, in the supply and demand areas.

ECR is a strategy in the grocery industry where vendors, providers and intermediaries work together in order to offer greater value to the final consumer (Kurt Salmon Associates, Inc., 1993) and improve this way the demand generation (ECR-Spain, 1998, PROMARCA, 2002, AECOC, 2005). ECR means “collaboration strategies” in the supply chain. More than a management concept is a process of “best practices” elaboration.

ECR is an innovative strategy developed by the grocery industry for streamlining its supply chain (Hoffman and Mehra, 2000). Efficient Consumer Response is defined by the joint Industry project for Efficient Consumer Response (1994) as: a strategy so that the grocery retailer, distributor and supplier trading partners work closely together, to eliminate the grocery supply chain costs excesses. The ECR strategy focuses, particularly, on four major opportunities to improve efficiency: (1) optimize store assortments and space allocations, increase sales per square foot and inventory turnover, (2) stream goods
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