



# Innovation sourcing excellence: Three purchasing capabilities for success

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## KEYWORDS

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**Abstract** Innovation sourcing has become more critical across many industries. As global value chains have become more fragmented, change and opportunity comes from all sides. As a result, companies need to excel at capturing innovation opportunities with existing and potential supply chain members. This article describes a simple framework with three essential innovation sourcing capabilities needed to excel in purchasing: (1) Purchasing needs to explore unmet needs and anticipate future competitive advantages by working closely with other functions and clients; (2) it needs to explore external opportunities beyond first-tier suppliers; and (3) it needs to involve suppliers in innovation projects that consistently deliver results over time. Our framework has been developed based on a combined qualitative and quantitative research methodology that took into account practices and results at the purchasing and company levels. The framework will help C-level managers and purchasing teams benchmark their progress in innovation sourcing and understand what steps need to be taken to achieve excellence.

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## 1. Innovation sourcing: A purchasing perspective

Over the past 50 years, vertically integrated national champions turned into global corporations centered on a handful of core competencies. They continuously rationalized their supply base and created a multilayer ecosystem of companies and organizations. At the same time, many startups and

numerous mid-size companies have demonstrated their ability to bring innovative ideas to market. They do not just bring products and new technologies to life, but they also bring new distribution channels, new processes, and new business models. They sometimes disrupt existing markets, while on other occasions they complement existing offers. The simultaneous unfolding of these two trends offers a continuous flow of opportunities that established companies struggle to capture (Linder, Jarvenpaa, & Davenport, 2003; Slowinski, Hummel, Gupta, & Gilmont, 2009).

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New ideas, information, resources, and technological solutions emerging in the broad ecosystem can bring value to a company (Choi, Shao, & Shi, 2015; Möller & Törrönen, 2003); still, they are difficult to identify and leverage effectively. Opportunities (and threats) are often hidden in complex and opaque networks over which the company has limited visibility and control. The potential value of an idea or new technological solution is often tacit and not easy to evaluate or benchmark (Walter, Ritter, & Gemünden, 2001). The realized value of an opportunity can evolve over time and can be subject to a company's ability to leverage and control complementary assets (Jacobides, Knudsen, & Augier, 2006), and to become the 'best customer' of innovative partners (Henke & Zhang, 2010).

Thus, established companies still need to understand how to excel at *innovation sourcing*, which is the process through which innovation opportunities from existing or potential supply chain members are identified, accessed, and leveraged (Linder et al., 2003). In this article, we address this gap of knowledge by describing how purchasing can help a company to excel at this practice. Purchasing teams are in a perfect position to identify external opportunities before anyone in the company can see them. However, to achieve concrete results, they need to evolve and understand how to engage with internal functions and external partners and take the lead when needed (Knoppen & Sáenz, 2015; Lindgreen, Vanhamme, van Raaij, & Johnston, 2013).

This research proposes and tests a framework that helps C-level managers and purchasing teams benchmark their innovation sourcing maturity and understand what steps should be taken to achieve excellence. The framework captures the three key capabilities purchasing teams need to master and combine: (1) explore unmet needs and anticipate future competitive advantages by working closely with other functions and clients; (2) explore external opportunities beyond first-tier suppliers to engage effectively with outsiders and new players; and (3) involve suppliers in innovation projects that consistently deliver results over time. Our framework has been developed based on literature and field interviews. We then used it to examine the actual capabilities of 95 purchasing teams in the EU and the influence of these capabilities on the innovation performance of their companies.

## 2. The case for change

The world evolves as a complex system of feedback loops and unintended consequences. International

relations, economic activities, technological developments, and social practices influence each other. Together, they act as a continuous process of mutation and selection. Business practices evolve within this web of relationships, responding to opportunities and constraints that emerge along the way as an evolutionary process. Like R&D management (Roussel, Saad, & Erickson, 1991), which has gone through a succession of business goals and practices, purchasing has been subject to a number of transformations in the past 150 years. Table 1 outlines five key periods over the past 150 years. For each, the historical, political, economic, and business contexts are described along with the approach used to perform purchasing activities in these contexts. Table 1 helps to quickly grasp the series of changes that took place over time and to figure out why companies need to rethink their practices. It shows that purchasing is currently experiencing significant changes. The recent economic downturn redirected purchasing attention toward cost issues but change is expected to continue.

Innovation sourcing emerges when leaders recognize that tomorrow's success depends on today's ability to leverage networks of outsiders (Linder et al., 2003; Pisano & Verganti, 2008). Due to the current transformation of industry structures, no company can master change alone. When change comes from all directions, many functions can contribute to harness some of the external forces at reach; however, purchasing teams have a unique role to play due to their position within supply markets. They can play a leading role in innovating with outsiders. Open innovation is essential in a world of specialization and knowledge fragmentation. Suppliers, by allowing access to complementary assets, can contribute to create new competitive advantages. Establishing and developing relationships with disruptive or highly innovative players can also become crucial; this is even more complex as companies have suppliers that are also competitors or clients (Henke & Zhang, 2010). So, how can purchasing contribute to innovation sourcing excellence? In Section 3., we break down the vital capabilities necessary for a purchasing team to achieve innovation-sourcing excellence.

## 3. Three vital capabilities for innovation sourcing

An innovation requires a new match between a need and a solution so that value is created and ultimately captured. The novelty brought by an innovation can be in the need itself, in the solution proposed, or in the match between the two (Terwiesch &

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