

DIGITAL MEDIA FINLAND

Finland, www.digitalmedia.fi

A specialized consultancy developed an open innovation business model by building a network of external consultants and experts to cover its information needs and detect new business opportunities

Executive Summary

Digital Media Finland is a small consulting company, established in 2009, which operates in the digital media market. It provides consulting services on business model, strategy and marketing innovation for companies which are encountering challenges with digitalization. Open innovation is applied as a tool for network expansion, building and maintaining its business ecosystem, improving collaboration with stakeholders and acquiring and disseminating external knowledge. Professional seminars are used for sourcing and exploiting external knowledge, disseminating it internally and within the company's ecosystem, as well as extending its network of consultants and clients, which often leads to new collaborative projects. The open business model of the company is configured by the requirements of the dynamic digital market. The company's radically open business model is potentially a part of a new trend towards extreme outsourcing which further challenges traditional concepts of organization and organizational boundaries.



CASE N°: SC103

SECTOR: CONSULTING SERVICES

TECH INTENSITY: LOW-MEDIUM TECH

LIFE CYCLE STAGE: ESTABLISHED

INNOVATION VECTORS: SERVICE, CUSTOMERS & MARKETING, ORGANISATIONAL

01 PARTNERS: OTHER SME, GOVERNMENT BODY, INDIVIDUAL EXPERTS, LEAD USERS/ CUSTOMERS

KEYWORDS: Business model innovation. digitalization. invoicing model. idea scouting. professional seminar. network innovation. stakeholder involvement. development days, external experts. rules of collaboration, niche market, mainstream market, blog posts

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**DIGITAL
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BACKGROUND

Digital Media Finland was restructured by the four founding partners in 2009 from a one-person business to an "umbrella or network" organization of independent consultants on the basis of contractual agreements. A couple of years later, the founders started to look for new team members to gain expertise and to achieve growth. Digital Media Finland is an agile company, relying almost exclusively on contractual employees and freelancers – an organizational strategy which has long existed in some sectors, such as arts and design and other creative industries. In the age of the shared economy, such arrangements may potentially become popular in other sectors – just as this company's story suggests.

The independent consultants are bonded together by shared policy, vision and strategic objectives and exploit the company's brand and invoicing system. Currently, the company has shareholders, consultants on contract and external consultants in its network. The specificity of its organizational structure and operations in the highly turbulent digital market influences the company's strategic development, – particularly calling for additional flexibility, organizational cohesion and developing organizational incentives, such as cooperation and partnership building skills. Being so agile and keeping the company's boundaries open and able to stay competitive also requires a high level of dedication to the business and enjoying not only the results of the work, but also the actual process. This is well-illustrated by the company motto, which is: "to do fun things to enjoy the work".

INNOVATION CHALLENGE & MARKET OPPORTUNITIES

The 21st century is characterized by massive digitalization, the emergence of new ways of doing business and new requirements for business model engineering. Driven by the highly turbulent digital market, the founders of Digital Media Finland recognized a business opportunity in providing consulting services to organizations in business model design and adaptation. On a strategic level, the company can provide its clients (SMEs, large corporations, public organizations and ministries) with knowledge on how to utilize opportunities offered by digitalization and rapidly changing

business environments.

The founders saw that in Finland there is a need for consulting services as digitalization and the role of digital media have increased. This business opportunity resulted in the development of a new strategy, intensified growth and improved cooperation with its internal and external networks, as well as the extensive sourcing and acquisition of external knowledge. When the consultants or founders sense the emergence of a new trend in a relevant consulting field, they start to elaborate the idea and contact external experts to access the best existing knowledge, while adjusting their strategy and short-term plans accordingly. According to one team member:

"We realize that there are many new areas that we don't know enough about but our customers would expect us to help them on this. And then there are ways, of course, to acquire that knowledge, but we thought that this sort of way of inviting people who are really knowledgeable on these different topics would benefit us in many ways. We can both acquire insights and we can also expand our network with these people.... We identify that there are new topics that we don't know enough about and we need to have a better collective understanding and knowledge of these topics."

OPEN INNOVATION TRAJECTORY

Concept development

The dynamics of the digital market, expressed by the enormous number of emerging technologies, require consultants to constantly upgrade their knowledge and fine-tune their skills in order to be able to fulfil their clients' needs or even just to acquire knowledge before the demand has emerged. Being a small company with limited resources and most employees working on a contractual basis, Digital Media Finland was limited in traditional internal innovation tools and found ways of accessing external knowledge and expertise without having to pay for it – although they still invested time in leveraging their existing connections and continuously building their network in the field of digitalization. To address the need to upgrade their knowledge and skills, the company started to organize professional seminars with invited speakers – experts in the target areas – in order to scout for ideas and acquire knowledge from outside the company.

By transforming this expert knowledge into employees' skills, the staff can stay competitive and

offer state-of-the-art tools to their clients. The concept of professional seminars, organized once every few months, has already been running for several years and includes presentations by invited experts and discussion. The topics are proposed by their consultants and are generated normally by the emergence of new technologies or innovation and reflect the clients' needs. As one employee explained: "We take external knowledge in, we invite people who know their stuff and then we also try to find ways to maybe collaborate with them too, to do something together or just figure out ourselves how we can capitalize on this knowledge. And that has been very fruitful in different ways. For example, we had a professional in block-chain a couple of months ago to help us understand what it really means, how it works and how you can learn from it."

These seminars not only support learning and acquiring external knowledge, but also extend the company's formal and informal network and potentially increase their client database, as well as promoting the continuous professional development of their staff.

The development process, IPR and competition strategy

The development process of utilizing external networks and experts and organizing professional seminars is focused first on overcoming several challenges. The key challenge of organizing such seminars is in defining the relevant topic which would benefit both consultants and clients. Another challenge for the company and its service development has been the fact that Digital Media Finland relies on contractual consultants. These consultants do not always have a high motivation to participate in strategic development meetings for free, and the commitment is also becoming weaker. "As long as I'm not paid, because I'm not paid for participating in that and I have other things to do as well, I have to decide quite carefully what to do."

When new things are developed in Digital Media Finland, the owners of the company are basically the only ones who benefit. To overcome this problem, the management is developing a new strategy for how to handle business growth, what the company offers to its consultants, and how much it costs. The fact that nobody is directly employed by Digital Media Finland on a permanent basis (the consultants work only on the basis of a contractual agreement), has led to difficulties in finding a common vision and understanding the company's future. Digital Media Finland's aim is to grow quickly in the coming years so a strategy to

find a common understanding between team members is required to help with this.

There is currently an ongoing internal strategic improvement process in the company, aiming at formulating a new strategy, searching for new niches in the digital market, new development areas and new opportunities. The company recognized that new knowledge is developed either by bringing new people into the company, bringing in new external knowledge or by training existing personnel. The company successfully applied all options, by hosting professional seminars, which bring in external experts' knowledge and at the same time train the internal team, while the company continues to expand the core team of consultants working on a contractual basis.

The company utilizes an invoicing model which offers a fair combination of fee and services provided for this fee, thereby helping to keep the consultants interested and motivated in doing work, which is ultimately important for supporting the ongoing development of the company. As the consultants are not employed by Digital Media, they perform work for the client, and then Digital Media invoices the client. The invoice fee is 8% of the contract sum for internal consultants. In addition, consultants pay the company a monthly "membership" fee.

With the help of externally sourced knowledge during the professional seminars, the consultants establish connections with potential customers, learn about trends that can potentially expand their client base as well as broaden the scope of the topics they work on. Normally, each consultant has more extensive knowledge on some specialist topics than others. The internal and external communication and cooperation lead to more effective work on the part of the consultants.

Since the re-establishment of the consultancy, Digital Media Finland has been organizing the development days at least four times a year, where owners and consultants develop new plans for internal and also external operations. Digital Media Finland co-operates with external consultants, network partners and external experts to have a better collective understanding and knowledge of new topics and trends.

The professional seminars and development days are usually scheduled for the same day. The day starts with the professional seminar. The seminar topic is decided among the consultants beforehand; they invite experts to come and give a presentation on the topic. Consultants and experts then have a joint discussion about the topic. After the seminar ends, Digital Media Finland's internal

development day starts where the consultants and owners go through possible project ideas emerging from the seminar and discuss their future strategy. The challenge in executing the seminars and development days is in the different level of internal commitment and common understanding of the company's strategy. Finding experts in specific areas has not been difficult for Digital Media Finland even if the experts do not receive any payment. It seems that the seminars are mutually beneficial for the invited experts as well.

Digital Media Finland uses a combination of two different competition strategies: niche market strategy and mainstream market strategy. The company has projects in the public sector and in their customers' own R&D sector; the consultants seek to differentiate the company and themselves by doing a better job and by giving the customers better results.

Projects which involve specialized offerings concerning a niche market are achieved by having expert knowledge and understanding of unique trends and topics. This expertise is normally gained from new consultants and from the professional seminars. For example, one consultant in Digital Media Finland has been working for a music rights organization in Finland, and this has resulted in him having the best knowledge of music rights and content issues, making him a one-of-a-kind consultant on this topic in Finland.

Commercialization and follow-up

The company is on a stable course of development, while the number of consultants involved in the business continues to increase. The consultants' learning curve continues to grow as skills and knowledge are added thanks to the external knowledge provided by experts during the professional seminars.

As the company scales up and their new strategy is applied, Digital Media Finland has defined fixed rules on how to collaborate with external consultants and how to do the invoicing fairly and beneficially for all concerned. This prepares Digital Media Finland to apply for larger projects.

The company is moving in the right direction in building, integrating and maintaining its ecosystem, based on open innovation principles, developing strong collaborative ties between clients and consultant, and supporting knowledge exchange. The expert knowledge passed to consultants generates new collaborative projects, from which new clients have other requirements, which in turn generates the need to acquire new knowledge: this is the sustainable virtuous development cycle

which Digital Media Finland has created for itself.

One concrete example of such joint projects is one with Verkkokauppa – the second largest retailer of consumer electronics in Finland. In that project Data Media Finland assisted Verkkokauppa in developing a business model for new product development, particularly in collaboration with clients. Another example of a project which has broadened the consultancy's own expertise is the work it did for the gaming company Veikkaus. This project required an analysis of the future development of digital business models, which in turn required inviting external experts from various domains (e.g. block chain technology experts).

The open business model that Media Data Finland applies is rather dynamic, being defined by the requirements of the developing digital market and the environmental uncertainty in this field. Even as the requirements change rapidly, the company is able to react accordingly by developing rules for cooperation, attracting new external consultants, applying their invoicing system for payments and continuously revising its strategic goals. The company is able to build and maintain its ecosystem by expanding its network of internal and external consultants and growing a network of clients.

Due to financial constraints, Digital Media Finland does not invest in marketing or advertising. It has used external help to develop the company's website –the tool that customers use to find the company and to find out about their previous consultancy assignments. Digital Media Finland has also set up partnerships with two external companies. The companies are IAB (Interactive Advertising Bureau) and Markkinointi ja Mainonta, which is a marketing-based newspaper.

Digital Media Finland makes use of them as distribution channels. Their consultants write blog posts about different topics in their area of expertise or on topics which might interest customers. Every second week a blog post is given to Markkinointi ja Mainonta to publish, and occasionally blog posts are sent to IAB for publishing. Digital Media Finland uses these channels to reach potential customers.

After succeeding in broadening their market opportunities and building a wider network through professional seminars, Digital Media Finland continues to utilize the seminars regularly as a source of external expert knowledge and potential new projects. Thanks to these seminars and their own professional development the consultants keep themselves updated on market trends and improve their knowledge continuously in order to anticipate their clients' challenges and be helpful in solving them. To help the company

and its services become known by the market, Digital Media Finland plans to continue its promotion through blog posts and its own website.

To expand the business, the company is building its ecosystem with internal and external consultants and new collaborative projects, where the focus is put on designing the new strategy for working with external consultants and formulating collaboration rules and requirements. The company is building a new strategy right now and the aim is to create a company with different layers: the owner layer, the partner layer and the collaborator layer. The different layers will participate in the company's development in a different manner.

The final goal is to build a transparent and open consultancy with real elements of open innovation in it. With the new strategy and legal agreement on collaboration, the aim is to find ways to improve the quality of partnerships and to work in a way that is beneficial for everyone. The way in which partnerships, networks and external knowledge are exploited creates a high degree of openness which is reflected in the company business model and managerial practices.

BUSINESS IMPACT

Digital Media Finland has been able to reach new markets and new customers thanks to continuous learning and its professional seminars, as well as by inviting external experts and exploiting external knowledge. The work with external partners, consultants, experts and networks is considered important by the entire team for developing opportunities and collaborative projects (e.g. with Verkkokauppa and Veikkaus, described above). New skills in developing collaborations and sourcing and exploiting external knowledge were developed in the last few years. The company understands the importance not only of accessing new knowledge and collaborating through external networks, but also of linking internal managerial processes (internal partners and systems) with external networks in the firm's ecosystem.

Digital Media Finland has gained experience and knowledge on how to work with consultants internally and externally. There are still many challenges, especially internal ones, such as finding a common understanding of the relevant topics and projects to carry out. Moreover, the division of work has been a challenging task for the company. Digital Media Finland believes, however, that further collaborative work carried out in the spirit of the new collaboration strategy and rules that have been developed will help the company to

solve these challenges.

The bottom-line impact of the professional seminars and collaborative work has been positive since the beginning, considering the new skills and knowledge and the emergence of new collaborative projects and clients. The number of consultants has increased by about 20% and invoicing in the same period has increased from 20 to 30%. The successful implementation of Data Media Finland's projects, which rely on a combination of internal and external expertise, has demonstrated that the application of an open and agile business model is highly dependent on expanding and leveraging its network of experts from digital media and beyond.

LESSONS LEARNED

This case shows how by utilizing internal skills, exploiting external knowledge and collaborating with external partners, a company can recognize new market opportunities and win new customers. It also demonstrates that some companies need additional learning tools and methods, involving external partners and experts, searching for external knowledge and ideas and exploiting open innovation practices (such as professional seminars and development days).

A set of fixed rules for collaboration and a clear invoicing model for external contributors (such as the one applied by Digital Media Finland) would be beneficial for companies with a similar business model. A small budget might be needed for advertising in a similar type of business, since once the company's consultants have successfully worked for a customer, they receive excellent word-of-mouth promotion. As alternative low-budget marketing channels, the company's website and blog posts could be used to ensure a better market reach. However, overall continuous improvement, open innovation and linkages with experts in different areas and industries appear essential for successful innovation and business growth in a consulting business, particularly in the area of digital media.

Main lessons learned:

1. The consultants own background, market knowledge, learning ability and market intuition play a crucial role in finding new market opportunities and identifying new trends.
2. Strategic collaboration and open innovation can be conducted through professional seminars where external experts share insights in their area of expertise.
3. Sourcing and acquiring external knowledge and optimizing collaboration with internal and external partners help develop a firm's ecosystem, new skills for their employees and collective knowledge.
4. Open innovation in SMEs is different from in large companies (due to limited resources) in terms of a rather focused strategy, flexibility in managerial practices, shorter time from idea to implementation and faster recording of impact.
5. Dedicated collaboration rules and regulations are required to strengthen the role of external partnerships and open innovation, while at the same time keeping the quality of the partnership to a high standard.
6. External parties' know-how and work affect the other party's operations.
7. Dedication to continuous improvement requires effort but is extremely beneficial.
8. Using formal and informal networks is beneficial for company innovation.