

Making Progress ... By Working Backwards

Contributed by Vijay Govindarajan
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Business innovation adviser Vijay Govindarajan tells Jo Bowman why manufacturers looking for the next big thing should approach innovation in reverse

Walk into a global burger chain's branches in Beijing and you'll notice that the sundaes come not just with chocolate or strawberry syrup, but also red bean paste. In Brazil there might be lashings of local sauce on the beef, and in India there are meat-free curry options. But what you won't see is that chain's American branches serving noodles or empadinhas.

Innovation consultant Vijay Govindarajan says this practice of localisation, or glocalisation – tinkering with hit products from the developed world to make them palatable to consumers in emerging markets – will not be enough to ensure multinationals remain successful in coming years. What international businesses must learn to do is what he calls – reverse innovation. In a nutshell, that means doing the opposite of putting different ingredients in the burger; it means creating a new product in an emerging market, and then exporting that innovation to the developed world.

In the forthcoming book he co-authored, *Reverse Innovation: Create Far From Home, Win Everywhere*, he says the low end of the world consumer market is too often overlooked, or left with the dregs of development after all the expensive features of a product have been stripped out. But the low end of the market is a gold mine, not a ghost town, Govindarajan claims, if your vantage point is Delhi rather than Detroit.

Historically, multinationals innovated in rich countries and sold those products in poor countries. Reverse innovation is doing exactly the opposite, he says. The reason why this is so important now is that growth in developed markets has slowed down, and growth is really robust in developing countries. They're large, they're growing fast, and in order to capture that growth you have to innovate – there's no other way.

No other way, he says, because while there's a small wealthy minority in every country which can afford high-priced products, the vast majority simply can't. There's no business model created for Middle America, where the per capita income is \$50,000, that you can take and adapt and hope to capture Middle India, where the per capita income is \$1,000.

Drink to that

The idea of successful innovations being exported from poor to wealthy nations is not entirely new, as Govindarajan readily acknowledges. The sports drink Gatorade, now seen as an all-American brand (and one that launched an entire new beverage category), actually sprang from developments in rehydration pioneered in Bangladesh. There, the recipients of electrolyte-rich, carbohydrate-loaded drinks were cholera patients whose very lives depended on their ability to stay hydrated. But that need for hydration, if one not quite so acute, also existed on the college football pitches of Florida, and Gatorade was born.

More recently, GE Healthcare created a battery-powered, handheld ultrasound imaging device called Vscan, which could be sold at just 15 per cent of the cost of the big, fixed scanning machines GE usually supplies to hospitals. In creating a cheaper, portable and easier-to-use product, the company suddenly gained access to a market in which patients couldn't always get from their rural homes to a hospital with a scanner, and where medical staff weren't necessarily highly trained in using specialised technology.

It's perfectly logical to see why a poor man would want a rich man's product: a rich man is driving a car, a poor man wants a car, Govindarajan says. A rich man has a cell phone, poor man wants a cell phone, but it's not that logical to see why a rich man would want a poor man's product.

Nor is it easy to see why a multinational would want to sell anything cheap in their home market to someone willing and able to pay more. Govindarajan says there are several reasons for doing so. First, when you drop the price point so low, the market expands, even in rich countries, and innovations made in developing markets have applications in the developed world. The portability of the GE scanning device, for instance, opened a new market in the US for sales to hospital emergency rooms, operating theatres and ambulances that didn't previously have scanners. And by innovating, a product that was good enough for the market in which it was developed is inevitably improved, and becomes more appealing to consumers over time.

Enter, the dragons

What stops many western multinationals from embracing reverse innovation is the fear that, in developing a low-cost alternative to their current offering, they're going to put themselves out of a job. There's a cost of cannibalisation, but there's a cost of inaction, he observes. Opting out of developing for emerging markets doesn't reduce the risk of cannibalising sales of existing high-priced goods either. Just because you are not innovating in poor countries does not mean that nobody else is going to do that kind of innovation. And when they do that, they're going to bring those products

into the rich countries. Therefore, if you don't cannibalise yourself, then you run the risk that a competitor may do it for you.

Competitors don't just come in the shape of other western multinationals, of course; local hero brands are often hugely popular, and have strong business foundations in a market they probably understand better than the international newcomer. The nimbleness and adaptability that has led to success in a fast-growing market can also, Govindarajan says, help them when they decide to expand beyond their domestic market. Truck maker Mahindra, for instance, has made great inroads in the US, while US-based John Deere has struggled to gain a foothold in India.

In some ways, the so-called emerging giants (companies like India's Tata and Mahindra, and China's Lenovo and Huawei) have significant advantages. They understand the local customer problem. The place where multinationals have the advantage is in having global capabilities, he says. It's a tough chess match; ultimately who's going to win will depend on which player is able to make up for their weakness.

Mind the gap

Govindarajan gives some guidance to international giants looking to innovate in developing markets on how to identify where a gap in the market might lie, when it's not something consumers even realise that they're lacking. Often there's a performance gap to be filled: with very little money to spend, consumers will snap up products that deliver only decent performance by world standards, as long as they come with ultra-low price tags. There are often opportunities to be mined in looking at infrastructure gaps, too: developing products that allow for the fact that power supplies are often intermittent, but also realising that in some respects developing markets are actually more advanced, unencumbered as they are by clunking legacy technology that's now outdated. Regulatory gaps allow companies to make the most of the fact that there tend to be fewer rules in emerging markets, meaning fewer barriers to innovation. A preference gap, found by scrutinising what's assumed to be normal or essential in different markets, can also provide inspiration, as can the need to plug a sustainability gap: emerging markets are likely to leapfrog to green technologies ahead of more developed economies, partly because they can, and partly because they need to.

Localisation still has its place, Govindarajan says. It just doesn't tell the whole story of how businesses must behave if they're to grow.

That certainly is important, and companies should continue to do it. Reverse innovation is starting with the end consumer in mind. Create a business model to satisfy their needs, then bring your global capabilities along to help implement the solution. Of course, there are some people in any country who would rather buy a made-for-wealthy Americans product. But the bulk of the market needs to be created, and creating that needs innovation.

Corporate structures in long-established multinationals have not, however, generally been organised with reverse innovation in mind. They have product development in HQ, and push out from the centre. Those sorts of structures are challenging to work around, Govindarajan says, without a mindset that's determined to see at least some of the innovation traffic change direction. You need to recognise that this is not either/or. Traditional ways of innovating should remain if they're working, but local-market work needs to commence, and that means assigning local growth teams to individual markets. You cannot innovate for India sitting in the US. These teams need the freedom to innovate, backed by the resources of the global network, and they need visibility in the organisation generally, so that the whole company comes to understand that these aren't fringe markets: they're potentially providing the future of their own market's growth.

Role of research

Comprehending the daily lives of potential customers in emerging markets is vital, Govindarajan says. Market research is critical. You have to start with understanding the local customer problem, and in order to do that you may have to do ethnographic research – if it's rural areas, sleep there, spend some time with the villagers to understand them. Then, step back and say there are a number of problems they have; which ones can I solve using my global capabilities, and then prioritise them. Truly useful research must dig deep, he says. Research focused on latent customer problems, that's the kind of research which can really unlock reverse innovation. The customer isn't buying the product because the product doesn't exist, but the customer has an unspoken problem, and trying to understand that problem is at the heart of reverse innovation.

The nine rules of reverse innovation

1. Innovate in emerging markets, don't just export
2. Seize opportunities to move new-market innovations to more developed markets
3. Keep local competition in emerging markets on your radar
4. Move people, power and money to growth centres in the developing world
5. Put the spotlight on emerging markets within the company through events and appointments
6. Give teams in developing markets separate profit and loss responsibility
7. Commission local growth teams in emerging markets that act like new companies
8. Enable these teams to leverage the parent company's global resources
9. Manage reverse innovation projects as disciplined experiments, with a focus on resolving key unknowns quickly and cheaply

The full interview is available [here](#) .

Vijay Govindarajan is founding director of the Center for Global Leadership at the Tuck School of Business at Dartmouth College. He spent two years as GE's first professor in residence and chief innovation consultant. Reverse Innovation was written with Chris Trimble.

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