

Reverse innovation

HISTORICALLY, it is logical that innovations flow downhill from the developed world to the developing world. It has always been the rich consumers who can afford the latest technologies.

However, as the cost of new technologies go down and incomes in the developing world rise, these innovations trickle down to the poorer consumers.

To meet the burgeoning demand, many producers have practised globalisation (a portmanteau of globalisation and localisation).

The products of the developed market are localised to conform with local laws, customs or consumer preferences to accommodate the developing markets.

Obviously, buyers in poor countries demand innovations on an entirely different price-performance curve.

For example, global e-commerce juggernauts such as Amazon.com and ebay.com have customised their online storefront services for consumers outside of the United States.

Yahoo! markets a portal that is viewed worldwide and offers different versions of its website and related services for different users in some 25 countries, including China, Russia and Canada.

Inversely, there are products and services created ab initio elsewhere that have found their way to the developed markets, such as Indian chicken tikka masala that has become the No.1 food in the United Kingdom and a slew of other popular products such as yoga, wushu and Nestle's Maggi instant noodles.

Any innovation that is adopted first in an emerging market and then spread to developed markets is termed as reverse innovation, according to Vijay Govindarajan, the Coxie Distinguished Professor at Dartmouth College's Tuck School of Business and a Marvin Bower Fellow at Harvard Business School.

While globalisation is innovation that is first offered to customers in the developed world, reverse innovation is innovation to meet the needs of customers in poor countries.

Reverse innovation is a stark contrast to the conventional trickle-down flow of innovation from developed to emerging economies over time.

Since growth in developed countries has slowed down, much of growth is now taking place in developing countries.

Local companies in the emerging markets have a better understanding of local consumer problems.

Consumers in the developing world have an insatiable demand for hi-tech solutions with ultra-low costs and "good enough" quality.

Increasingly, companies in China, India and other developing countries are developing new viable offerings. Their untiring building of global

brands and distribution capabilities have earned them the due attention and respect of multinationals.

In 1980, Japan replaced the US as the world's leading carmaker. Through innovation called "lean manufacturing" to produce new models quickly, the Japanese beat the Americans on both price and reliability.

In early 2009, Logitech, maker of computer peripherals especially keyboards and mice, was caught off-guard by Rapoo, a local computer mouse maker.

Rapoo knew that Chinese customers use the mouse differently. Millions of Chinese consumers who found satellite or cable television entertainment too pricey would connect their computers to their televisions and surf Internet video sites.

Rapoo's mouse, embedded with a 2.4GHz chip, is a cheaper offering than Logitech's as it is both a mouse and a remote control.

In 2010, Levi Strauss & Co launched its dENIZEN brand of jeans in China. This was the company's first brand launched outside of the US.

With success, the brand quickly spread to Indian, South Korean, Singaporean and Pakistani markets. In July 2011, the brand began selling in the US in Target stores.

When Wal-Mart opened its stores in Mexico, it discovered that Mexican shoppers preferred smaller stores.

By 2012, more than half of its stores in Mexico were small stores (Bodega Aurrera stores). Wal-Mart then opened similar small-format stores in the US and Latin America.

Recently, Alibaba launched an online loyalty programme called LiveUp to customers of Lazada, Uber and Netflix in Singapore.

The S\$28 (RM88.15) annual fee entitles subscribers to six months of Netflix streaming, discounts on Uber rides and free delivery of Taobao and Lazada purchases.

Alibaba and its partners hope to ride the increasing trend of online retail that accounts for 4.8% of total retail in Singapore last year. If successful, it is likely that this innovation will be replicated in the US, UK, Europe and other developed countries.

To overcome this emerging threat, the onus is upon multinationals to adopt a bold organisational mindset.

Customers in the developing world cannot simply be differentiated from rich-world customers because they have generally less money. They also have unique needs. To win in emerging markets, multinationals have to understand those needs and innovate to meet them.

Apart from finding ways to protect their competitive position in home markets, multinationals require a decentralised and market focus on the local talent and resources.

Their local teams ought to be authorised to decide on which

products to develop and how to make, sell and service them.

Once tested and proven locally, the developed products must then be taken to the global stage and even used to cannibalise existing higher-margin products. — **By Dr Hendry Ng, director of Victoria University postgraduate**

programmes – Master of Business Administration and Master of Business (Enterprise Resource Planning Systems)

■ For more information about the Victoria University postgraduate programmes, e-mail hendryng@sunway.edu.my.

Innovation now trickles from developing countries into developed ones, causing a need for evolution of the global market.



MONASH
University
MALAYSIA

Advancing
sustainable
development

MASTER OF ADVANCED ENGINEERING (ENERGY AND SUSTAINABILITY)

N/520/7/0075 (05/20) - MQA/SWA0796

This program is ideal for working engineers and engineering graduates who aspire for career advancement in a competitive global environment.

It addresses the demands in sustainable energy development and covers **industrial field trips, real case studies**, guest lectures from industry speakers, networking and attending conferences.

Graduates will be equipped to work in the government sector and various industries such as **oil and gas, chemical, pharmaceutical, oil palm mills and refineries, construction, power plants, transportation**, and many more.

APPLICATION DAYS

19 August • 11am - 4pm
Monash University Malaysia

26 August • 11am - 4pm
E&O Hotel, Penang

Info: www.monash.edu.my/apply3

Monash University Malaysia DULN002(E)

📍 Jalan Lagoon Selatan, 47500 Bandar Sunway, Selangor, Malaysia ☎ +603 5514 6000

🌐 monash.edu.my 📧 mum.info@monash.edu 📱 [monashmalaysia](https://www.facebook.com/monashmalaysia)

Monash University Malaysia is a joint venture

Monash University Malaysia
Your Australian university in KL

Jeffrey Cheah
Foundation

MONASH
University