Reverse Innovation
Create Far from Home, Win Everywhere

Vijay Govindarajan & Chris Trimble
“It is impossible to fully capture the growth opportunities in the developing world without developing new solutions from scratch.

Reverse innovation is clean-slate innovation.” [p. 30]

What is Reverse Innovation?

Traditionally, large multinational companies sought most of their growth and received most of their revenues from home markets. If they looked abroad it was to other wealthy countries.

A reverse innovation is any innovation likely to be adopted first in the developing world. For example, companies develop products in countries such as China and India, and then distribute them globally.

Glocalization strategies assume that innovation has already occurred, and that developing nations are in a slow and evolutionary process of catching up with the rest of the richer world. They will import what the richer world develops as soon as they can afford to do so. Glocalization is the process that companies use to export modified versions of global products originally developed for rich-world consumers.

What Drives Reverse Innovation?

“The fundamental driver of reverse innovation is the income gap that exists between emerging markets and the developed countries. There is no way to design a product for the American mass market and then simply adapt it for the Chinese or Indian mass market. Buyers in poor countries demand solutions on an entirely different price-performance curve. They demand new, high-tech solutions that deliver ultra-low costs and “good enough” quality.

For us, reverse innovation is not a “nice to have” boost to revenue growth rates. We believe it will power the future — not just in poor countries, but everywhere. Many tremendous rich-world business opportunities will arise first in poor countries. To compete, global corporations must be just as nimble innovating abroad as they are at home.

The stakes are high….Ignoring reverse innovation can cost many companies, especially today’s world-class multinationals, much more than a missed opportunity abroad. It can open the door for the so-called emerging giants, the rising generation of multinationals headquartered in the developing world, to inflict pain or even severe damage in well-established home markets” (p. 7).
The American Multinational Approach to Emerging Markets (EM)

The globalization journey of American multinationals has followed an evolutionary process which can be seen in distinct phases.

**Phase 1 — Globalization** — Multinationals built unprecedented economies of scale by selling products and services to markets all around the world. Innovation happened at home, and then the new offerings were distributed everywhere.

**Phase 2 — Glocalization** — In this phase, multinationals recognized that while Phases 1 had minimized costs, they weren’t as competitive in local markets as they needed to be. Therefore, they focused on winning market share by adapting global offerings to meet local needs. Innovation still originated with home-country needs, but products and services were later modified to win in each market. To meet the budgets of customers in poor countries, they sometimes de-featured existing products.

**Phase 3 — Local Innovation** — In this phase, the first half of the reverse innovation process, multinationals are focusing on developing products “in-country, for country.” They are taking a “market-back” perspective. That is, they are starting with a zero-based assessment of customer’s needs, rather than assuming that they will only make alterations to the products they already have. As teams develop products for the local market, the company enables them to remain connected to, and to benefit from, global resource base.

**Phase 4 — Reverse Innovation** — If Phase 3 is “in country, for country,” Phase 4 is “in country, for the world.” Multinationals complete the reverse innovation process by taking the innovations originally chartered for poor countries, adapting them, and scaling them up for worldwide use.

**Dominant Logic**

Every organization that has enjoyed great success is sustained and endangered by what it has learned in the past. Reverse innovation requires that you set aside the logic of the past. If you fail to do so, you will not have the humility necessary to admit you still have much to learn.

“Reverse innovation begins not with inventing, but with forgetting….You must let go of the dominant logic that has served you well in rich countries….In fact, it’s best to assume that you’ve just landed on Mars” (p. 14).

**Source of Growth**

- 85% of the world’s citizens live in poor countries.
- Poor countries will account for at least 2/3 of world GDP growth in future decades.

**Starting Points**

- Geographic expansion is not the answer.
- Companies must have intense curiosity about how the needs of developing countries differ from their own.

“More people, power, and money to where the growth is – the developing world.” [p. 48]
“Five wide gaps distinguish emerging-market needs from familiar rich-world needs.” [p. 30]

Spending Patterns

“In the rich world, there are a few people who each spend a lot; in the developing world, there are a lot of people who each spend a little... This implies a starkly different business challenge. One person with ten dollars to spend has a completely different set of wants and needs than ten people each with one dollar to spend. That’s why it’s unrealistic to expect rich-world products and services to have much of an impact in poor countries. Doing more business in high-growth hot spots – aka poor nations – requires much more than ramping up sales, distribution and production” (pp. 8-9).

Changing the Management Model (Chapter 4)
Reverse innovation requires a decentralized, local-market focus.

Most if not all the people and resources dedicated to reverse innovation efforts must be based and managed in the local market.

Local Growth Teams (LGTs) must have P&L responsibility - this is a key hurdle for American multinationals.

LGTs must have the decision-making authority to choose which products to develop, how to make, sell, and service them.

LGTs must have the right (and support) to draw from the companies’ global resources.

Once tested and proven locally, products developed using reverse innovation must be taken global which may involve pioneering radically new applications, establishing lower price points, and even cannibalizing higher-margin products.

Trends that Close the Five Substantial Needs Gaps

From Chris Trimble (co-author) in the Ivey Business Journal, April 2012:


In fact, the needs and opportunities in the developing world are so different from those in the rich world that the very first requirements for reverse innovation success are humility and curiosity. You must let go of what you’ve learned, what you’ve seen, and what has brought you the greatest successes. In fact, it is best to assume that you have just landed on Mars.

Yes, buyers in the developing world have less money — but that is only the obvious beginning. The differences run much deeper. In fact, there are at least five enormous gaps that separate needs in the rich world from those in the developing world: the performance gap, the infrastructure gap, the sustainability gap, the regulatory gap, and the preferences gap.

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“The context within which emerging giants globalize today is very different.

The world itself has dramatically changed in the past four decades.

For example, it is flatter today than it was in the 1970’s, thereby opening up different globalization paths.” [p. 212]
Reverse Innovation

Performance Gap

Simply put, with fewer dollars in hand, buyers in the developing world are willing to accept lower performance. This sounds simple enough, but it is not as straightforward as it at first appears.

Consider a typical “good-better-best” rich-world product line. When global corporations headquartered in the rich world export to the developing world, the tendency is to focus just on the “good” offering, or perhaps even to water down the “good” offering a little bit further, from “good” to “fair,” to achieve the lowest possible price point.

This seems sensible enough on the surface. The problem is that a modest price cut — say, 10 percent — is not nearly enough to make a difference to mainstream customers in the developing world, who may have only one-tenth the income of buyers in the rich world.

Such low incomes, however, do not mean that developing world customers do not need innovative products. Indeed, what they need is radically reinvented designs that deliver at least decent performance at an ultra-low price. But there is no way to deliver 50 percent performance at a 15 percent price by diluting existing offerings. The only way to get there is to start from scratch, considering entirely new technologies.

Infrastructure Gap

In the rich world, most every citizen has access to modern transportation, communication, and energy systems, plus schools, hospitals, banks, courts, and more. In the developing world, most infrastructure is mostly still under construction.

This does not mean, however, that developing nations can only gradually catch up. Precisely because they are building from scratch, they can invest in the most modern technologies. Meanwhile, the rich world will only invest as existing infrastructure reaches replacement age, and, even then, will be constrained by the necessity to make any new systems compatible with what already exists. As a result, developing nations are hot, new construction markets, while rich nations are tepid maintain, repair, and replace markets.

The infrastructure gap, however, affects much more than infrastructure products and services. It affects any offering that relies on infrastructure — anything that plugs in, connects to a network, or moves from place to place, and more.

Rich world offerings are designed with the implicit assumption that they will be consumed by those with access to rich-world infrastructure. Logitech’s mouse was designed for use in the office, not in the living room, because people in the rich world still largely “consume” video entertainment via cable or satellite, with no mouse in sight.

Such offerings do not export well, so an innovation strategy is a must. New offerings must be designed with the developing world infrastructure in mind. In major cities, this may mean an enviable, next-generation infrastructure. In rural areas, it may mean no infrastructure at all. When GE designed an ultra-low-cost portable EKG machine for rural India, for example, one of the top considerations was long battery life.

Sustainability Gap

Worldwide, as the economy grows, the conflicts between economic vitality and environmental sustainability are likely to become more severe. That said, the pressures will not rise uniformly. In many cases, the intensity of sustainability issues are highest in the developing world.

Winning in emerging markets requires recognition of these differences. In certain cities in China, for example, air pollution problems are extreme. As such, it is hardly a surprise that China is poised to take the lead in electric cars.

“Manage reverse innovation initiatives as disciplined experiments, with a focus on resolving critical unknowns quickly and inexpensively.” [p. 70]
Regulatory Gap

When regulations function appropriately, they eliminate business behavior that is at odds with societal good. They keep consumers safe and markets fair. That said, when regulations become too complex, captured by vested interests, or technologically out-of-date, they can become needless barriers to innovation. Regulatory systems in the rich world are the result of decades of development while those in the developing world may be incomplete. Whether this is good or bad from a societal perspective is well beyond the scope of this paper, but the difference can make the developing world a more favorable environment for innovation in certain cases. Products and services designed around rich world regulations may become needlessly complex or expensive for developing world markets.

Preferences Gap

The world’s great diversity of tastes, preferences, rituals, and habits adds spice to international travel. It also sometimes makes it nearly impossible to achieve full potential in the emerging economies through a simple strategy of exporting existing offerings. PepsiCo, for example, is developing new snack foods, starting with a new base ingredient. Corn is not nearly so ubiquitous in India as lentils, so Pepsi is commercializing lentil-based chips. Because of these five of enormous needs gaps, the commonplace strategy of trying to win in the emerging economies by making light adaptations of successful rich world offerings is inadequate. Reverse innovation is the antidote, and reverse innovation is clean-slate innovation. It starts with reassessing customer needs from scratch.

The Reverse Innovation Playbook (pp. 71-72)

Strategy
1. To capture growth in emerging markets, you must innovate, not simply export.
2. Leverage opportunities to move emerging-market innovations to other parts of the world: to poor countries, to marginalized markets in rich countries, and eventually, to mainstream markets in rich countries.
3. Keep so-called emerging giants on your radar screen. These small but rapidly growing companies, headquartered in the developing world, have global aspirations that could one day threaten your own.

Global Organization
4. Move people, power, and money to where the growth is – the developing world.
5. Create a reverse innovation mind-set throughout the corporation. Put the spotlight on emerging markets through the use of expatriate assignments, immersion experiences, corporate events that are held in emerging markets, creative board appointments, and highly visible CEO actions.
6. Create separate business scorecards for developing nations with full P&L responsibility and an emphasis on growth metrics.

Project Organization
7. Commission local growth teams (LGTs) with full business capabilities for each reverse innovation opportunity. LGT’s should act like brand-new companies.
   - They must conduct clean-slate needs assessments.
   - They must develop clean-slate solutions.
   - They must practice clean-slate organizational design.
8. Enable LGT’s to leverage your company’s global resource base through carefully managed partnerships.
9. Manage reverse innovation initiatives as disciplined experiments, with a focus on resolving critical unknowns quickly and inexpensively.

Case Studies
Chapter 5 Logitech and the Mouse that Roared
Chapter 6 Procter & Gamble, Innovating the "Un-P&G Way"
Chapter 7 EMC Corporation, Planting Seeds
Chapter 8 Deere & Company Plows Under the Past
Chapter 9 How Harman Changed its Engineering Culture
Chapter 10 GE Healthcare in the Heart of India
Chapter 11 PepsiCo’s Brand New Bag
Chapter 12 Partners in Health’s Radical Model for Care

Reverse Innovation
"Reverse innovation has the potential not only to transform your company, but also to transform the world." (p. 189)

Quotables

“It is impossible to fully capture the growth opportunities in the developing world without developing new solutions from scratch. Reverse innovation is clean-slate innovation” (p. 30).

“Five wide gaps distinguish emerging-market needs from familiar rich-world needs” (p. 30).

“Reverse innovations can flow uphill by penetrating marginalized markets in the rich world or, more consequentially, by reaching mainstream markets after a delay during which a trend closes the gap between rich-world and poor-world needs” (p. 30).

“Surface and challenge assumptions that support glocalization but that inhibit reverse innovation. Push leaders to recognize that success in emerging economies requires clean-slate innovation and that the stakes are global, not local” (p. 48).

“More people, power, and money to where the growth is – the developing world” (p. 48).

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“Manage reverse innovation initiatives as disciplined experiments, with a focus on resolving critical unknowns quickly and inexpensively” (p. 70).

“A new technology that offers low performance at an ultralow price is immediately attractive in poor countries but not in rich ones. Over time, however, the technology improves, its performance improves, and eventually the innovation becomes attractive to mainstream customers in rich countries” (p. 209).

“The largest of the poor countries, India and China, are far larger than Japan or Korea” (p. 212).

“Western multinationals could not compete in Japan and Korea, because of both tariff and nontariff barriers. As a result, local firms in Japan and Korea were able to build profit sanctuaries in their domestic markets and use those profits to subsidize their globalization efforts. India and China do not enjoy such an advantage. They face brutal competition from multinationals in their domestic markets” (p. 212).

“The context within which emerging giants globalize today is very different. The world itself has dramatically changed in the past four decades. For example, it is flatter today than it was in the 1970’s, thereby opening up different globalization paths” (p. 212).