

Innovating in Emerging Markets

In last decade, emerging markets have evolved not only as the biggest demand base for goods but also as innovation hubs for new products. One of the drivers of innovations from emerging markets is the easy availability of talent pool, which has transformed countries like India and China as the R&D sub headquarters for the MNCs. India and China together churn out more engineers than overall numbers from the developed countries. The cost of skilled labor in developing countries can be anywhere from 10% to 30% of the developed nations. Overall the attractiveness of these countries from talent supply and cost perspective is immense, which becomes a key driver of innovations in emerging markets. It can be labeled as “*Economical innovations*”.

While *Economical Innovations* has been one of the prime drivers, one which has led to the evolution of MNC back offices in the R&D hubs. At the same time MNCs have observed that innovating out of emerging markets is not only economical but it adds a different dimension to the products. Companies, through their local centers, have tried to develop products which address the challenges of the local markets. This is leading to emerging market specific products being developed out of the local centers of companies. Eventually companies are taking many of these local innovations global. This is another driver for innovation out of developing countries. It can be labeled as “*Local innovations going global*”

Together between “*Economical Innovation*” and “*Local innovations going global*” companies have successfully developed products for local and global markets out of the developing countries. There are key lessons to be learned on 1) How to transform challenges of emerging markets in to opportunity 2) How to manage innovations from offshore centers.

Innovations from Emerging Markets

Making Telecommunication Affordable:

Texas Instruments, a US based USD 13 billion semiconductor company, started their India development center in early 1980s with a focus on tapping the low cost talent pool, an example of staff augmentation which was eventually replaced by “*economical innovation*”. In their close to three decades of India presence, TI realized the potential of India as a development hub for emerging market specific solutions.

In the beginning of current decade India witnessed the start of a Telecom boom, which was further propelled by surge in local telecom service providers. TI realized the size of opportunity in Indian telecom market which was also the fastest growing mobile telecom market in the world. Cost of mobile handset was acting as a key barrier in expansion of mobile users in the developing markets like India, had this be broken the growth could have been multifold. Texas instrument worked towards a single chip idea which was capable of reducing the cost of mobile handsets drastically through economical price and reduced complexity. The idea eventually transformed into *Locosto*, a mobile handset chip, which was of half the price of their nearest competitor. The chip helped handset manufacturers like Motorola, reduce the price of their handsets by 20% to 30%. Motorola launched a USD30 mobile phone for Indian markets.

There were 11 Million users of the *Locosto* based mobile handsets in 2008. The product went global and is used across many developing and developed markets – an example of “*Local innovations going global*”. TI *Locosto* was entirely developed in India which reduced the development cost by USD 8 to 10 Million. An example of “*economical innovation*”.

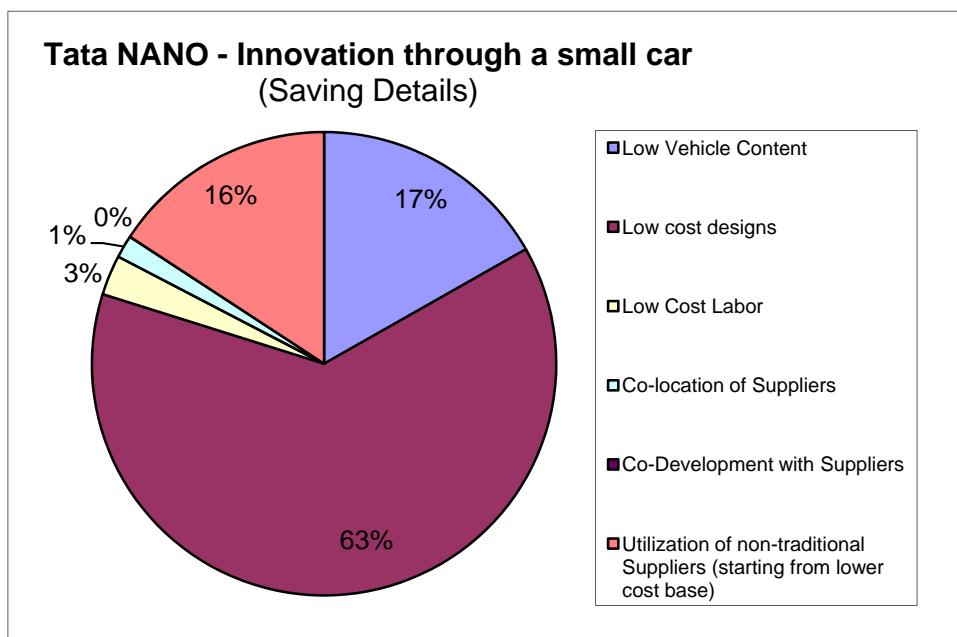
Online office tools for Masses:

Rise in PC penetration across the developing countries have boosted the demand of software products across the world, emerging markets are no exception. The PC penetration¹ in China and India is 12% and 4% respectively, though this is far lower than 73% of US and 57% of Europe but in absolute terms the number of PCs in China and India adds up to 170 Million. Further the number of PCs is expected to grow² in these countries with a CAGR of 20% to 30%.

Microsoft, the leading software product company of the world holds major pie of the global office tools market (e.g Word, spreadsheets, project manager, etc.) But the high cost of Microsoft has led to a piracy figures of close to 90% in the emerging markets, like India and China. Zoho, a USD 200 Million software product company, identified the gap in market and worked on the idea of a web based office tool which catered to price sensitive customers of emerging markets. The target market for Zoho was global, and the competitors were majors like Google, Microsoft and Salesforce.com. Zoho faced a three pronged challenge: 1) How to provide a low cost product 2) How to reduce the development cycle time and 3) how to ramp up the team in a short time. Zoho leveraged the talent in Indian market skillfully which not only reduced the ramp up time (120 FTEs in 15 months) but also cut down the cost of development by USD10 to 12 million. The swift release of Zoho along with the global appeal of the product has made it quite successful, more with students and SMEs in emerging markets. At the end of 2008, there were close to 200,000 active users of Zoho products.

Entertainment on Mobile: OnMobile is an India based mobile VAS (value added services) provider. OnMobile targeted the booming telecom sector of India and the content hungry users of the mobile phone. While there were lot of telecom suppliers catering to the basic needs of market, VAS was not considered as a revenue potential area. OnMobile was among the first few companies to develop innovative solutions and products for Indian mobile users. While the theme of the services was coherent to developing markets but the innovation was brought in 1) India specific content and 2) Pricing for the Indian customers. Onmobile followed its India success with global expansion, the results were: more than 300 million users, 10 billion calls per month, and with a reach to 600 Million customers.

A car for Millions: Indian car maker Tata motors have come up with a car which has captured the imagination of millions across the world. Tata looked at the huge price gap between two wheelers and cars as a potential opportunity. The target customers of NANO were millions of people who were not able to afford the car but they had a need of safe transportation system. Tata Motors in association with its suppliers took the challenge to come up with a USD 2500 (INR 100,000) car. Tata innovated and improvised in the entire value chain of car production, from design, development, manufacturing to supply and marketing.



The result was close to advanced booking of more than 200,000 NANOs, with in a month of starting the offer, because of which Tata Motors raised INR 2500 Crores (USD 500 Million).

There are many more such examples where companies like Google (Google finance), EMC (EMC Insignia), Oracle (Oracle Fusion middle ware), Yahoo (yahoo Avatar), and CISCO (Cisco Emergency Responder) have successfully developed products from emerging markets (India in above examples) which have gone global in application.

Key Trends and Recommended Strategies to succeed in Emerging Markets

Following are some of the key issues which companies need to keep in mind while leveraging the emerging markets for innovations:

1. **Clear Goals for the innovation team**
2. **Capability development initiatives**
3. **Effective use of local eco-system**
4. **Right Organization Structure**
5. **Ownership to teams**

1. **Clear Goals for the innovation team:** In most of the cases organizations developing products from emerging markets do so in an offshore setup. In such cases the captive center (or offshore development center) has the umbilical cord tied to their parent development center. This leads to confusion on the goals, roles and responsibilities of the offshore team. It is imperative that organizations leverage their captive centers in a strategic way rather than as a short term tactical off shoring destinations. Companies like, Google which have been immensely successful in developing products out of their centers in emerging markets have been able to do so because of clear goals for their captive teams. These goals are more often set by the local teams (at time with approval from their global headquarters).
2. **Capability development initiatives:** Organizations should invest in the capabilities of their innovation centers. Companies like Texas Instrument have been investing in their India center to ensure they can develop a complete product from their India center. This enables the team to take quick and fast decisions without reliance on the third party (or global centers). Such capabilities have been instrumental in development of key innovations like *Locosto* (for TI) and *Google Finance* (for Google).
3. **Effective use of local eco-system:** Organizations who have been able to effectively leverage the ecosystem around them have successfully created products of far reaching importance, and relevance for the markets. Tata NANO is one such example, TATA identified the key nodes in the development of their low cost car and entrusted it suppliers with the innovations needed to accomplish the specifications. This was done to ensure 1) Faster speed of development 2) Leverage expertise of suppliers 3) Reduced cost of development. The experiment was immensely successful with likes of Bosch, Johnson Controls, Saint-Gobain and it's other close to 100 suppliers, participating in the development efforts. Tata rewarded their suppliers with ensured contracts for the NANO – the deal worked in a symbiotic manner.
Another example of leveraging the local eco-system is how global storage device leader EMC has been able to effectively use the service providers (vendors) like Wipro to develop products for India, which helps in 1)Reduced cost 2) Resource Optimization 3)Right localization 4) Appended capabilities 5) Direct feedback from the customers. Wipro which is a long term strategic partner for EMC in India is also the leading distributor of EMC's storage devices in emerging markets. So, besides being an effective channel to bring in the customer feedback to EMC Wipro has also been playing an important role in helping EMC develop India specific products, EMC insignia is an example of this, a product developed for emerging markets out of India.

4. **Right Organization Structure:** Project management of teams which are not well integrated with the parent organizations creates confusion resulting in low productivity and eventually loss of directions for such team. Global leaders of engineering companies who have been successful in driving innovation out of emerging markets have been well aware of the importance of the organization structure and have spent time and multiple iterations to align their development centers to ensure the optimal productivity. Organizations need to evaluate whether the functional, or cross functional structure would suit their requirement. Once the organization structure type has been put in place a clear demarcation of direct reporting, indirect reporting, Decision makers, key stakeholders have to be done. Organizations that have wide interest in development through multiple locations have migrated to the concept of Centralize Governance of Off-shoring Activities (CGO). CGO as an independent department ensures that all the issues pertaining to the innovation centers across the globe are resolved under one roof – with speed through expertise.

5. **Ownership to teams:** Organizations which follow the above rules are well placed to transfer complete ownership of the activities to their development centers. Ownership of modules or the complete products have acted as an accelerator for driving innovation from these centers. Such organizations are able to gauge the need of the market and go about achieving it independently. One of the US based Hi-Tech major (Company A) is engaged in developing medical devices for emerging markets from their India center. They have not been successful in competing with one of its global peers in India as the company-A brings in the finished products from US, strips it in India and try to customize it for the local markets. The final products are neither well customized and nor effective enough for local conditions. The India team has very limited ownership on the innovations which they can bring on to the products handicapping them in creating a product which is truly made for such markets.
On the other hand companies like Adobe, Texas Instruments, Google, Intel, Motorola and many other such firms have brought about innovations from their India center which have been successful in emerging markets and the developed markets. One of the key differentiators being the ownership of the projects/modules in their offshore development centers.

Conclusion:

Emerging markets are for sure going to be the drivers of the global economy for the decades to come. The burgeoning population and vast skill-set presents a handsome opportunity to companies looking at these countries as potential market. Considering the different needs of these markets it is imperative that companies innovate to suit the demand of the customers in these countries.

As seen through the above case studies, if companies leverage the ecosystem of emerging markets effectively they can innovate both through “*economical innovation*” and “*local innovation going global*” unraveling the vast revenue stream for them.

Source

- 1: Chinapost
- 2: CyberMedia