SUMMARY REPORT

Reverse Innovation

Unlocking New Markets

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Reverse Innovation
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Multinational companies have traditionally centred their innovation efforts on the needs of developed markets and then exported modified versions of their products around the world. Now many are reversing the process by developing exciting innovations in emerging markets and taking them back to developed countries. As the success stories mount up, business leaders from around the globe are rethinking their strategy and company structure to realise the potential of reverse innovation.

The drivers of this change and the consequences for business strategy were the subject of an FT Executive Dinner Forum at the World Economic Forum in Davos on 25th January 2011. Chaired by Gillian Tett, the FT’s US Managing Editor, the speakers were T.K. Kurien, CEO of Wipro’s IT Business, Jim Quigley, CEO of Deloitte Touche Tohmatsu, Tarek Farahat, CEO of Procter & Gamble in Brazil, and Vijay Govindarajan of Tuck Business School.

Professor Govindarajan began the discussion by setting out what he saw as the motivation for reverse innovation, the term he is credited with coining to describe the process. In the past, western corporations had typically divided the world’s 7 billion population in two, he said: the 2 billion people who were rich enough to afford their products; and the 5 billion poor who were not. With the slowing of growth in developed economies and accelerating growth in emerging markets, the challenge was to bring the 5 billion poor into the consuming population.

“That requires innovation because the world’s poor can’t consume the products of business models designed to meet the needs of the 2 billion rich. But the interesting thing about reverse innovation is that it is not just about bringing the poor into the consuming population; it puts the multinationals that adopt it at the forefront of innovation. What they learn in the poor countries helps them transform the lives of people in the rich countries.”
When creating products for developing markets, you need to start with design – frugal design. If you’re working with plenty, very soon you have a product that’s expensive to manufacture, difficult to service and at a price point that’s completely unviable. You have to start by finding out what the market needs so you can design a platform that is optimal. You don’t necessarily make money on that platform: you make it when you upsell. Consumers who buy that platform soon need an upgrade and buy the next model at a higher price."

Mr Kurien gave the example of how Wipro had worked with a large manufacturer of telecommunications equipment which made mobile telephone towers. In the West, these typically cost $100,000 to manufacture, consumed a lot of power and were not good at coping with heat and dust. Wipro had designed one that cost 60% less and could cope with temperature extremes.

The last of the panel to speak was Jim Quigley, who echoed previous contributors in saying that the essence of serving any local market was to know and understand its needs. "As we say at Deloitte: ‘Local roots, global connections.’ " His firm’s team in China are Chinese who speak the language and understand the culture and regulations. "I’m not trying to scale a business in China with US expats."

Mr Quigley recalled asking the CEO of Walmart’s Mexican operation about which decisions he took in Mexico City and which required a call to head office in Bentonville. His reply had been that in the US, customers typically drive an SUV to a colossal parking lot, shop in a colossal box store with every conceivable item and then drive their shopping home. The typical Mexican customer visits the store using public transport, so the footprint of the stores has to be dramatically smaller to be closer to their homes. He described this approach as “Freedom within a frame” – there were certain decisions made in Bentonville, but the closer a decision was to the customer, the more empowered he was.

“Reverse innovation is not just about products,” said Mr Quigley. “A.G. Lafley of Procter & Gamble defined innovation as a new idea that delivers value for the enterprise. In your business model you have to empower the team in the emerging markets if you want to succeed.”

Prof Govindarajan said that even well-run multinationals which had been successful in Western markets had struggled to sell their products in India. Kellogg’s, for example, had found itself a marginal player in what he described as the biggest breakfast market in the world; this was because Indians like a hot breakfast, and pouring hot milk on cereals turned them to mush. Johnson & Johnson had spent several decades trying to sell baby products such as diapers which were too expensive for Indian consumers. And the Ford Motor Company had tried to sell a modified version of a $20,000 mid-market auto designed in the US for Middle America.

“A design team in Detroit tried to take out costs to bring down the price. So, for example, they took out the power windows in the back doors. But Indians who can afford a $15,000 car are rich and tend to have a driver – who got the power window. Through a Detroit lens, this looked like a logical way to enter the Indian market, but to reach the 5 billion poor who are not car consumers needs breakthrough innovation.”

For Tarek Farahat of Procter & Gamble, the Ford experience exemplified the challenge in emerging markets, which was to delight consumers, not dilute the product “It is about improving lives, not dumping technology on them.” Companies needed to immerse themselves in understanding the needs of hundreds of millions of consumers who were becoming better off and wanted to enjoy a decent life.

“Our Pampers business in Brazil was relatively small a few years ago, because the price of a diaper was expensive and the majority of consumers could not afford them. Yet babies in classes C, D and E sleep with their parents, and when they wet the bed, everybody is woken up. So we asked parents what they really wanted, and they said they were ready to pay enough for the baby to sleep all night. They didn’t want design, or tapes that open and close, or anything fancy – just a product that delivered 12 hours of sleep. We gave them that at a 30% lower price, which we still marketed as Pampers because it is an aspirational brand. The business grew seven times because it satisfied the need – but you have to start from the need.”

T.K. Kurien of Wipro, one of the largest global IT services, business process outsourcing and product engineering companies, said that design was central to successful innovation. At one time he had worked for GE, which during the 1950s had sold refrigerators in Asia – with the models selected by a US executive in Kentucky. But the models were too big for Asian homes and not well-designed to function in hot, humid climates, and GE had lost out to Japanese competitors who designed fridges better suited to Asian markets.
In the following discussion, a member of the audience asked Prof Govindarajan for an example of successful reverse innovation. His answer was that GE, whose ECG machine for the US and Western Europe cost $10,000, had developed a $500 machine to meet the needs of India’s rural market which could be carried in a backpack and powered by a battery. This portable version is now sold in 194 countries — including the US where it can be used in circumstances such as highway accidents.

When another questioner asked how reverse innovation applied to services, Jim Quigley said that Deloitte now employed 15,000 people in India and was re-engineering the way it delivered professional services. “We say you come for cost and stay for quality. You can find new ways of delivering professional services at a different price point to a quality standard that is sustainable.”

As the discussion came to an end, Prof Govindarajan said that the biggest stimulus for reverse innovation was local competition in emerging markets. “John Deere is in India developing tractors for the Indian market because of Mahindra & Mahindra. I am pretty sure that AT&T would still be selling cellphone services at 20 cents a minute but for the pressure from Bharti Airtel. And Tata has plans to sell the Nano car in Europe in the next two years and then the US three years later — which will restructure the automobile industry globally.

“Reverse innovation is not a luxury, but the very oxygen that Western multinationals need to succeed.”
T.K. Kurien  
Chief Executive Officer, Wipro Technologies and Executive Director, Wipro Limited

With over 23 years of global diversified experience, TK Kurien (TK) is the Chief Executive Officer of global IT Business and Executive Director, Wipro Limited.

TK runs some of the critical growth engines in the organisation’s overall business plans. He has led multiple initiatives in various capacities including being the Chief Executive of Wipro’s Healthcare & Life Sciences business, and the Telecom Service Provider business. He was adjudged the BPO CEO of the year by IQPC in 2007.

TK is also a member of the Wipro Corporate Executive Council. Before joining Wipro, TK served as the CEO of GE X Ray from October 1997 to January 2000 and prior to that was the CFO of GE Medical Systems (South Asia).

Tarek Farahat  
Chief Executive Officer, Procter & Gamble Brazil

Tarek Farahat heads the operations of Procter & Gamble in one of its large subsidiaries, Brazil. Mr Farahat has served the Procter & Gamble company for more than 21 years. He has versatile experience. He served the company in Saudi Arabia, Switzerland, France, Germany, Venezuela and Brazil, in country, regional and global roles. Mr. Farahat is a recognised thought leader and a change agent with a remarkable track record of business and organisational results. Some of his business achievements are documented in a Harvard Business Study, and are being taught in MBA classes. Mr Farahat serves as a Director in United Way Brazil as well as in the Brazilian Arab Chamber of Commerce.

Professor Vijay Govindarajan  
Tuck School of Business, Dartmouth College

Vijay Govindarajan is widely regarded as one of the world’s leading experts on strategy and innovation. He is the Earl C. Daum 1924 Professor of International Business at the Tuck School of Business at Dartmouth College. He was the first Professor in Residence and Chief Innovation Consultant at General Electric. He worked with GE’s CEO Jeff Immelt to write How GE Is Disrupting Itself, the Harvard Business Review article that pioneered the concept of reverse innovation any innovation that is adopted first in the developing world. Harvard Business Review rated reverse innovation as one of the ten big ideas of the past decade. VG has worked with CEOs and top management teams in more than 25% of the Fortune 500 firms to discuss, challenge, and escalate their thinking about strategy.
Jim Quigley
Chief Executive Officer, Deloitte Touche Tohmatsu

Jim Quigley is Chief Executive Officer of Deloitte Touche Tohmatsu Limited (Deloitte), Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients in over 140 countries. Prior to his current role, Jim was the CEO of Deloitte United States. Throughout his 35 years with the organization, Jim has taken on a number of leadership roles and built a distinguished track record of service to many multinational clients.

Jim is actively engaged in a number of international business organizations and committees, each working to help shape the policies for a successful and sustainable global economy. He is U.S. co-chairman of the TransAtlantic Business Dialogue (TABD) and a member of the board of trustees of the U.S. Council for International Business (USCIB) and the German Marshall Fund of the United States. He is also a member of the Council on Competitiveness, and served on the U.S. Securities and Exchange Commission Advisory Committee on Improvements to Financial Reporting (CIFIR).

Jim is regularly asked to join discussion panels to share his perspective on global business trends and potential challenges at such events as the annual World Economic Forum in Davos, the annual Boao Forum for Asia, and the annual German Marshall Fund Brussels Forum. Jim is involved in various business and community groups in the United States, including the board of the Financial Accounting Foundation, Japan Society, and The Economic Club of New York. His memberships include the Business Roundtable and the National Advisory Committee Brigham Young University.

Jim is a past member of the task force on the role and mission for the United Way of Tri-State, US (Connecticut/New Jersey/New York) and a former board member of Catalyst, the Center for Audit Quality, U.S. Chamber of Commerce, and Junior Achievement of New York City. He also has served on numerous committees of the American Institute of Certified Public Accountants.

Jim received his Bachelor of Science degree from Utah State University as well as an honorary degree of Doctor of Business. He also was awarded an honorary degree of Doctor of Commercial Science from Bentley College in Waltham, Massachusetts.