Reverse Innovation: Ideas from Emerging Countries

**Key Concept**
Emerging markets are usually coveted for the potential customers they represent — perhaps hundreds of millions of new consumers who are looking (or will be looking in the near future) for products to buy. Most companies, however, develop products for developed markets first and then adapt them to the emerging markets. Research conducted by two professors from Dartmouth’s Tuck School of Business reveals a new strategy that reverses the traditional flow of innovation. This new strategy calls for developing products that are *adopted first* in emerging markets and then adapted for developed markets. This strategy, developed by Professor of International Business Vijay Govindarajan and Associate Professor of Business Administration Chris Trimble, ‘reverses’ the traditional path to innovation.

**Idea Summary**
How do you sell an automobile in an emerging nation where salaries are a tiny fraction of salaries in developed countries? The traditional answer: make a cheaper model of the car you sell in developed countries. Companies traditionally take the products they are selling in developed markets and then make small changes to those products for their emerging markets. However, emerging market customers generally have drastically different needs from customers in developed markets; they are, therefore, rarely served well by this light customization approach.

To better serve emerging markets, Tuck School of Business professors Vijay Govindarajan and Chris Trimble have developed the concept of “reverse innovation” — that is, innovation that is adopted first in the developing world and later “flows uphill” to the developed world. Instead of taking innovations originally created for western markets and adapting them for emerging economies, Govindarajan and Trimble propose that companies should create products *from scratch* that respond specifically to the needs of their emerging market customers; surprisingly often, these innovations later find markets in the rich world.

The first step in implementing reverse innovation is to understand the five need gaps that separate developing countries from developed economies: *performance*, *infrastructure*, *sustainability*, *regulatory*, and *preferences*. For customers in underdeveloped or emerging economies, a lower price is worth a sacrifice in performance. This is not the case for customers in developed countries. Customers in poor countries are also dealing with a lack of infrastructure, serious environmental and sustainability challenges, and fewer regulations. The final gap, preferences, refers to the different tastes and preferences in each country.
Govindarajan and Trimble’s research reveals that these gaps are opportunities for innovation. Creative solutions, for example, emerge to overcome the challenge of a nation’s poor infrastructure. At the same time, less regulation opens up new avenues for development and distribution. In the context of reverse innovation, the creativity sparked by the different conditions in developing countries — designing a new product that sacrifices performance for price, for example — can then be adapted for developed countries. One of the examples uncovered by Govindarajan and Trimble is GE’s electrocardiogram machine, designed for Indian customers but whose specifications fit the needs (and wallet) of certain customer bases in the United States, such as rural clinics.

Business Application
Businesses can take concrete steps to uncover and exploit the innovation opportunities in developing countries. Govindarajan and Trimble offer recommendations in three areas: strategy, global organization and project organization.

At the strategic level, a company must first decide to innovate, and not simply export, to capture growth in emerging markets. It can then leverage opportunities by moving emerging market innovations to other parts of the world — to other poor countries, for example, and eventually to mainstream markets in rich countries. At all times, companies must watch out for potential competitors based in emerging markets.

In addition to attending to strategy, companies must create a global organization, with a reverse innovation mindset. Move people, power and money to where the growth is: the developing world. And instill the reverse innovation mindset through such initiatives as:

- Making expatriate assignments part of the career path in the company.
- Creating immersion experiences that will help managers and executives acquire a deeper knowledge of developing countries.
- Holding corporate events in emerging markets.
- Inviting business leaders from emerging markets to become board members.

At the project management level, Govindarajan and Trimble advocate “local growth teams” or LGTs, which should be run as separate companies directed by leaders new to the company (for a fresh perspective). Starting from scratch, and thus unencumbered with the history, mindset or traditions of the parent company, the LGTs develop clean-slate solutions specifically targeted to the needs of emerging market customers.

The stakes are high. Global corporations that ignore reverse innovation opportunities will cede future growth markets — including those in their own back yards — to a new generation of multinationals headquartered in the developing world.

Further Reading
Reverse Innovation Tool Kits

Further Relevant Resources
Vijay Govindarajan’s profile at Tuck School of Business
Chris Trimble’s profile at Tuck School of Business
Tuck School of Business Executive Education profile at IEDP