

The Reverse Innovation Paradox

Reverse Innovation is all the rage these days, with a new book by the same name from Vijay Govindarajan and long-time collaborator Chris Trimble, numerous articles in academic journals and the popular business press, and a truly impressive list of glowing endorsements from many of the world's best-known senior business executives and academics, including Jeff Immelt, Ratan Tata, and Warren Bennis. But is reverse innovation truly "a framework for the next phase of globalization" or instead just another management fad that will be forgotten a few years from now?

Reverse Innovation refers to cases "where an innovation is adopted first in a poor country before being adopted in rich countries," in stark contrast to the traditional trickle-down flow of innovation and new technology from developed to emerging economies. By far the best-known example of reverse innovation is that of a portable, ultra-low-cost, electrocardiogram machine, which was developed by GE Healthcare in India, and has since been sold in many developed markets as well.

Not surprisingly, advocates see reverse innovation as an important new development with major implications for business and governments around the world. For example, Govindarajan describes reverse innovation as the blueprint for scaling growth in emerging markets, and believes that ignoring reverse innovation could cost developed-country MNCs dearly, as it would open the door for their emerging market counterparts (EMNCs) to gain a foothold in more established markets. A recent survey from *The Economist* ("The World Turned Upside Down", 2010) similarly concludes that reverse innovations will change not just the emerging markets, but the rest of the world as well.

There is an important catch, however - which, to his credit, Govindarajan himself acknowledges - as there are actually surprisingly few real-world examples of successful reverse innovations, aside from the above-mentioned electrocardiogram machine and a handful of other well-worn case studies. In fact, even several of Govindarajan's own examples are arguably not really reverse innovations in that their impact on developed markets has so far been limited.

This calls to mind Enrico Fermi's famous paradox about the contradiction between the extremely high probability of the existence of extraterrestrial civilizations and the apparent lack of actual contact with such civilizations ("Where Are They?"). In other words, if reverse innovation really is such a powerful concept, why haven't there been more successful examples? Where are all these reverse innovations?

The reasons for this "Reverse Innovation Paradox" appear to be two-fold: on the supply-side, few companies have put themselves in the position to become reverse innovators, while, on the demand-side, the latent demand for reverse innovations may actually be limited to relatively few products.

1. **Supply-side Prerequisites** - reverse innovation is by no means easy, as it requires MNCs to develop significant local R&D capabilities in emerging markets, or, of course, that EMNCs themselves become capable of taking their local innovations to developed markets. In

addition, reverse innovations will typically require, inter alia, a clean-sheet approach, an ultra-low-cost mindset, and considerable local decision-making autonomy.

2. **Demand-Side Prerequisites** – More fundamentally, in order for reverse innovation to work, there has to be latent demand for that reverse innovation in developed markets, as domestic firms must not have been willing, capable, or smart enough to develop these products themselves. Such latent demand could potentially come from “good enough” products at low enough price points to overcome product performance deficits, or perhaps from customer segments that were previously too small for dedicated product offerings, or, of course, from truly break-through innovations.

Given these prerequisites, it is perhaps not so surprising after all that reverse innovation has yet to take off in a major way, as the enabling conditions for it to do so simply aren't in place yet, and perhaps never will be. Nevertheless, reverse innovation does appear to be an important trend, as global demand continues to shift towards the emerging markets, and MNCs start to develop significant local innovation capabilities to compete there. At the same time, true reverse innovation will probably remain confined to a few products in those sectors where global demand is sufficiently price-sensitive and homogeneous.

In fact, it is far more likely that, as the developed and emerging markets continue to converge, and MNCs and EMNCs disperse their innovation capabilities around the world, the reverse innovation concept itself will become obsolete and be replaced by ubiquitous innovation any place, any time.