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The Reverse Innovation Paradox

BY JOHN JULLENS

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In a recent column, I suggested that China needs capable companies far more than innovative companies at this stage of its economic development. Why? Primarily because most Chinese players compete in globally mature industries, and, first and foremost, they need to catch up with their global counterparts to remain competitive, especially as China continues its transition toward a market economy. I proposed that this requires a gradual and sequential process in which Chinese companies develop world-class capabilities over time, and focus more on innovative processes—along with adapting products and business models for local markets—instead of trying to develop breakthrough products.

But what about so-called reverse innovation, meaning innovations that are adopted first in an emerging market and then spread to developed markets? This new concept is a stark contrast to the conventional trickle-down flow of innovation and new technology from developed to emerging economies over time.

Reverse innovation is indeed all the rage these days, with a popular book by the same name from Vijay Govindarajan and long-time collaborator Chris Trimble, as well as numerous articles in academic journals and the mainstream business press. The concept has also received glowing endorsements from many of the world's best-known senior business executives and academics,

including Jeff Immelt, Ratan Tata, and Warren Bennis. But will reverse innovation truly become “a framework for the next phase of globalization”—as Jeffrey Immelt's blurb for Govindarajan and Trimble's book puts it—or instead just another management fad that will be forgotten a few years from now?

Not surprisingly, advocates see reverse innovation as an important new development with major implications for businesses and governments around the world. Govindarajan describes the trend as a blueprint for scaling growth in emerging markets and believes that ignoring it could cost developed-country multinational companies (MNCs) dearly, as it would create opportunities for their emerging market counterparts (EMNCs) in more established regions. An article in the *Economist* similarly concludes that reverse innovation will change not just emerging markets, but the rest of the world as well.

There is a catch, however (and to his credit, Govindarajan himself acknowledges it): Thus far, the business world has seen surprisingly few examples of successful reverse innovations. The best known, by far, is a portable, ultra-low-cost electrocardiogram machine, which was developed by GE Healthcare in India and has since been sold in many developed markets. But aside from that product, and a handful of other well-worn case studies, reverse innovation is hard to find in practice.

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

One important aspect of this paradox is that for reverse innovation to work, there must be latent demand for that innovation in developed markets, as their domestic companies must not have been willing, capable, or smart enough to develop the innovation themselves. That latent demand could come from "good enough" products with sufficiently attractive prices to overcome product performance and quality deficits. Or perhaps the demand could come from customer segments that are too small to support dedicated product offerings in the developed market, but can now be unlocked through the additional volume from emerging markets. Or, of course, it can come from truly breakthrough innovations.

On the supply side, the challenge is how to systematically reverse innovate on an ongoing basis, instead of merely once in a while. For foreign firms, this means developing significant local R&D capabilities on the ground in, for example, China—something that many of the leading MNCs are, of course, already pursuing. In addition, companies have to become skilled at identifying which innovations from the local Chinese market are potentially attractive to customers in developed markets.

It will also require overcoming other significant obstacles, not just in the corporate mind-set, but also organizationally. For example, many firms that are struc-

tured around global product divisions face a singular challenge: Their China initiatives are too small to get funded when demand is still nascent, but by the time the market develops, it's too late and they're lagging their competitors.

Given these prerequisites, it's not surprising that reverse innovation has yet to take off in a major way. The enabling conditions for it to do so simply aren't in place yet—and perhaps never will be. In reality, a more interesting route is to leverage innovation activities from a large emerging market such as China to other, smaller, emerging markets, such as Thailand and Malaysia. In these situations, there's a greater chance for similar customer demand patterns.

In fact, the whole idea of reverse innovation—as opposed to innovation in general—is really only relevant to foreign firms, which are designed to innovate at home and then export those ideas to other developed and emerging markets. For many Chinese companies, the challenge right now is how to become more innovative in general, not how to develop more reverse innovations.

As developed and emerging markets continue to converge over the next few decades, and innovation starts to flow more evenly in both directions, it's more likely that the reverse innovation concept itself will become obsolete. Instead, we'll see innovation everywhere, anywhere, and at any time. +

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