Innovation in Emerging Markets

Jerry Haar and Ricardo Ernst, eds.
Quotes on Innovation

"Creativity is a function of leadership..." – Steve Jobs

The best way to predict the future is to invent it.

There is no success without a failure, not even a fake success. It is the same as spreading yourself. Failure is an option here if things are not failing, you are not innovating.

Finding the specific instrument of entrepreneurship is the act that enables entrepreneurs with the opportunity to create wealth.

"Creativity is the specific instrument of entrepreneurship." – Georges St-Pierre

Failure is an option here. If things are not failing, you are not innovating.

Microsoft is not about good. It's about innovation.

Quotes: Creativity and innovation in the workplace

"The way to predict the future is to invent it." – Steve Jobs

From the number one innovator in the world, and a trendsetter in our time, Steve Jobs, "Innovation distinguishes between a leader and a follower."

Quotes: Creativity and innovation in the workplace

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"The way to predict the future is to invent it." – Steve Jobs

"Failure is an option here. If things are not failing, you are not innovating." – Steve Jobs

"Creativity is contagious, pass it on!" – Albert Einstein
Quotes on Innovation

“INNOVATION IS THE CENTRAL ISSUE IN ECONOMIC PROSPERITY.”

MICHAEL PORTER

Innovation distinguishes between a leader and a follower.
- Steve Jobs

“If you look at history, innovation doesn’t come just from giving people incentives; it comes from creating environments where their ideas can connect.”

STEVEN JOHNSON

“We define INNOVATION as PROFITABLE CREATIVITY.”

- Jamie Notter

“INNOVATION IS TAKING TWO THINGS THAT ALREADY EXIST AND PUTTING THEM TOGETHER IN A NEW WAY.”

TOM FRESTON

NEVER BEFORE IN HISTORY HAS INNOVATION OFFERED PROMISE OF SO MUCH TO SO MANY IN SO SHORT A TIME
- BILL GATES

"Innovation is the process of turning ideas into manufacturable and marketable form."
- WATTS HUMPHREY

Creativity is thinking up new things. Innovation is about doing new things.

Theodore Levitt
Define Innovation

• The **act of innovating**; introduction of new things or methods.

• The process of translating an invention into a good or service that creates value or for which customers will pay.

• To be called an **innovation**, an idea must be replicable at an economical cost and must satisfy a specific need.
Traditional Developed World View of Innovation

If you don’t innovate fast, disrupt your industry, disrupt yourself, you’ll be left behind.

Is Innovation Different in Emerging Markets? What Drives it?
Whether a consumer product (iPhone) or service (Uber), a firm (3M, Embraer), sector (biopharmaceutical), industry (mobile payments), or country (Taiwan, Israel), 

*innovation* is a driving, catalytic force in both domestic and global commerce today. It includes products, processes, services, and business models.
Traditional Myths on Innovation

• Innovation comes mainly from the developed world
• Only Big Companies have enough funding to invest in Innovation
• Innovation is difficult to copy and imitate until fully developed
• We will create more here ...... NIH syndrome

Is Innovation Different in Different Places? What Drives it?
The aim of the book is to advance the knowledge and understanding of innovation in emerging markets as an important force in the global economy.

Examples: wind-up radios in Africa; microcredit lending in South Asia and Latin America; the Jaipur foot, an artificial limb designed in India, making use of low tech materials.
General Motivation → WHY?

Research confirms that innovative enterprises generally achieve **stronger growth** or are **more successful** than those that do not innovate.

**BUT:**

Is Innovation Different in Different Places? What Drives it?

There is a **strong correlation** between market performance and new products; and while new products can capture and boost market share and profitability, non-price factors such as **design** and **quality** can increase competitive sales growth. Not just products but processes as well, along with positioning.
Why Innovation?

• Strong Innovators grew 13% more quickly and were 3% more profitable than their competitors!

• First, innovation is key to sustainability and progress.

• Second, this impact is magnified because innovation is occurring in every region around the world, at every link in the economic value chain, and at every organizational level.

• Additionally, innovation has become a priority for all businesses at each point in their value proposition and functional structure, driving innovation in every domain from product creation to packaging and delivery.

• Finally, innovation provides the opportunity for market disruption and leapfrogging progress, which could help frontier markets “equalize” or even pass developed markets on a number of fronts.
According to PwC

The most innovative companies overall are growing significantly faster than the least innovative.

- **38%**
  - 20% most innovative companies
  - (11.3% year-on-year)

- **10%**
  - 20% least innovative companies
  - (3.2% year-on-year)
Types of Innovation

✓ Product innovation
✓ Process innovation
✓ Service innovation
✓ Business model innovation
Forms of innovation

- Reverse Innovation
- Package/Price Innovation
- Social Media Innovation
- Distribution Innovation
- Advertising Innovation
- Sustainable Innovation
- Digital innovation
- Disruptive Innovation
- Polycentric Innovation

Ten Types of Innovation: The Discipline of Building Breakthroughs by Larry Keeley, Helen Walters, Ryan Pikkel, Brian Quinn
BUT:
Is Innovation Different in Different Places? What Drives it?

Ten Types of Innovation: The Discipline of Building Breakthroughs by Larry Keeley, Helen Walters, Ryan Pikkel, Brian Quinn
Forms of Innovation

• Packaging/Price Innovation ... Small, inexpensive goods for poorest population segments (Hindustan Unilever)

• Social Media Innovation ... multimedia services (Tencent’s “wechat”)

• Distribution Innovation ... Office delivery of home cooked meals (dabbawalla, an Indian company).

• Advertising Innovation ... Web-based TV shows to promote brands (Clinique’s “Sufeis Diary” in China).
Motivation → WHERE?

Focus on the emerging markets of Asia, Africa, Latin America, the Middle East and Central Europe.

Critically important themes and issues such as: releasing trapped value, catch-up innovation, reverse innovation, social inclusion innovation, innovation in financial and non-financial services, health care, education, media and social enterprises.

BUT: Is Innovation Different in Different Places? YES!!
NO ORDINARY DISRUPTION

DISRUPTION ONE: THE AGE OF URBANIZATION

COUNTRIES ARE BECOMING MUCH MORE URBANIZED

City populations are growing by 65 million every year.

This is equivalent to 7 new Chicagos every year.

EMERGING ECONOMIES ARE BECOMING MAJOR FORCES

By 2025, emerging economies will grow 75% faster than developed nations.

Emerging economies are taking a larger share of the world economy.

1/3 today

1/2 by 2025

WITH EMERGING MARKETS TAKING THE LEAD

440 cities in emerging markets will account for nearly half of global GDP growth by 2025.

2.5 billion people will live in Asian cities by 2025—that’s half of all urbanites in the world.

GROWTH OF THE URBAN CONSUMER CLASS

150% increase in annual consumption in emerging markets, 2010 to 2030

$12 trillion

$30 trillion

By 2025, 46 of the world’s 200 top cities will be in China.

By 2025, the economy of Tianjin will be the same size as Sweden’s.

620 million people exited poverty in the last 20 years.

MCKINSEY GLOBAL INSTITUTE

Dobbs, Manyika, and Woetzel, No Ordinary Disruption: The Four Global Forces Breaking All the Trends, May 2015
Define Emerging Market

• An **emerging market** economy (EME) is **defined** as an economy with **low to middle per capita income**. Such countries constitute approximately 80% of the global population, and represent about 20% of the world's economies.

• A nation's economy that is **progressing toward becoming advanced** ...

• An emerging market economy describes a nation's economy that is progressing toward becoming more advanced, usually **by means of rapid growth and industrialization**. These countries experience an expanding role both in the world economy and on the political frontier.

Is Innovation Different in Different Places? **YES!!**
Why Emerging Markets?

- The rise of emerging markets is a **by-product of globalization**

- Globalization has two parts: (1) the **relocation of manufacturing or IT services** to lower-cost countries; and (2) the extent to which national companies **play their wares abroad**

- It is a myth that the U.S. economy has always been **globalized**. True, the diffusion of Boeing 747s, iPads, and McDonald’s outlets (122 countries) make it appear that the U.S. is a globalizing force but this is an illusion.
### Why Emerging Markets?

**2016: Global Growth Edges Up**

Goldman Sachs global and regional GDP forecasts for 2016

<table>
<thead>
<tr>
<th>Region</th>
<th>2015 % change YOY</th>
<th>2016 % change YOY</th>
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<tr>
<td>USA</td>
<td>2.4</td>
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<td>Japan</td>
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<td>1.0</td>
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<tr>
<td>Russia</td>
<td>-3.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>-3.2</td>
<td>-1.6</td>
</tr>
</tbody>
</table>

*Source: Goldman Sachs Global Investment Research.*

*Fiscal year basis, 2014 is India FY15 (Q2 2014 - Q1 2015).*

**Is Innovation Different in Different Places?**

**YES!!**

**THIS IS WHY.**
Why Emerging Markets?

- According to the *IMF World Economic Outlook* the top 20 fastest growing economies are outside the U.S.
- The *emerging markets’ share of GDP will rise to 55% by 2018*. The global middle class is valued at $30 trillion.
- U.S. firms derive only 7% of their overall revenues from emerging markets. U.S. consumer *staples companies* (e.g., Kraft, Hershey, P&G) secure less than 5% of their sales from emerging markets (the global average is 17%).

This is Why
Why “Innovation in Emerging Markets”? 

Trends | Emergence of an Innovation Ecosystem

- **Broad global trends** spurring innovation....

- **Expanding Access to Finance** .... crowdfunding such as Kickstarter

- **Technology Explosion** .... online platforms like Kayak, Travelocity

- **Global Markets and Institutions** ... institutional changes and neoliberal policy reform (tariff reductions)

Is Innovation Different in Different Places? 

**DEFINITELY!!**
Why “Innovation in Emerging Markets”?

- About **17% of Global innovation** is coming from Emerging Markets.

- We should see that percentage **go from 17% to 40%** in the next 10 years.

- Includes high-tech, low-tech, and no-tech.

- Emerging economies **lead the way for sustainable innovation, frugal innovation, and reverse innovation**.

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**Is Innovation Different in Different Places?**

**DEFINITELY!!**
The framework presented in the book covers different emerging markets regions (Asia, Africa, Middle East, LATAM, Central Europe). Chapters present innovative cases corresponding to three levels:

1. innovation as national policy—subnational, as well.
2. facilitating institutions—universities, research labs, science parks, accelerators and incubators, and business associations; and
3. firm-level innovation—products, services, processes, and business models.

The main objective of the book is to advance the knowledge and understanding of innovation in emerging markets as an important force in the global economy.

Is Innovation Different in Different Places? DEFINITELY!! These are the Drivers!
Measuring innovation the conventional way---where does Latin America stand?

There are many yardsticks by way of which we gauge the measure of innovation-led development in an economy.

• Public and private R&D expenditure as a share of GDP is probably the most basic innovation indicator.

So, let’s have a look......
R&D Expenditure as a Percentage of GDP

Source: The World Bank, World Development Indicators (2014)
Other Metrics

• **Number of patent applications.** The gap is even more glaring on this front.

• **High-technology exports** as a share of all exports is another traditional benchmark of innovation.
Quality of human capital is yet another important indicator of innovation in a country.

- Assessment of the quality of education—vital to innovation. The OECD PISA study on education quality in 50 economies: Latin America falls well behind the OECD average.

- Latin America faces severe talent shortages, and the problem is getting worse through the years. Employers face difficulty in filling jobs.
Landmark study:

_InnovaLatino: Fostering Innovation in Latin America_ (2011), the result of a research project funded by Fundación Telefónica
Five Different Types of Innovators in Latin America

1. **Public institutions** are significant innovators
   
   FINEP and INOVAR (Brazil), MINCyT (Argentina)

2. **Large firms** are the leading changemakers
   
   Techint (Argentina), Embraer (Brazil), Cencosud (Chile), Grupo Nutresa (Colombia), Alicorp (Peru)
3. Small and medium-sized firms are innovating in greater numbers.

4. Corporate social responsibility is being widely recognized as a vitally important corporate value.

5. Social entrepreneurs are actively engaging in “pro-society” business activities.
Four types of innovation

- Product innovation
- Process innovation
- Marketing and Branding innovation
- Business model innovation
Innovation through the Latin American

✓ Latin American governments leading the innovation way

✓ Charting the green revolution frontiers

✓ Technology innovation for a brighter future
Mobile Technology and Internet Penetration

Fostering innovation via collaboration between universities/research institutions & the private sector
Recommendations:

A national vision and a drive for partnerships

Innovation fueled by natural resources
Human capital as the catalyst of innovation

Supporting micro and SMEs through cluster policies
**Innovation information ecosystem beyond traditional measures**

**Innovation leading to social inclusion and sustainability**
Despite scarce resources and low R&D, Latin America is making headway in innovation...

- Both business- and social-oriented
- Large firms and small
- Building public-private engagement

**Goal:** improve the ecosystem to expand and sustain entrepreneurship and innovation.