

023. INNOVATION IN EMERGING MARKETS

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ABSTRACT

Emerging economies are becoming very fast the favorite place for investments to take place. They show a rapid economic growth and return of investments. Still, to introduce a product in developing markets several challenges have to be considered. In order to overcome these obstacles successfully, businesses have to follow product development steps. These steps like adapting the product and developing a platform can be accomplish by making the product affordable, available and accessible. All of these processes are full of innovation technics that make it possible to sell a product in a new market.

Keywords: *emerging markets, innovation, development, product development, developing market.*

Product Innovation in Emerging Markets

Emerging economies are changing quickly. They are growing and developing every single day. Therefore, businesses have new challenges that require their products features not only to meet customers' needs but to set the right price and still give the whole product experience. Businesses have to invest in new products and services that meet local needs and cover different gaps in the market. As Theodore Levitt said, 'Creativity is thinking up new things. Innovation is doing new things.' The combination of both concepts is what businesses use to get from emerging economies throughout the globe profits and recognition. However usually to introduce new concepts, products or services, companies have to consider changing their common business processes to new processes in an evolving market. Through this paper it will be define what innovation and emerging economy means, as well as, new technics and methodologies use in order to have successful products, services and businesses in a growing market.

Innovation

Product development is a key element in every business; it allows you to stay on the current market you are in and to gain other markets. It is important to generate ideas everyday in order to develop new products or to make improvements to your actual product. We always have to know where to shoot with a new idea, meaning that we have to know our market needs and consumer behavior in order to develop this new idea and in order to make it work in a certain market.

'The growth over the last two decades of a globally integrated, innovation-based economy has transformed international trade, research and development and industrial production, while impacting job growth and competitiveness across the globe' (Global Innovation Index, 2014). In other words, innovation is the key of success because it has transformed the world trades and product development technics leading to a growth in jobs. Therefore, it is absolutely important to understand what innovation and product innovation is. By itself, innovation is a latin term that means 'something newly introduced, such as a new method or device' (British Dictionary, 2012). Considering this, product innovation is 'a good or service that is new or significantly improved; this includes significant improvements in technical specifications, components and materials, software in the product, user friendliness or other functional characteristics' (Oslo Manual, 2005). To put it in another way, product innovation refers to all the products or services that suffer changes in their usual characteristics. If it's a product it might be their physical characteristics or functionality. On the other hand, if it is services it could mean new characteristics of the service, or involvement of technology.

Before, it was stated that innovation is the process of creating or renovating a good. This process also involves creativity and generation of ideas in order to satisfy expectations and needs of the final customer. The innovation process can be divided into two main categories (Business Dictionary, 2015): evolutionary or revolutionary. It is revolutionary when the process of developing a product is completely new. Whereas,

is evolutionary when the product or service have only new advances in technology or new processes. The following graph, illustrates better what newness factors are consider during product innovation process.

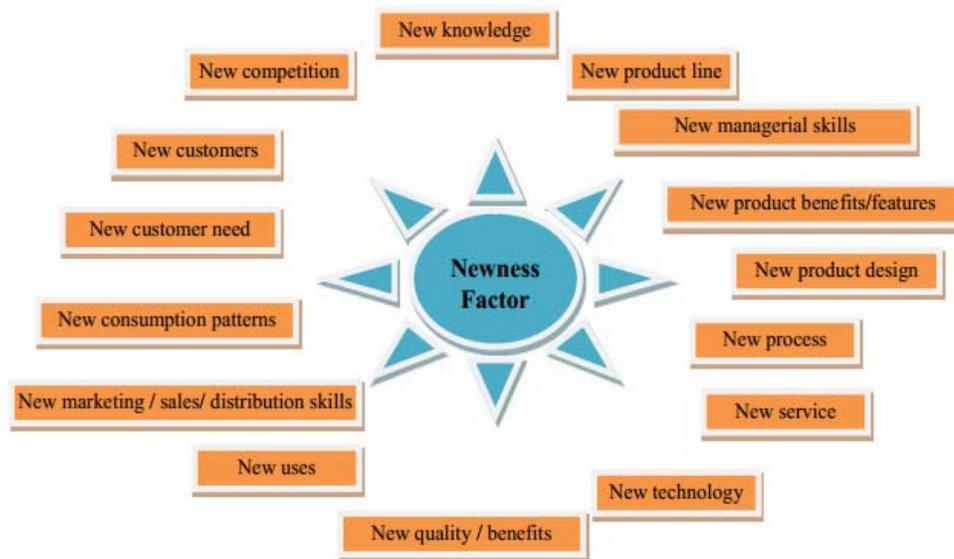


Figure 1. Newness Factors in Innovation. (Irina, 2013)

Emerging Markets

According to Van Agtmael (2014), an emerging market ‘can be defined as a country with low - to – middle per capita income as measured by the World Bank’. An emerging market may also be refer to as: ‘developing markets’, ‘developing nations’, ‘developing economies’ or ‘emerging economies’ (Irina, 2013). Even though, there is a definition for emerging markets, it is very hard to put countries that fit this description under the same category. Each one has their own cultural background and they are struggling through different economic or political issues. Still, Amadeo (2014) says, that emerging economies usually share five characteristics. First, most of the population has under average wage income. Second, because of government and international investments and trades they present an economic growth. Third, it is under constant political and economic changes so it presents high volatility. Which means that is not a secure place for investments. Forth, even though there are high risks in when investing, the profits are usually higher than the average. Finally, because of all the changes currency shows fluctuations.

Emerging markets ‘are fast becoming the driver of global growth’. (Forbes, 2015). In other words, developing countries are becoming the favorite place for investment and product development. Because of their growing economy and industrial evolution it is a place of easy access. According to Forbes (2015), ‘emerging economies are expected to grow two to three times faster than developed nations like the US’. However, there are still risks and challenges that any company should

consider before getting involve in an emerging market. The following figure, illustrates perfectly the challenges in emerging countries:

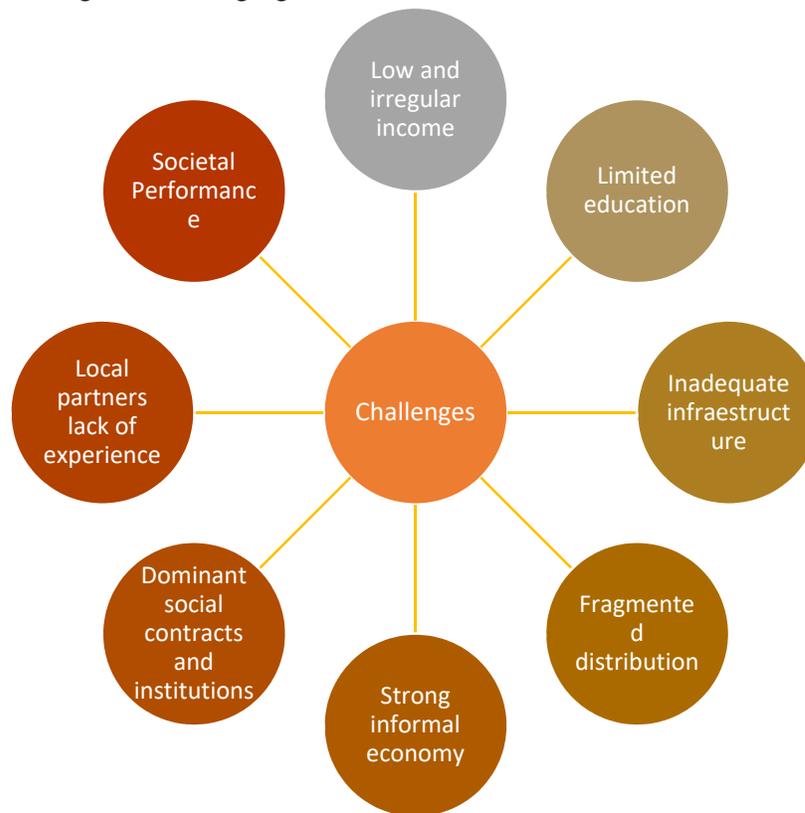


Figure 2. Challenges of Emerging Economies.

Figure 2 shows most of the challenges face in an emerging market. For example, it states that in developing countries, local partners use by multinationals have lack of experience. In consequence, they transfer knowledge to local actors that are active participants in the economy so multinationals can accomplish their goals. Another challenge illustrated in the graph is fragmented distribution. According to Irina (2013), in evolving economies there is no a modernize distribution system. That means that routes are not well documented and products not always reach their final destination. Also developing nations have strong informal economies. To put it differently, in these countries is very expensive to stablish a formal business. Therefore, most of labor force is involved in informal commerce. Limited education is another challenge face by an emerging country. In these countries the level of education is very low. In developing countries, people look for products with simple features and easy to use. If this particular challenge is affronted correctly, companies might reduce production cost and increase customer loyalty. But to accomplish these there are recommended steps to take.

Product development and innovation in emerging markets

As it was previously stated, traditional product development has to be adapted in order to reach an emerging market however; the development flow can also happen the other way around (Mundim, Sharma, Arora, & McManus, 2012). This is portrayed in the following figure:



Figure 3. Steps to product development in emerging markets

Figure 3, establishes the steps to get a new product whereas in a developed or emerging market. First, it is logical that the company has a based product. This means that, the business has a product they want to introduce to a new market. Then is the stage of adapting product into local market. At this point, the business just lowers the cost and offer fewer features of the product (Mundim, Sharma, Arora, & McManus, 2012). During the adapting stage, businesses usually do not have strong knowledge of the cultural, economic and political background of the new market. Therefore, they treat the developing market as just a new place to sell their common products (Mundim, Sharma, Arora, & McManus, 2012).

The next step is developing platforms in local markets. Through this stage, companies usually decide the products that will be redesign for the emerging market. According to Mundim, Sharma, Arora & McManus (2012), companies gather all information available about their customers' needs and expectations. They consider cultural background, surroundings, political and economic issues. At this point, they stop developing a product with fewer features to make it cheaper. Instead, they create a product that directly meets their needs. Also at developing platforms in local market, they have to consider all factors regarding product creation. For example: infrastructure, supply chains or distribution channels. As well, companies have to take into account all local participation they might need. With this aspect businesses are

able to cover one of the main challenges of getting involved with local partner, lack of knowledge. In this stage, companies instruct local partners and transfer all necessary knowledge to meet goals and objectives. By doing this they get benefits including employee fidelity and recognition for social responsibility (Mundim, Sharma, Arora, & McManus, 2012).

Finally the last step is Innovation and new product development from emerging markets. Nowadays, is very common that innovations in emerging markets transcend to developed markets. This backward process is known as 'reverse innovation'. Sometimes these low price products are very effective and efficient so, they ended up being use throughout the globe. In emerging markets, is much easier to apply changes and test new products. The risk is lower and they possess a much more flexible environment. This means, less methodologies and organizational history (Mundim, Sharma, Arora, & McManus, 2012). Also, these markets are based on strong business relationships, with customers, suppliers and employees. As a consequence, companies are mostly aware of new trends and need from the moment they emerge. Developing markets are taking the advantage of exporting their low maintenance and cost product to developed markets in a quiet successful way.

To accomplish these steps of adapting the product, developing platforms and targeting developed markets there are several strategies that need to be considered in order to do this successfully. These strategies are knowns as the 4 A's and they will be explain below.

Product Development and Innovation Strategies in Emerging Market

As stated before, these are the strategies for product development in emerging markets:

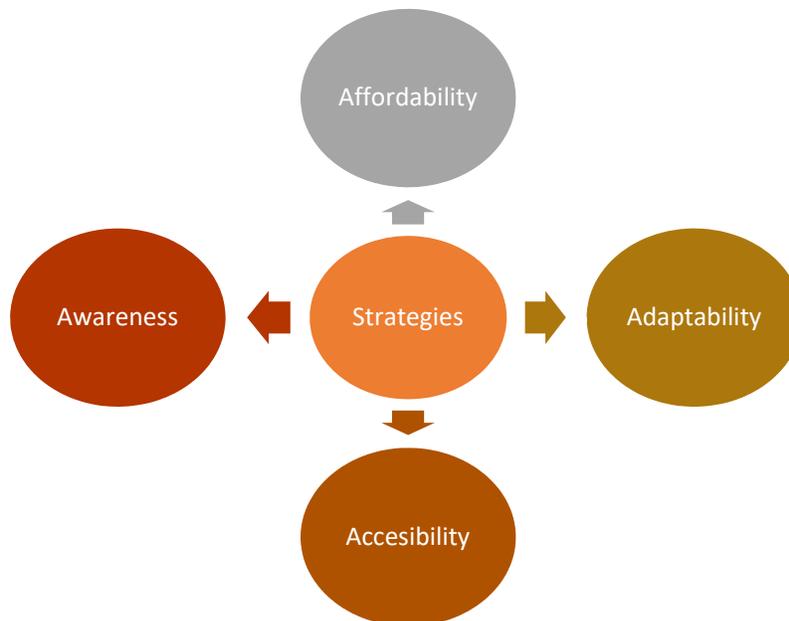


Figure 4. Strategies for product development and innovation in emerging markets

In figure 4, the four A's are stated. As Mukerjee (2012) said, 'affordability is the key'. This means, that if the company comprehends the affordable price for the customer they almost ensure success. This strategy is accomplished by developing a business model that is created, develop and integrate considering an affordable price as the core issue. One successful example of the implementation of this strategy is in India. According to Mukerjee (2012), the use of sachets is very successful. Through this presentation shampoos, detergents, coffee and tea are sold. The cost is \$1 and even though as Mukerjee (2012) said the 'cost per unit of volume/weight of the product is much higher for sachets', customers still feel much more comfortable with this price and presentation. In this example, costs of sachet presentations are higher than bottle presentations; still the customers have the perception that it is much more affordable and they are comfortable with this approach. Taken this into account, it is evident that if companies consider cultural background and customer preferences when offering a product the chance of being successful increases.

However, affordability can only be considered successful if the final product contains the following features: functional, robust, growing, user friendly and local. Functional is the fact that the even though the product is affordable it still contains the essential features to accomplish its purpose correctly. Robust means that the product is strong enough to function properly no matter the environment or surroundings. Also it means that the product can be treated as low maintenance. The product is considered effective if it can be implemented in an economy of scale (Irina, 2013). No matter the growing volumes of production, the product should maintain low costs of production. Another characteristic is user friendly. This feature states that the good does not need specific user training so it is easy to use and understand for the final customer. Last but not least feature, is local. Throughout this research the importance of this unique characteristic has been highlighted. To be successful in an emerging market, the product has to specifically cover and reflect the needs of its own market. Additionally, this product should also have local involvement.

The second A is Adaptability and it is use when inserting the product into an emerging market (Irina, 2013). As it was previously said, at the beginning of the process, companies do not know about the new market. Businesses are not aware of customer behavior and what are their current needs and wants. In consequence, they treat it as an extension of their commonly known market. So, this strategy is use to learn everything about their new target customer (Irina, 2013). To achieve adaptability, the organization goes through a process of de-featuring. The process consists of taking away all the unnecessary features of the product in order to make it right for the emerging market. This process usually leaves a based product. In other words, 'in pursuit of adaptability, many companies are favoring simpler, flatter structures with an increased external focus' (Ey, 2014) .It is use as testing strategy to learn preferences and tastes of new customers. Irina (2013) strongly recommends that this particular strategy is not use permanently in product development cycle. It does not ensure positioning of the brand or success in market share.

The third A is Accessibility; this strategy covers one mayor challenge of emerging markets, fragmented distribution. It is very difficult to handle lack of

infraestructure; antique distribution channels systems and scarce resources. Developing markets face this availability of supply chain skills which becomes an obstacle to market growth (Accenture, 2013). Supply chain 'is often immature, inefficient, mostly inflexible and highly fragmented' (Accenture, 2013). Therefore, access is very difficult in developing countries, especially, penetration in the last mile of the market. To put it differently, roads and communications are not stable between the cities and towns of an emerging economy. So, there is a need to implement new methods or approaches that reach target customers in these areas. One solution is to focus on 'customer clusters' (Accenture, 2013). Through this solution, company focuses on identifying particular needs and characteristics of a segment of the market. Consequently, they gain an understanding of each customer profile so they can target it adequately. Companies will be able to select products that meet the need of the submarket and introduce them to the population. Another solution is 'think globally, act locally' (Accenture, 2013). If economic indicators such as human and physical capital are consider various countries can be group under the same. As a result, the business can map common characteristics of the markets and target them as whole.

The last A is Awareness. This strategy focuses on being aware of the current need of the particular market. As it was said previously, businesses might only apply an affordable strategy at the beginning, but that will get the company a small, unstable sector of the market. It is important to comprehend that in emerging markets and developed markets need are not the same. Therefore, the same product might not be successful in both places .According to Deloitte (2011), to reach awareness of the needs of the customers; companies have different methodologies they could implement. One is to develop an entire new product with unique characteristic for a particular emerging market a company might want to penetrate. Another well-known strategy is offer a different value proposition (Deloitte, 2011). This strategy consists on adding special features to their based products in order to meet customer's needs. Besides these strategies, companies might also use marketing and promotional options to gain recognition or they can conduct researches to consumers and customers.

Innovation in ecuador

Owner: Teresa Castro

She Started selling bolones, scrambled eggs, juice and coffee 2 centuries ago. She was a nursery and decided to increase her family incomes -> As a "Manabita" she used her lands and established a small restaurant at her house, "Alborada 7ma etapa"

"Everyone needs someone to provide them a good breakfast, a good service."

The innovation started From a small business to a business that generates employment for more people (More than 50 employees). And Delivery service

The prices of different products go from \$ 2.50

A reasonable price is paid for the quality of the product that is consumed

The success is in Customer acceptance , Quality products and Good service

"You have to sell trust"

“En el Café de Tere Estamos comprometidos con la calidad, la higiene y el respeto a la tradición gastronómica ecuatoriana. Por ello, solo usamos las recetas e ingredientes que ancestralmente se han utilizado. Por este mismo principio evitamos productos artificiales que pudieran alterar el sabor tradicional de los distintos platos que preparamos.”

All natural bottles

An evident innovation nowadays is “All natural bottles” They change the color and also the opening. Now is easier to take the water out than the regular bottles.

CONCLUSION

Finally, through this work it has been proven that emerging economies offer great opportunities for businesses. However, they face several challenges such as: low income, inadequate infrastructure, limited education, fragmented distribution, informal economy and lack of experience from local partners. All of these challenges need to be overcome to get most benefits a developing market offers. To accomplish these there are four steps to follow. First companies possessed a based or original product, second they do a process of adaptability of the product; third they developed an emerging market platform and finally the company target a developed market from an emerging economy to place their product. In order to accomplish this successfully it is strongly recommended that businesses consider the following strategies while they are developing a product in an emerging market. In the first place, they should adopt an affordability strategy. Which means make it accessible for the buyer but still maintain its efficiency and effectiveness. Also, the product should be produced with an adaptability feature in mind. These means it can easily be produced through an economy of scale while, maintaining low costs of production. Also, the product should be accessible and this as discussed before constitutes one of the major challenges. Besides that, companies have to implement strategies and methodologies to gain awareness of the current needs and wants of their target customer.

All of these factors are the ones to be considered to generate innovation in an emerging market. It is a creative process that needs new ideas. The surroundings in an emerging market most of times are unknown and they do not have enough resources. The techniques and steps previously stated are very helpful to penetrate a market. Still, is not written on stone. This means, that no matter if it is followed step by step and strategy by strategy companies still need to be creative to gain access to a new environment full of opportunities.

As we seen in the Ecuador examples, it is important to improve services and products because the world is in constant evolution too. We need to be at the same level as our competition or even better. The design calls customers attention, that why the physical innovation is the best way to improve our incomes. You need to invest to grow as a company and be number one at the market. Researching our competition would encourage us to make questions such as: What I'm doing wrong? What I have to improve!

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