When the topic of innovation arises, more often than not it is companies such as IBM, Sony, Samsung and Nokia that are discussed. These are all excellent companies, of course, and rightly admired for their ability to remain at the frontier of unpredictable industries. They have stockpiled important patents and intellectual property, and their deep pockets afford them the luxury to underwrite research and development laboratories that rival leading universities.

Companies in developing countries enjoy few of these advantages, but we have identified a number that are among the most innovative in the world. These include Haier, China’s largest appliance-maker; Cemex, the Mexican cement giant; and Natura, a Brazilian cosmetics company. Each of these businesses has had to overcome a host of factors that impede innovation, including political instability, exchange rate volatility and underdeveloped physical infrastructure. As if this were not enough, they have had to overcome three fundamental obstacles to successful innovation:

1) Most companies headquartered in developing economies lack an established base of intellectual property. Moreover, their host countries rarely provide a solid technology base of trained scientists and world-class research universities.
2) The high cost and scarcity of capital preclude them from building a war chest of cash on their balance sheet to fund basic research and development.
3) Companies in developing countries must eke out a profit while serving customers with little money to spend on their products (on average, per capita gross domestic product in developing economies is one-tenth that of developed nations).

This article focuses on three common strategies that innovative companies in emerging markets consistently employ: they live with their customers; they systematise non-technological innovation; and they spot opportunities locally, but source ideas and resources globally. These strategies, and the examples that illustrate them, may prove helpful to managers anywhere who wish to innovate on a modest budget.

Live with your customer

Innovation, broadly speaking, comes in two varieties: technology-push and customer-pull. Technology-push – introducing new products based on cutting-edge research – is not an option for most companies in developing countries. Instead they must rely on the customer-pull – finding ways to solve customer problems that do not depend on proprietary scientific breakthroughs. Customers in emerging markets, however, are often quite poor, which means that companies must also provide low-cost solutions to serve these customers profitably.

When multinationals enter developing countries, they generally provide slightly scaled-down versions of products tailored for wealthier markets. Their products, however, often miss the mark in solving local customer problems at an affordable price, and managers in distant headquarters lack the local knowledge to understand why. In contrast, the managers who run companies such as Haier and Cemex are deeply committed to understanding the needs of less affluent customers and devising creative solutions to their problems.

Twenty years ago, Haier was rapidly approaching bankruptcy and workers were stripping planks from window sills to take home as firewood. Today, the Qingdao-based company is among the top five appliance makers in the world with 2003 revenues of $9.7bn and the most valuable brand in China. Several factors contributed to Haier’s success, but a lynchpin was...
its ability to understand Chinese customers’ needs and tailor products to meet them.

Haier has an extensive distribution and service network throughout China, enabling it to deliver appliances to its customers quickly. The company is known for its focus on customer service and satisfaction. In some cases, Haier has even been known to repair or replace appliances for free to ensure customer loyalty.

Innovation in emerging markets

Innovation in emerging markets is critical for companies looking to expand their reach and grow their business. By focusing on local needs and preferences, companies can create products and services that are more relevant and appealing to customers in these markets. This can lead to increased sales and market share, as well as improved customer satisfaction and loyalty.

For example, in emerging markets, there may be unique challenges related to infrastructure, logistics, and customer behavior. Companies that are able to navigate these challenges and create innovative solutions are more likely to succeed in these markets.

Innovation in emerging markets is also important for companies looking to maintain their competitive advantage. By staying ahead of the curve and anticipating future market trends, companies can position themselves for success in emerging markets and gain a competitive advantage over their rivals.

In conclusion, innovation is essential for companies looking to succeed in emerging markets. By focusing on local needs and preferences, companies can create products and services that are more relevant and appealing to customers in these markets. This can lead to increased sales and market share, as well as improved customer satisfaction and loyalty. By staying ahead of the curve and anticipating future market trends, companies can position themselves for success in emerging markets and gain a competitive advantage over their rivals.