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beyondbrics

Innovation

Innovation flows from emerging to the developed world

India, Africa and China act as a springboard but there are obstacles to overcome

PETER VANHAM - WORLD ECOOMIC FORUM

The German autobahn policeman looked at the car confused, the Evening Standard reporter noted. No wonder: the car had a Renault logo but the design was unrecognisable and its number plate and driver were Indian.

What was going on?

The policeman was looking at a Kwid, a Renault budget car made in India for the Indian market and rarely seen in Europe. It has taken India by storm since its launch in 2015 at the rock-bottom price of just £3,000 each.

More broadly, though, the German policeman was witnessing a growing phenomenon. The concept of "reverse innovation" — in which innovative products designed for emerging markets boomerang back to the developed world — is spreading.

The concept derives from more than mere chance. Just as Van Gogh bootstrapped his way to genius, living far from Paris in rural Provence, innovators in emerging markets are making a virtue out of financial, geographical and other constraints.

Innovations such as the low-tech wallet and payment service MPesa — which began in Kenya and Tanzania and has spread to South Africa, India, Romania and other emerging markets — show that necessity can be an effective mother of invention.

But this is by no means the only example. Other cases of reverse innovation suggest that emerging markets may increasingly become a testing ground for products and services that can prosper in the west.

AllLife diabetics insurance in the UK

About a decade ago, South African insurer AllLife became the first company in the world to offer whole life cover to HIV-positive individuals. In a country where almost a fifth of the adult population lives with the virus, this opened new market segment for the insurer.

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The way in which AllLife manages to insure the "uninsurable" combines a twofold approach. First, it uses data provided by the customer to dispense personalised recommendations on how to manage their condition, in effect extending lifetimes and thereby reducing the cost of insurance. Second, the product deploys algorithms that use the information provided by customers to assess their insurance risk and determine the price of cover on a case-by-case basis.

The company started to achieve scale after receiving backing from Leapfrog, a so-called "impact" private equity investor. It now has more than 100,000 HIV clients, and in 2014 it also applied its technology to offer insurance to diabetes patients in South Africa.

The model is now exported to the West as well. This year, the company partnered with Royal London, Britain's largest mutual life insurer and pensions company, with £100bn in funds under management, to offer diabetes patients life insurance in the UK. The diseases' type and impact are different, but the innovative approach is the same.

Bluegogo dockless bike-sharing hits the US

Back in China, companies such as Mobike and Bluegogo took the western innovation of bike sharing and adapted it for the competitive Shanghai and Beijing markets.

Their innovations were threefold: first, they simplified the design as much as possible to minimise the manufacturing and maintenance cost. Second, they eliminated the sharing stations, to allow users to leave and pick up their bikes anywhere. And third, they optimised the user experience by allowing people to unlock a bike with a QR code and to rent them for a small fee.

As a result, Shanghai's dominant bike-sharing offers are arguably cheaper, better and more ubiquitous than their western counterparts. Karly Ulrich, vice dean of Innovation at Wharton, estimated Mobike manufactures its bikes at about $30 each. It has been a success as well in terms of attracting funding: Mobike for example, the market leader, has raised $325m in six rounds of financing.

It is no surprise then, that the Chinese innovators are looking to western markets, including the US, to expand. Bluegogo started offering its bikes in San Francisco but courted controversy for littering the streets with bikes and has since withdrawn while it seeks permits. Bluegogo is turning its attention to Seattle.

Renault Kwid car in India

A final example is the Renault Kwid. The car was introduced in India in 2015, with a sales tag that starts at around Rs256,000 (£3,000). It has sold 130,000 units so far, a considerable feat in a market dominated by local manufacturers such as Mahindra. It has started exporting to Indonesia and other markets are due to follow.

Renault's unusual approach was to move its French designers over to Chennai to work locally on the design and assembly for their car, thus being able to adapt the Kwid entirely for local conditions. Already, 5,000 engineers and 35 designers are working in the Chennai Renault Nissan Technology and Business Centre.

The approach represented a progression from Renault's strategy of designing cars such as Logan, Sandero and Duster in France and selling them in emerging markets such as Romania, Colombia, Russia and India.

Such examples suggest reverse innovation has a future. But there are obstacles, chiefly the west's tight regulatory environment. In some developed countries, AllLife's approach may fall foul of regulatory strictures. Bluegogo already found in San Francisco that what works in China is not necessarily transferable without modification. The Renault Kwid scored one out of five stars in the European NCAP safety rating system, indicating only marginal protection in a crash.

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