



Frugal Innovation: A New Business Paradigm

GUEST COMMENTARY:

What do Renault-Nissan, Siemens, and Unilever have in common? They are all pioneers of a groundbreaking business strategy called frugal innovation.

Frugal innovation is the ability to generate considerably more business and social value while significantly reducing the use of scarce resources. It's about solving—and even transcending—the paradox of “doing more with less”. Frugal innovation is a game-changing strategy for an “Age of Austerity” in which firms are being compelled by cost-conscious and eco-aware consumers, employees, and governments to create offerings that are simultaneously affordable, sustainable, and of high quality. Even more than a strategy, frugal innovation is a whole new mindset, a flexible approach that perceives resource constraints not as a debilitating challenge but as a growth opportunity.

Paul Polman, the no-nonsense CEO of Unilever, is a corporate leader who strongly believes that resource scarcity can be a catalyst for radical innovation. He recognizes that, at our current rate of consumption, by 2030 we would need two planets to supply the resources we need and to absorb our waste. Polman wants Unilever to harness its brand reputation and scale to address this challenge. He has set a bold objective for Unilever to double its revenues by 2020 while reducing its environmental impact by 50 percent.

To implement his daring “do more with less” strategy, Polman is infusing frugality into all aspects

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of Unilever's business. For instance, Unilever currently obtains nearly 25 percent of its agricultural raw materials from sustainable sources and uses lower-emission trucks to distribute its products. Meanwhile, its R&D teams are reformulating all its existing products like soaps and detergents to use less water and packaging and pollute less. Unilever has already introduced many frugal products in European countries hit hard by the economic crisis. In Spain, for example, Unilever is selling its Surf detergent in smaller packs for five washes only, and in Greece it now offers mayonnaise and mashed potatoes in smaller packages. The company has also introduced low-cost brands of tea and olive oil in European markets.

Frugal Innovation: The Secret Weapon of Emerging Markets

Unilever's frugal offerings in Europe are inspired by emerging markets such as India, a country where the company has for years distributed soaps and shampoo in individual units or small sachets to millions of cost-conscious rural consumers.

Emerging markets such as India, China, Africa, and Brazil are a breeding ground for frugal innovation. In our book Jugaad Innovation, we show how inventive entrepreneurs and firms in emerging

markets are able to innovate in resource-constrained settings and create frugal solutions that deliver more value to customers at lower cost. For instance, millions of Kenyans today rely on M-PESA, a service that enables them to save, spend, and transfer money using their cell phones without having a bank account. Likewise, SELCO provides solar energy at very low prices to over 125,000 households in remote Indian villages, debunking the myth that poor people can't afford clean technology. Or take Gustavo Grobocopatel, an Argentinian farmer who overcame scarcity of land and skilled labour by subcontracting all farming work to networks of small firms. By scaling up his "asset-light" business model, Grobocopatel has boosted his agricultural output without adding more resources.

All these creative entrepreneurs in emerging markets share a unique mindset—which we call *jugaad*. *Jugaad* is a Hindi word meaning an innovative fix or an improvised solution born from ingenuity and cleverness. It is this *jugaad* mindset that enables these entrepreneurs to find opportunity in adversity and concoct frugal solutions using limited resources.

Shifting The Corporate Mindset In The West

In the end, frugal innovation is not just a drastically different way of innovating or even a radical new way of running a business—it is about fundamentally shifting the corporate mindset. As Albert Einstein famously stated: "One cannot solve a problem with the same mindset that created it in the first place."

Western CEOs need to develop the *jugaad* mindset in their organisations so they can perceive scarcity as an opportunity to innovate and leverage employees' ingenuity to create frugal solutions that offer greater value to customers at lower cost. These CEOs can emulate Unilever's Paul Polman as well as Renault-Nissan's Carlos Ghosn and Siemens' Peter Löscher—visionary leaders who have successfully infused the *jugaad* mindset within their organisations.

Take Carlos Ghosn, the CEO of the Renault-Nissan Alliance. In 2006, Ghosn coined the term "frugal engineering"—inspired by Indian engineers' ability to innovate cost-effectively (and swiftly) under extreme resource constraints. As Ghosn points out: "In the West, when we face huge problems and we lack resources, we tend to give up (too) easily. *Jugaad* is about never giving up!" Under Ghosn's leadership, Renault-Nissan has proactively adopted frugal engineering—and the underlying *jugaad* mindset—and established itself as a major global manufacturer of both low-cost vehicles as well as electric cars—two of the fastest growing segments in the global automotive market.

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In 2004, Renault launched Logan, an affordable, robust, and well-designed car priced at 5,000 euros (today it retails for US\$10,000). The Logan has become Renault's cash cow across recession-hit European markets as well as in many emerging economies. But Ghosn wants to do more. In 2012, he dispatched Gérard Detourbet, a senior executive from Paris who was running Renault's entry-level car business, to India. From his new base in Chennai, Detourbet will design and build a "global small car"—a US\$5,000 vehicle that will first be launched in India and then introduced in Brazil and South Africa. You can bet that when Detourbet returns to Renault's headquarters in Paris, he will bring with him the frugal *jugaad* mindset he honed in India.

Siemens, the German industrial giant, is also leveraging the *jugaad* mindset of its R&D groups in India and China to develop frugal solutions that deliver higher value to customers. For instance, Siemens' Indian engineers—in close collaboration with their German peers—have developed a Fetal Heart Monitor that uses inexpensive microphone technology rather than costly ultrasound technology. This affordable Fetal Heart Monitor is part of Siemens' larger portfolio of frugal solutions labelled SMART (Simple, Maintenance-friendly, Affordable, Reliable, and Timely-to-market). SMART products are 40-60 percent cheaper than high-end solutions. They are also energy-efficient as well as quicker and easier to implement, use, and maintain. Siemens estimates there is a US\$200 billion global market for SMART products. As Peter Löscher, CEO of Siemens, affirms: "Scarcity of resources is not an impediment but an enabler (of innovation)."

In coming years, we believe that more Western CEOs will adopt the *jugaad* mindset within their organisations—just as Paul Polman, Carlos Ghosn, and Peter Löscher have deftly done. In doing so, more Western firms will be able to innovate faster, better, and cheaper—and produce a steady stream of frugal solutions to delight value-conscious customers.

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