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# Western economies need to adapt



By [Grace Segrán](#)

**No longer content to be cost and talent arbitrage destinations, emerging markets are becoming hotbeds of innovation, says SD Shibulal, co-founder of Infosys Technologies, one of India's leading IT firms**

Until recently, growth in emerging markets was predominantly driven by execution capabilities. Today, this is undergoing a paradigm shift, says a top executive with a leading Indian IT company: this growth engine is increasingly being driven by innovation.

“No longer content to be cost and talent arbitrage destinations, emerging markets are becoming hotbeds of innovation, producing breakthroughs in everything from automotive to telecoms to healthcare,” says **SD Shibulal**, co-founder and Chief Operating Officer of Infosys Technologies. “They are redesigning products to reduce costs; they are redesigning entire business processes to do things better and faster than their rivals.”

He says emerging market innovation is leading to the emergence of a new world order in innovation, and enterprises of tomorrow need to be smart about how to leverage the resources and innovation capabilities in these emerging economies to drive growth and profitability. “The need of the hour is to adapt to this changing order in global innovation; it is no longer a choice.”

Emerging markets today, says Shibulal, provide three key opportunities: new growth markets, talent hubs, and innovation hubs. These are not the threats to developed countries as they are commonly perceived to be – but opportunities that need to be leveraged.

## **The culture of innovation**

In July, the Human Resource Development Minister of India launched a \$35 tablet PC which uses the Android operating system and offers features like touch screen, USB and wi-fi connectivity.

“This product is no ‘iPad killer’ or even serious competition of similar devices. It even has numerous detractors who question the effectiveness of such a low-cost device,” says Shibulal. “However, it has immense potential to improve access to basic education for over 350 million poor people in India and millions more in other developing nations.”

‘Cheaper, better and faster’ is often considered the holy trinity of technology. India conquered the ‘cheaper’ aspect by launching the Tata Nano, which at \$2,500 is popularly known as the ‘people’s car’ and acknowledged to be the world’s cheapest car. What is interesting, says Shibulal, is that it was reverse-engineered by fixing the cost at \$2,500 and working backwards to target the 65 million Indians who own two-wheelers.

“Today, the unprecedented success of the Nano is on the verge of creating a social revolution in the 50 million Indian middle class,” says Shibulal. “Leading auto companies have now started targeting what is called the ‘Nano’ segment to address this growing market.”

The Tata Nano is scheduled for release in Europe this year in a deluxe version with added features. “Clearly innovation that happened in an emerging market is receiving acceptance on the global platform,” he argues.

Citing his own company, Shibulal says Infosys pioneered the global delivery model and revolutionised the IT services industry by changing the delivery model from ‘taking workers to work’ to ‘taking work to the workers.’

“This allows for 70 per cent of the work to be done thousands of miles away remotely and it allows for a seamless 24/7 working environment across time zones. The global delivery model is now a de facto industry standard,” he

told INSEAD Knowledge in an interview.

## **New growth markets**

What then does all this mean for western economies? Technology penetration coupled with rising disposable incomes is creating new growth markets for products and services, not just in tier one cities but across the spectrum in tier two and tier three cities to the farmers in isolated villages.

Western companies should therefore learn to appeal to the billions of people who live in these growth markets where the estimated size of the bottom-of-the-pyramid market alone is five trillion dollars, says Shibulal. “This means that we have to re-think everything from products to distribution systems. In doing so, they provide a tremendous new opportunity for companies to forge innovative business models and co-create products and solutions to cater to this new segment.”

## **Talent hubs**

China and India alone produce more than 700,000 engineering graduates every year, and some 140,000 higher degree graduates in engineering or computer sciences.

Western companies have already started to leverage these benefits. For instance, a quarter of Accenture’s workforce is in India, and IBM employs more people in developing countries than in the US.

However, to be more effective, Shibulal says companies need to collaborate with academia in order to improve the quality of local education through industry-academia partnerships.

### **Innovation hubs**

According to Shibulal, innovation in emerging markets is happening in two ways: ‘outside-in’ and ‘inside-out’.

“Innovation is not about being ‘niche’ or ‘sophisticated’ (in the emerging markets), but about ‘cost-effectiveness’ and ‘mass-appeal,’” he says. “In other words, frugal innovation is key to success in emerging markets.”

He adds that, more importantly, what works in the developed world will not work in the emerging markets. Products have to be redesigned. “This sort of innovation that has already happened elsewhere but is redesigned to suit the needs of the emerging market is what I believe to be ‘outside-in’ innovation. It involves incremental changes to an existing product or service to tailor it to local needs.”

For example, GE designed a hand-held electrocardiogram (ECG) called the Mac 400. It costs only \$800 compared to a normal one which costs \$2,000. “It does not have the bells and whistles but it effectively reduces the cost of ECG per patient to just one dollar and makes healthcare accessible to more people,” Shibulal says. Nokia, on the other hand, studied the emerging markets and realised that poor people share phones. Hence it designed phones with multiple address books. It also designed phones with torchlights which was an instant hit.

‘Inside-out’ innovation is innovation that emerges from leveraging the talent, cost and innovative advantages of emerging markets and is also taken back to the western economies, explains Shibulal. GE’s cheap ultrasound device, for instance, was originally developed for the Chinese market but has now become the basis of a global business, and the Tata Nano is scheduled to be exported to European markets soon, thanks to its huge success.

Western economies have realised the potential of innovation in the emerging markets and are tapping into it already. “Fortune 500 companies have 98 R&D facilities in China and 63 in India. GE’s healthcare arm has spent more than \$50 million building a vast R&D centre in Bangalore and Cisco is building a one billion dollar second headquarters called Cisco East there as well. Microsoft’s R&D centre in Beijing is its largest outside its American headquarters in Redmond,” says Shibulal. “It is evident that the emerging market innovation phenomenon is waiting to be unleashed on the global platform.”

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