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Reverse Innovation and Emerging Markets: Issues and Trends

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Abstract

The purpose of the paper to discuss and argue reverse innovation and emerging markets: issues and trends. The findings of the paper is that the reverse innovation in emerging markets has changed the multinational companies focus towards developing countries to generate more revenues. Since global ecosystem is not very static, so trends are different for developed markets & for emerging markets. This has produced a growth gap between developed and developing countries. Now developed markets are growing slowly while emerging ones robustly. Also to meet the needs of customers according to budget now many products are de-featured & sometimes even poor standard. Emerging markets are growing rapidly as compared to globally developed markets and reverse innovations are produced more creative people and businessmen. Developing markets also created many opportunities of creative work.

ISSN: 2616-9185

Introduction

Main emerging markets are China, India, Saudi Arabia, Turkey, Russia, Brazil and South Korea while developed markets are of USA, Europe and Japan. Sometimes it is difficult to borrow innovation from developed countries, so the term "Reverse Innovation" was introduced. Reverse innovation is basically bottom up innovation, means it goes uphill from emerging markets of developing countries to developed markets of developed countries.it is adopted firstly in poor countries and then it makes its way to rich countries. Emerging markets are basically markets having features of developed markets but not fully developed, we say markets being developed is emerging market. (Ropert, 2016)

Emerging markets cover majority of world's population and they are oriented toward consumers of more populated areas of the world like India, China & Middle Eastern countries United Arab Emirates, Russia and South American countries. Multinationals are getting benefits from these countries through their reverse innovations. These reverse innovators are also experiencing a number of other positive developments in institutional reforms, infrastructure improvement, democracies, communication and information technologies and international business agreements (Khan, 2014). They also can introduce their reverse innovation in global & developed markets because multinational enterprisers have better idea of global markets and they can lift these innovations up. Sometimes reverse innovations are being much interesting for developed markets and attract their consumers. (Khan, 2014).

Along with these benefits, there are also many challenges for multinational enterprisers and there are several different trends according to markets.it is also a chance that revers innovations may not be welcomed in developed market as in emerging market. Since emerging markets are limited and mostly domestics so they generate revenues rapidly but it may be a chance that after completion of domestic demands these innovations grow slowly in emerging markets. But if some reverse innovation is good enough to be adopted in other countries rather than being only domestic then it may become a part of global market. So both aspects are necessarily

ISSN: **2616-9185**

noted that reverse innovations and emerging markets trends both in positive or negative forms.

Emerging markets also receive several other benefits from multinational Enterprisers i.e. Increased exports, improved balance of payments, improved foreign currency reserves, reduced unemployment-reduced import, improved economic position and entrance to higher technologies. Since multinational enterprisers are using advanced technology and international experience that is why they can be more productive than their local counterparts. They can have better attracting quality local staff and offer better salaries to their employees of local regions. Furthermore, these enterprisers have a positive influence on local firms such as making them more competitive, forcing locals to implement modern techniques and technologies and to hire trained employees force. The Emergent markets and multinational enterprises or investors get benefits from each other up to very great extent (Khan, 2014).
With respect to commodity and non-commodity exporter countries, emerging markets and reverse innovations are better for non –commodity exporter countries. In past few years Non-commodity exporters countries trading with China faster than countries that trading with advanced economies like USA, Japan and Europe. (Ropert, 2016)

Theory and Literature Review:

What is a MNE?

MNE stands for Multinational Enterprisers; these are companies, firms, investors or business corporates in more than one -countries (Product and delivery). MNEs not just means Japanese or Western enterprisers but also growing number of developing and emerging countries are multinational corporations in Africa, Asia, and Latin America (Zhang, 2008)

What is Reverse Innovation?

A reverse innovation is type of innovation likely to be adopted first in the developing world. Companies develop products in countries s having emerging markets like China and India, and then distribute them globally. See Figure 2

ISSN: **2616-9185**

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Need of reverse innovation

The fundamental need of reverse innovation is the income gap that existing between developed countries and emerging markets. There is no way to design a product for the American high pricing market and then simply adapt it for the Chinese, Indian or Arabian markets mass market. Buyers in poor countries demand solutions on an entire or. They demand new, low cost, high-tech solutions that deliver having "good enough" quality (Govindarajan & Trimble, 2012).

Phases of innovation for emerging market:

There are four basic phases of innovation with respect to emerging and developed markets. Phases are as follows. (see Figure 1: Phases of innovation)

Globalization:

Globalization is basically selling products and providing services to markets all around the world by MNEs having extraordinary economies of scale. Innovations chanced at home and then the new contributions were distributed everywhere (Govindarajan & Trimble, 2012).

Glocalization:

In Glocalization, multinational enterprisers recognized that while Globalization had minimized costs, they were not as competitive in local marketplaces as they needed to be. Therefore, they motivated on winning market shares by adapting global contributions to meet local needs. Innovation still originated with home-country needs, but services and products and were modified after it to win in each market. Sometimes products are de-featured to meet budgets of poor customers (Govindarajan & Trimble, 2012).

Local Innovation:

The first half of the reverse innovation process, multinational enterprises are directing on developing products "in-country, for country." They are taking a "market-back" standpoint. They are opening with a zero-based assessment of customer's requirements and needs, rather than supposing that they will only make amendments

ISSN: 2616-9185

to the products they already have. As teams develops product for the local market, the company enables them to remain connected to, and to benefit from, global resource base (Govindarajan & Trimble, 2012).

Reverse innovation need gaps:

There are five major trends differentiating rich and poor country's people with respect to markets accordance with purchasing power, which urges for reverse innovation.

Sustainability gap:

With growing economy the conflicts between economic strength and environmental sustainability usually becomes more severe. The pressures will not rise consistently. In many cases, the force of sustainability issues are highest in the developing world (Trimble, 2012).

Performance gap:

Emerging markets do not need your low quality product bare down and reduction in price. They need a radically redesigned product that delivers better functionality at a radically lower price, matching the difference in incomes (Trimble, 2012).

Infrastructure gap:

It cannot be assumed the same kinds of infrastructure that we enjoy in the First World, whether it is power, landlines, roads or anything else. Everything be considered from a fresh perspective (Trimble, 2012).

THE REGULATORY GAP:

Like infrastructure, the systems of consumer safety laws and regulatory approvals are still establishing. This can work in your favor or against you (Trimble, 2012).

THE PREFERENCES GAP:

History, ritual, culture, and access to different raw materials has produced different preferences in everything from food to design to social rituals (Trimble, 2012).

ISSN: 2616-9185

Current Issues and Analysis:

Since reverse innovation and emergent markets are mainly domestic or local so there are issues which are being faced by investors or multinational enterprisers while bringing up their reverse innovations as compared to global innovations. There are also some risks associated with reverse innovation and emerging markets, we'll discuss these risks first here. (Ropert, 2016)

Special Risks in Emergent markets and reverse innovations: -

Political risks:

Political stability is the main factor for emerging markets as well as for reverse innovation. Some countries' political system supports these both but in few countries due to political issues. In fact, even when a political position is stable, the economy may have problems. When that happens, politicians want to have someone to blame, and ideally, Investors from overseas sometimes fit the bill. (Global Challenges for Humanity, 2014)

Social Risk:

Social risk can take the form of cultural unrest that obscures hiring or that makes it difficult to reach customers. It may happen in the form of boycotts or strikes that disturb supply chains. Social risk is somewhat harder than political risk to measure and to identify, but it is real. You may perform well into it when you invest in emerging markets. (Global Challenges for Humanity, 2014)

Information problems:

For even small or huge investment, reliable information is needed in order to assess the risks and the potential yield. Investing in environment of emerging market is that getting good information can be hard i.e. not to mention expensive. A country may have low accounting standards, slight media oversight, and few objective investment analysts paying attention to how companies are doing. It takes time and energy to catch media reporting on a nation in an understandable language to be familiar with the variances in legal and accounting practices & to ensure that the investment you made is for real. (khan, 2014)

ISSN: **2616-9185**

Liquidity:

For any investment expectations are to get your money back someday. As a forthcoming investor in emerging markets, it is needed to be aware that getting money back can be a problem. (khan,2014)

Issues/Challenges to reverse innovation & emerging markets: -

Human Challenges:

It is obvious that multinational enterprisers of emergent markets are not operating in the space therefore; it is valuable for them to understand and face these challenges successfully for the improvement of the human society at large (Global Challenges for Humanity, 2014).

Main human challenges or we can say issues are Global ethics, Science and technology, Energy, Transnational organized crime, Peace and conflict, Capacity to decide, Democratization, Population and resources, Long-term perspectives, Rich-poor gap and Global convergence of IT (Global Challenges for Humanity, 2014).

Business challenges:

Some challenges are directly related to business management including competition, investment, profitability, and growth. Other larger management challenges facing multinationals operating in emerging markets such as Market-segmentation, Market-targeting, Market-positioning, Promotion, Advertising and Distribution. Being in competition in business and socially responsible at the same time is a hard for MNEs operating in emerging or developing markets. However, it can be achieved by having an integrated approach to do business in that joining human needs with business objectives and simultaneously overcoming the most challenging factors are Corruption, Inadequately educated workforce, Government bureaucracy, Access to financing, Inadequate supply of infrastructure, Tax rates, Inflation, Poor public health, Tax regulations, Crime and theft, Restrictive labor regulations, Foreign currency regulations, Poor work ethic in national labor force, Policy instability and Insufficient capacity to innovate (Schwab, 2014).

ISSN: **2616-9185**

Growth Paths:

The growth route to follow by multinational enterprisers in emerging markets is another challenging job since there are diverse growth choices available for multinational enterprisers to follow are Importing/exporting, Licensing & franchising, Direct investment (wholly owned subsidiaries), Strategic alliances (i.e., joint ventures) Or a combination of these options. (Ropert, 2016)

Numerous factors can cause the decision to choose for one or the other option. For example, the risk associated with each of these paths; the need for control and coordination of your business; the need for locally reaction; nature of business; relationship between the host country and home country of an MNE and size of the company. Other several features of the target market such as market stability, level, industrial standards and type of competition and overall business environment can affect the choice to select a specific growth option. (Rob,2013)

Risk Management:

The business world slogans, the more risk you take the more profit you make. The business environment is complex and dynamic posturing even larger risks for business organizations. Developing markets primarily well-thought-out profit centers due to low labor and product cost. Multinationals have grown enormously creating new growth borders and consumer base. Operating successfully in emerging markets has become a business imperative for most regions of global economy. Some risks associated with investing in new market, but the speed of expansion in these high-growth economies has caused in rapidly changing complex and diverse risk environments. Understanding market specific risk at the start of the business extension will help avoid many of these risks. There are all types of risks associated with the business environment in emerging markets such as corruption, bribery, inappropriate gratuities and facilitation fees. (Ropert, 2016)

There are few other challenges in emergent markets and reverse innovations such as General Management/Leadership Challenge, The General Environment Management Challenge and The Social Responsibility Challenge.

ISSN: 2616-9185

Analysis:

Emergent markets vs. Developed markets

A recent analysis with respect to GDP for emerging and developed market was done in 2014 by International Monetary Fund (IMF) from year 2008 till year 2014.According to this analysis emerging markets stand to grow up the developed counterparts by more than 4% per annum. More noticeable is that over 70% of the world's growth in the next several years will come from emerging markets. It is also said that Overall inflation, which often reared its head and low purchasing power-particularly for the poor- for decades, has radically decreased in the developing world. (Ropert, 2016).

Commodity exporters VS non-commodity exporters

According to report an analysis. Non-commodity exporters' elasticity curve with respect to trade is zero while commodity exporters' is 0.15. In past few years' Non-commodity exporters countries trading with China grew faster than those trading with advanced economies like USA, Japan and Europe. (John, 2015)

Implications for International Marketing Managers:

Emerging markets are strategically important for Multinationals or managers. However, as discussed in earlier sections that these markets present issues like Political instability, Lack of rules and regulations like intellectual property right protection, Huge bureaucracy, lack of transparency, Lack of quality, Lack of reliable business partner, Local industries control of suppliers and distributors, Strong labor unions, Lack of financial resources and financial institutions and Lack of quality related and supporting industries.

Managers need following steps to deal with above issues. Joint approach to deal with the bureaucracy and local government, Strategic alliances with local suppliers and distributors, Investment in local infrastructure development, developing local human capital by appointing host country managers and investing in training and development and Doing research and development activities in host country in order to avoid not invented here syndrome. (Global Challenges for Humanity, 2014).

ISSN: **2616-9185**

For Reverse innovation and to sustain in emerging markets managers needed to do the followings. Improve product and service quality, Improve information, production and marketing technologies, Improve economic competitive factors (labor costs, interest rates, exchange rates and economies of scale, Influence trade regulations by establishing close relationship with the Government and affiliation with associations (business, political or economic), Develop global orientation such as thinking and planning globally visa-vis locally, Hiring internationally experienced managers, Emphasizing on human resource and work policies and attitude and investment in local research and development. (Rob, 2013).

Finally, emerging markets will keep developing and managers will keep profiting from these markets. Risk and challenges are part and piece of business and business management. The more is the risk the more is the profit. These markets will contribute to the global economic and social development to a greater extent and multinationals or managers should be partner in such development by playing their role of investors, job inventers, tax-contributors, and social capital developer. In the global economy Businesses based on profit and loss sharing philosophy and practice are the ones to remain successful. (John, 2015)

Conclusion:

The purpose of the paper to discuss and argue reverse innovation and emerging markets: issues and trends. Since reverse innovation referred to emerging markets or local markets normally so they initially generate good revenues but due to its limited trade as compared to some innovation in developed markets.it is not necessary that every reverse innovation will be of greater margin so reverse innovation should result in the form of a good quality product or well featured product to attract more consumers all around the emerging world as well as in global market. Managers should promote reverse innovations by considering market trends in view and also they should concentrate to hit the product in emerging market and then advancing towards global developed markets.

ISSN: 2616-9185

The findings of the paper is that the reverse innovation in emerging markets has growing very well and emerging economies are dependent on small innovations and their markets. Reverse innovations make entrepreneurs and urges everyone to come towards business. Due to reverse innovations and good progress of emerging markets there are positive outcomes i.e. economic, financial and social development including job creation, human resource development, infrastructure development and also physical and technological and institutional reforms establishing industrial standards, competition law etc.

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Figure 1: The American international approach to emerging markets

Resource: John, R. (2015, February). Emerging markets. *Business Week, 4023*

Figure 2: Reverse innovation steps

Define	Dissect	Develop	Design	Debut
Identify innovation opportunity	Customer's needs analsis	Creative thinking	project prototype	project and plan
Build innovation team	trends prediction	concept design	process design	innovatio responsitory
Evaluate project risks	intellectual property analysis	concept selection	test and verification	
		concept optimization		

Resource: Raju.A (2014)*Global Challenges for Humanity*.. Retrieved from The millenium Project: http://millennium-project.org/challenges.html