

TOOL 1**Reverse Innovation Discussion Guide**

To guide a useful managerial discussion in your company about reverse innovation, consider the following topics and questions:

Topic #1: Reverse Innovation Strategy

1. Which are the emerging economies that are strategic for your company? Out of the 150 poor countries, which ones have:
 - a. The bulk of future customers
 - b. Potential for future growth
 - c. Talented low cost skill base
 - d. Manufacturing capabilities
 - e. Physical infrastructure
 - f. Institutional infrastructure
 - g. Social infrastructure
 - h. Foundation to build R&D know-how
 - i. Potential new competitors
2. Other than price sensitivity, what are the starkest differences between the needs of your customers in poor countries and the needs of your customers in rich countries? Consider differences in performance expectations, the availability and reliability of infrastructure, environmental pressures, regulation, and preferences.
3. Can you meet the needs of your customers in poor countries simply by customizing your existing offerings? Or, is clean-slate innovation needed?
4. Have you seen examples of reverse innovation yet in your own industry or an adjacent one?
5. What trends might eventually make these innovations attractive to mainstream customers in rich countries?
6. Which emerging giants are on your company's radar screen? What innovations have they brought to market? Might they enter your home market soon?
7. Does your capital budget show how capital is divided between poor countries and rich ones? Is the capital flowing to the greatest growth opportunities?

Topic #2: Reverse Innovation Mindset

1. Which of the following assumptions are commonplace in your company? (These assumptions are inhibitors of reverse innovation.)
 - a. Emerging markets are irrelevant.
 - b. Rich countries are the most technologically advanced. So innovation and learning will move from rich countries to poor countries.
 - c. Sales of our existing products and services will gradually increase as emerging economies grow. Therefore, we just need to be patient.
 - d. Existing products and services can be readily customized so that they will succeed in emerging markets.
 - e. The best approach to emerging markets is to lower price by stripping down our existing products and services.
 - f. The bulk of the customers in poor countries have low per capita incomes, low sophistication and low affordability. Their needs can be met by cheap products based on older technology.
 - g. Once per capita income reaches a threshold in poor countries, consumers will buy rich-world products.
 - h. Poor countries today are where the rich countries were in their infancy. Poor countries will evolve in the same way that wealthy economies did. As they develop, poor countries will catch up with rich ones.
 - i. Winning in emerging markets is almost entirely about achieving a very low price.
 - j. Only product innovation is necessary to win in emerging markets.
 - k. Our major competitors are other multinationals.
 - l. We can neutralize local players by outspending them or by simply acquiring them.
 - m. Products that address poor countries' special needs can't be sold in rich countries because they're not good enough to compete there.
 - n. It is impossible to earn healthy profits in emerging markets.
 - o. We cannot make the same high contribution margin percentage in poor countries that we make in rich countries.
 - p. We excel in product leadership and technological leadership. These are inconsistent with the ultra-low-cost products needed in poor countries.
 - q. Global brands stand for premium products and high quality. We run the risk of diluting our global brands by competing in a low-cost market.
 - r. We will cannibalize sales of premium offerings if we compete in a low-cost market.

- s. The role of our employees in emerging markets is to reduce the cost of our operations.
 - t. The role of our employees in emerging markets is to sell and distribute our global products.
2. How widely held are the following assumptions among key decision makers? (These acknowledge the full power of the reverse innovation phenomenon):
- a. To succeed in emerging markets, we must build new products and services, starting from scratch.
 - b. Innovations in poor countries can transform global markets.
 - c. The emerging giants might threaten us in our home markets.

Topic #3: People Development

1. Does your senior leadership team have the right skill sets for driving innovation in poor countries? If not, whom do you need to hire?
2. Does your company send its next generation of senior leaders on expat assignments in poor countries?
3. How often does your senior team travel to poor countries? When did your company last hold an important internal event in a poor country?

Topic #4: Shifting Power and Authority to Emerging Markets

1. Does your company have a CEO of India and a CEO of China who report directly to the CEO? Is there a CEO of emerging economies that coordinates the development of products for all emerging economies?
2. To what extent are your company's leaders in emerging markets empowered to launch innovation initiatives? How daunting is the approval process they would face?
3. Where are your top 50 leaders located geographically? Does this geographic distribution match the geographic distribution of growth opportunities for your company?
4. Given the demands of running the existing business, how much time can your senior leaders in rich countries spend thinking about growth opportunities in poor countries?
5. How many directors with deep experience in emerging economies are on your company's board?

Topic #5: Project Initiation

1. How heavily has your company invested in rigorously diagnosing customer needs in emerging markets?
2. How likely is it that your R&D teams located in the rich world will recognize an innovation opportunity in poor countries and develop a solution?
3. Who are the people (e.g. sales, marketing, market research) and those who are able to develop solutions (e.g. research, development, engineering)?
4. Are your R&D centers in emerging economies chartered to develop new products for their own countries? For other poor countries around the world?

Topic #6: Project Implementation

1. Has your company ever commissioned a local growth team with full business capabilities in a poor country?
2. Consider a specific reverse innovation project or potential project. How will you build the LGT? How would it look different from the rest of the company?
3. In your company, what global assets would be most valuable to a local growth team? How easy would it be for an LGT to leverage these assets?
4. How can you guard against cannibalization when ultra-low-cost products are brought from poor countries into rich countries?
5. How does your company evaluate leaders of reverse innovation projects?

TOOL 2

Worksheets for Application Exercises

Application Exercise #1: Clean-Slate Customer Needs Assessment

A solid reverse innovation endeavor begins with a clean-slate needs assessment. Your company’s knowledge about rich-world customer needs must be thoroughly questioned.

This is best accomplished through in-depth market research. To be sure to establish the right mindset in advance, however, try the following simple exercises:

1. Needs Gaps. In your industry, what are the needs gaps between developed and developing economies? Can you identify any trends that will close these gaps over the next few years? (Refer to chapter 1 for descriptions of the generic gaps and trends).

Needs Gap	Y/N	If yes, describe	Describe any trends that may close the gap
Performance Gap			
Infrastructure Gap			
Sustainability Gap			
Regulatory Gap			
Preferences Gap			
Other Gaps			

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2. Customer Priorities. Consider the dimensions of value that your product or service delivers to your customers in the rich world, and rank-order the importance of each. How do the priorities of your customers in poor countries compare?

Dimension of Value	Rank Importance in Rich World	Rank Importance in Developing World
Price		
Performance		
Quality		
Reliability		
Service		
Other		
Other		
Other		

3. Future Growth Opportunities. Looking ahead a bit, the trends that you identified in Question 1 above will help you anticipate opportunities to eventually bring your innovation into mainstream markets in the rich world.

Of course, there may also be opportunities to move the innovation into broadly similar markets right away — either in marginalized rich world markets or other emerging markets. With each move, you should reconsider customer needs, though not from scratch. Use the following exercise:

Growth Opportunities	Most Significant Difference in Needs, if Any
Marginalized Rich World Market #1	
Marginalized Rich World Market #2	
Developing Nation #1	
Developing Nation #2	
Developing Nation #3	

Application Exercise #2: Clean-Slate Solution Design

Once you thoroughly understand customer needs, it is time to develop the solution. Again, do not assume that what works in the rich world will also work in developing nations.

1. Innovations in the Product:

For tangible products, especially those made up of several distinct components, the following exercise may help establish the right mindset.

Component	Re-Use Rich-Country Component	Custom Redesign In-House	Buy Off the Shelf from a Third Party
Component #1			
Component #2			
Component #3			
Component #4			
Component #5			
Component #6			

2. Innovations in the Business Model:

In many cases, a clean-slate solution design implies rethinking not just the product, but the value chain through which you deliver the product. Reverse innovation is often also business model innovation. Where will you leverage what already exists? Build from scratch? Develop new partnerships?

Link in Value Chain	Leverage Rich-Country Processes	Build from Scratch In-Country	Partner In-Country
Manufacturing			
Sales			
Marketing			
Customer Service			
Other			
Other			

Application Exercise #3: Clean-slate Organizational Design

Building a well-functioning Local Growth Team can be one of the most challenging aspects of reverse innovation. To get off to a fast start, consider carefully the following two exercises.

1. What skill sets does the LGT need to succeed? Which are available in house? For which will you have to make external hires?

Skill	Available Inside	Must Make Outside Hires
Skill 1		
Skill 2		
Skill 3		
Skill 4		

2. Now, thinking through the same skill sets, indicate which should be most influential on the Local Growth Team, as compared to who is most influential in your rich-world organization. Be alert: Significant shifts in power are often necessary, and they can be tricky to manage!

Skill	Rank Appropriate Level in LGT	Rank Level of Influence in Your Organization
Skill 1		
Skill 2		
Skill 3		
Skill 4		

Application Exercise #4: Run a Disciplined Experiment

There are two types of acceptable outcomes in an innovation effort: a success, and a failure that comes as quickly and inexpensively as possible. The most undesirable outcome is a long, expensive, and painful failure.

Therefore, as a reverse innovation initiative moves forward, you want to be sure that you “spend a little to learn a lot.” To accomplish this, you must test the most critical unknowns as early and inexpensively as possible.

Use the table below to list the unknowns your project faces. Be as specific as possible. Consider the following generic types of unknowns:

1. Have you correctly understood the customer problem?
2. Will your solution address the customer problem?
3. How many units will your customers demand at your target price?
4. How well have you estimated your costs?
5. Do you have the capabilities to execute?
6. Have you planned the right tactics for going to market?
7. Who are your competitors today? Who will enter the market? How will competition affect demand for your products?

Now, using a scale of 1 to 5, rate each of the unknowns on their degree of uncertainty, and the degree of consequentiality if you are wrong. The unknowns with the highest total score are the most critical — the ones you should try to test first, if possible.

Unknowns	Degree of Uncertainty (Scale of 1 to 5)	Degree of Consequentiality (Scale of 1 to 5)	Total
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			