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THE CHALLENGE Should new products be developed in-market or adapted to market? What can companies do to ensure that innovation equates to better business?

Innovate or Adapt? The Challenge of New Markets

Whether it's the economy or the environment, one thing is certain: The future of the world is inextricably linked to the future of business. More than ever we need to find innovative solutions that can turn future business challenges into opportunities.

By bringing leading experts in diverse fields to the table, the Singapore Sessions explore the diverse solutions that are possible for any given challenge and offer unique insights into how we might answer some of tomorrow's challenges today. To join the conversation or to explore other sessions, visit SingaporeSessions.com.



DR. JAGDISH SHETH

**Charles H. Kellstadt Chair of Marketing,
Goizueta Business School at Emory University**

Jag Sheth has worked with companies around the world to understand the unique opportunities and challenges in bringing new products to emerging markets. He is the author of *Chindia Rising: How China and India Will Benefit Your Business*.

HISTORICALLY, COMPANIES HAVE RELIED on local adaptation strategy to deliver their products in a way altered to deal with differences in culture, geopolitical distance, regulation, and different levels of economic development. All of this is changing with the rise of emerging markets, especially China and India. Innovation is shifting from adaptation to in-market development in emerging markets with a focus on opportunity, affordability, and sustainability.

Converting unbranded and unorganized markets into branded organized markets is key to future innovation and business success. In many ways, this is exactly what Wal-Mart did in rural America and what Ford Motor Company did with the Model T. America has been a pioneer nation in converting non-users into users. The most recent example is the cell phone technology. None of us needed it until we started using it. Now we cannot live without it. Today, the largest markets for cell phones are China and India: China has more than 700 million cell phone users.

Large emerging markets such as China, India, Brazil, Russia, Turkey, and Indonesia will necessitate more in-market, low-cost innovation, which makes emerging products more affordable and accessible.

But companies also are moving to in-market innovation because of the low-cost innovation in emerging markets. Since the cost of innovation there is at least ten to fifty times cheaper than in advanced countries, it is much cheaper to fail. Another factor behind in-market product development is emergence of a global mindset. Increasingly, many emerging economies are demonstrating significant capability to innovate with scarce resources and poor infrastructure. Brazil has led the world in ethanol; China leads the world in solar energy. The innovation fever in emerging markets is also prevalent in such basic industries as education, health care, and defense. The scientific community in advanced economies now recognizes the capabilities of scientists of emerging markets.

Finally, in-market development helps further the fusion of different disciplines, cultures, and processes of innovation. This means fusion of biological and physical sciences, as well as fusion of electronics into everything to make it smart. It also means blending global talent to work together in virtual teams. This fusion will make the debate whether to innovate in-market or adapt to local needs moot.

INDER SIDHU

**Senior Vice President, Strategy and Planning,
Worldwide Operations, Cisco**

Inder Sidhu is a member of the company's operating committee and has co-led Cisco's Emerging Countries Council and its Enterprise Business Council. He is also the author of *Doing Both: How Cisco Captures Today's Profits and Drives Tomorrow's Growth*.



IMAGINE A WORLD in which a child can attend school for just \$1 per month and where a visit to a doctor costs less than a candy bar from a vending machine. Fantasy, right? Not to Cisco. We are working to make accessible education and affordable health care a reality for literally billions of people.

So how did Cisco¹, the world leader in techie communications gear, position itself to make such a contribution on a global stage? The answer has a lot to do with how we see the world—where we develop innovation, in particular.

For much of our 25-year history, Cisco developed products in Silicon Valley and then adapted them to local markets worldwide. The model provided a significant return on our engineering investments and made us one of the most valuable companies in the world. As Cisco expanded into new customer segments and geographies, however, the model started to show its limits. It did not always produce the best solutions for given challenges. In the consumer market, our innovations were overly complicated; in emerging markets, they were too expensive.

We've done many things to reduce the gap between our capabilities and our customers' needs, but one of the most beneficial was to adjust our product development model. While we continue to develop platform products at our headquarters in California, we now leverage the insights and ingenuity of local talent in China, India, Norway, Israel, the U.K., and elsewhere.

When it comes to adapting innovations to a market or developing them in a market, we no longer make a false trade-off. Instead, we have committed to doing both.

This decision is helping Cisco create technologies that tackle some of the world's most pressing challenges. Take our effort to combat problems caused by global urbanization. Today more people live in urban areas than in the countryside for the first time in history. In five years, the population of cities is expected to swell by an additional 500 million people. The need to sustainably manage social, economic, and environmental resources has never been greater.

¹ In 2008, Cisco launched the inaugural Enabling Platform Innovation Center (EPIC@SG) in Singapore with the support of the Infocomm Development Authority of Singapore (IDA). EPIC@SG is a significant milestone in Cisco's global strategy to bring innovation centers closer to where it sees new business models and new world services emerging. Equipped with state-of-the-art facilities, this technology center is designed to help retail service providers build and deliver ultra-high-speed broadband network services.

To help in this effort, Cisco developed a family of video, collaboration, and communications solutions that make city life more manageable. Need to visit a doctor? In a Cisco Smart+Connected Community (S+CC) you will be able to see a doctor online at your convenience for just \$1. You will also be able to send your child to school for pennies a day and renew your driver's license without leaving your home, all because of local and global data networks that virtually eliminate the barriers of time and space.

Cisco S+CC solutions also provide tools for increasing services and improving public safety. With video cameras installed all along roadways, transportation officials can monitor not just crime but also traffic congestion, and even remotely update digital signs to redirect traffic in emergencies.

Like a growing number of Cisco innovations, our S+CC solutions are a blend of adapted-to and developed-in market solutions. While the underlying architecture is being designed in Silicon Valley, the vertical applications are being developed in India, home to our Globalization Center.

Cisco chose India for this work because our 6,000 engineers there have a unique appreciation of how serious global urbanization has become. Their country is home to eleven of the world's fastest-growing cities. In Bangalore, 1,000 new cars are put on the street every year. Clearly these engineers have a passion for technology that can transform lives in a single generation.

When they are done, our Indian engineers take the best of what they produce and then apply it to the work of their Cisco colleagues around the world. What starts as an in-market idea in one place often becomes an adapted-to market innovation in another. Doing both creates a multiplier effect for our company and is the platform for taking on some of life's biggest challenges.

Great ideas can come from anywhere. If you can apply them everywhere, you can change the world.

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SCOTT ANTHONY Managing Director, Innosight Ventures

Scott Anthony leads the Asian operations of Innosight, a strategic innovation consulting and investment company with offices in Boston, Singapore, and India. He is the author of the forthcoming book *Cracking Innovation's Black Box*.

//// IT NEVER HAS BEEN more important to target new markets. Continued economic pressure means today's markets are unlikely to be the source of blockbuster growth. Competitive advantage in established markets is increasingly looking like a transitory notion.

And companies increasingly recognize that reaching new markets requires developing products and services that are attuned to local needs. Despite this understanding, many companies still struggle to get traction in new markets. What explains the disconnect?

At least one explanation is that companies are limiting in-market development to the features and functions of the products they sell and the services they offer. That's a great start, but companies need to go further. They have to adapt their very business models.

Never forget that "innovation" goes well beyond the features and functions of your offering. Look, for example, at the four most successful technology companies of the past decade—Apple, Google, Netflix, and Amazon.com. What made all these companies successful was a business model that disrupted their respective markets.

That's not to say that companies always need to follow different business models to win in new markets. Sometimes, in fact, leveraging your current business model is the exact way to win in a new market.

At Innosight, while we are experimenting with new models such as venture capital offerings, and outsourced incubation services, a key part of my role is to explore bringing our consulting model to Asia. The clients we serve in the United States tend to be senior leaders looking for fresh insights on topics of growth and innovation. The clients we are targeting in Asia are also senior leaders looking for strategic insights on these same topics. I'd be foolish to not find ways to leverage as much of our core model as I can.

Of course, there are some local flavors to anything you do, which is why I moved out to Singapore in early 2010. The country's position as the gateway to Asia made it a local base for our international expansion.

Looking for a shorthand way to determine whether substantial rewiring is required? Ask a simple question. Am I targeting the same type of customer in the new market as I serve in my existing market? If you sell to businesses and you hope to target consumers, if you sell to upper-income consumers and you hope to target the middle of the economic pyramid, or if you sell to specialist doctors and you need to sell to general practitioners, the odds that you need to innovate from the ground up are high.

Two final pieces of advice. First, it is easy to think you understand the new market you hope to target. But unless you have invested the time to spend a lot of time in that market, the odds that you really understand it are low. Well-orchestrated trips involving five-star hotels and scripted meetings won't suffice either. People making decisions about those markets have to really understand the fabric of the market, which means, in the words of one of my colleagues, "going native." Read Bruce Brown's piece—researchers spent thousands of hours in market to understand the wants, needs, and desires of local Indian consumers.

Second, it won't always be clear where you sit on the adapt vs. de novo development spectrum from day one. That places a big premium on structured experimentation—thoughtfully running experiments to address critical unknowns before making big investments.

Getting this question right isn't easy. But sustaining real competitive advantage means thinking differently and acting differently.

INNOVATE OR ADAPT? THE CHALLENGE OF NEW MARKETS



BRUCE BROWN Chief Technology Officer, Procter & Gamble

Bruce Brown oversees the company's innovation program, its 8,700-person global R&D organization, and its nearly \$2 billion annual investment in R&D. Bruce also oversees P&G's Corporate Innovation Fund and FutureWorks organization for creation of new business opportunities and capabilities.

//// OUR PURPOSE AT Procter & Gamble² is to improve the lives of the world's consumers. It is so pervasive that it inspires our growth strategy to "touch and improve more consumers' lives, in more parts of the world...more completely."

We improve more consumers' lives by innovating and expanding vertically, up and down value tiers. We improve lives in more parts of the world by innovating and expanding geographically into new white spaces where we have not been competing. We improve lives more completely by innovating to improve existing products, creating or entering adjacent categories, and driving regimen use that broadens our product portfolios.

Innovation is how we fulfill our company's purpose and meet our growth goals. It all starts with a thorough understanding of the consumer. With products reaching over four billion consumers in about 180 countries, we must be laser-focused on the consumer's articulation of needs and definition of value.

To support this focus—and to decide whether to develop new products for a market or adapt existing products—we consider three principles: 1) Define the target consumer; 2) Design for this consumer; and 3) Execute for this consumer. This approach is well illustrated with our October launch of the Gillette Guard shaving system in India. As the first Gillette product designed specifically for men in markets like India, Gillette Guard is one of the most significant product launches in Gillette's history.

When defining the target consumer, we learned that nearly one billion men were shaving using technology invented by King C. Gillette more than 100 years ago—double-edge razors—because there was no better, affordable alternative. So we looked at every element of our innovation process, from consumer understanding to design to manufacturing, to create a product for these men while managing costs to meet their affordability criteria in a sustainable business model.

We designed for this target consumer by spending thousands of hours with men in India to better understand their shaving needs. They participated in interviews, in-home visits, "shop-a-longs," and test shaves to shape and fine-tune the razor's performance. We learned they value safety, ease of use, and affordability above all else. We discovered they need a razor to help manage longer hair because they don't shave every day. They place high importance on easy-rinsing technology, as many do not have running water in their homes. We also saw unique gripping patterns by Indian men when shaving that needed to be addressed.

We designed for execution by leveraging these insights to develop Gillette Guard from scratch, filtering every design and technology element through the eyes of the consumers and what they valued most. The result is a breakthrough shaving system designed to provide a safe, high-quality shave at an affordable price. The dramatically simplified product design uses 80% fewer parts than the two-blade razor, which led to a streamlined and lower-cost manufacturing process. We launched the product through print, digital, broadcast, store, and public relations—including live demos with Indian celebrities.

Gillette Guard is off to a great start and we're confident that this consumer-inspired innovation will improve even more lives in India and beyond. This is why P&G strategically disperses R&D resources across regions and close to—if not in—the markets we serve. This is critical to understand specific consumers and markets, have partnerships with and access to local innovation partners, and leverage the local talent base. Recent innovation center expansions completed in Beijing and announced in Singapore are evidence of this commitment—as are our refined and focused innovation centers in India, Japan, and over twenty other sites around the world.

² With its Asia-Pacific headquarters located in Singapore (also global business headquarters for the SK-II brand), P&G has announced an upcoming R&D Innovation Center for Beauty, Grooming and Corporate R&D by 2013. On the innovation front, P&G has also entered into a Master Collaboration Research Agreement with Singapore's Agency for Science, Technology, and Research. These strategic plans support P&G's manufacturing activities in Singapore—its first and only perfume plant for Asia, and a plant for manufacturing of PUR water purifier sachets for disaster relief.