Chairman’s column

**Slowing economies need ‘frugal innovation’**

The number of global smartphone owners will reach 1.75 billion this year. If they’re anything like me, most of these owners will use, perhaps, around 40% of their phones’ functions. Yet Apple and their competitors continue to churn out new phones with new apps in the expectation that customers will flock to buy. These days, more doesn’t have to be better – it just has to be more.

It’s a commercial philosophy that works well in boom times. Growing middle classes with high levels of disposal income, a pervasive psychological investment in owning ‘the latest’ and strong balance sheets to invest in R & D combine to keep it buoyant. But, as the cracks in the foundations of growth economics become ravines, traditional developed world models are starting to sag.

On my travels, I’m increasingly drawn to the concept of ‘frugal innovation’ - the antithesis of this Western model of gold-plating.

Frugal innovation involves developing products and services to meet an existing demand at a price that’s viable for most of the population, including those economists refer to as ‘BOP’ – the bottom of the pyramid. The quality of these products is reliable and, rather than telling their demographic this is what they need (as with so much tech in the West), their functions meet existing local market requirements.

Mobile phones with an inbuilt hook to hang it up in flood-prone countries, solar-powered ATM’s which use fingerprint recognition rather than bank cards in regions with unreliable energy supply and washing machines which are engineered to wash potatoes as well as clothes for Chinese potato farmers. All examples of frugal innovation’s ability to adapt to actual need in difficult circumstances.

The BRICs are providing fertile ground for the concept to grow. They offer leaders and entrepreneurs who don’t have to rely on nervous banks or short-term investors for funding, a highly educated workforce trained to solve technological problems and confidence that the price-point is right for the vast majority of the population.

While I have a lot of sympathy for Western companies whose expensive R & D investments are ‘co-opted’ by some BRIC start-ups, these businesses need to start thinking differently. Entering developing markets at these levels from scratch is tricky. But there’s nothing to stop companies establishing partnerships with these ‘frugal’ innovators by de-centralising their supply chains. Traditional companies gain insight into this growing pool of new consumers, while innovators and entrepreneurs get access to a new stream of R&D. It’s a
genuine win-win, as India’s Tata Motors and Germany’s Bosch found when they collaborated to create the $2000 Tata Nano car.

IRM’s Extended Enterprise: managing complexity in 21st century organisations, published last week, provides a comprehensive ‘how to’ for risk practitioners who need to understand the unprecedented interdependencies facing companies today. It emphasises the need for businesses to appreciate they are now operating in the ‘VUCA’ (volatility, uncertainty, complexity and ambiguity) world and offers new thinking on how to manage, and exploit, risk in that context.

As the world’s economies slow down, we may have to accept that the global ‘high growth’ model hasn’t just stalled, it may actually have broken. At the very least, those adhering doggedly to their traditional business models need to look further afield to those who are using frugal innovation to treat risks and provide solutions.

Given the early onset of the UK’s own flooding season, I’m starting to think a mobile hook would be a lot more useful than a Candy Crush app.