

How Innovations from Developing Nations Trickle-Up to the West

A funny thing has happened on the way to globalization: Innovation now trickles up from emerging to advanced economies. And it may be the way of the future.

We know how innovation works. We get iPhones; those less fortunate overseas get whatever we dropped in the recycling bin on our way out of the Apple Store. We get Gore-Tex; they get 2007 New England Patriots 19-0 T-shirts. We get the Wii; they play rock-paper-scissors. We get collateralized-debt obligations ... well, we can't win them all.

Innovation has always been about people in rich nations getting the latest stuff and the rest of the world getting our castoffs as our markets scale and prices come down. So why is [Nokia](#) looking to use Kenya to debut a free classifieds service (think a mobile-phone version of Craigslist), complete with a first-ever feature that lets people shop using voice commands to browse for goods? And why are Western banks seeking ideas from India's ICICI when its average deposits are one-tenth of those in the West?

The answer is that the traditional model of developing new products is quietly reversing course. Call it "trickle-up innovation," where ideas take shape in developing markets first, then work their way back to the West. "If it's radically innovative and reduces costs, it's going to get looked at and will accelerate," says Michael Chui, the consultant doing heavy lifting on a McKinsey Technology Initiative report on this subject that includes more than 100 PowerPoint slides crammed with examples. As the credit crunch forces frugality on companies everywhere, it should turbocharge the shift toward developing markets.

Nokia, for one, has for several years seen most of its growth come from the developing world, so it was quick to notice when poor Kenyans started using their cell phones for banking as well as paying for things. "People aren't saying, 'Give me the Web-based version of this,' " says Jonathan Ledlie, the Nokia researcher developing Mosoko (mo for "mobile," soko from the Swahili for "market"). "They've never used a Web version."

Ledlie's friends in the United States all tell him they'd love to use Mosoko, which is expected to debut in April. But Ledlie is skeptical. "I tell them, 'Oh, c'mon, you'd just look at some mashup of Craigslist over Google Maps.' " There's a growing graveyard of companies that tried to get Americans to embrace cell-phone payments. Ever hear of [MobileLime](#) or Black Lab Mobile? Exactly. In Kenya, Mosoko's competition is for-sale signs hammered up on posts or pricey classified ads.

The need to innovate in global markets is already changing the strategy at firms such as [Infosys](#). Ten years ago, most of its technology was meant for the developed world, says Infosys COO S.D. "Shibu" Shibulal. Last July, when the company unveiled cutting-edge data tracking for retailers called ShoppingTrip360, it first tested the technology with an Indian one.

Shibulal is a fan of trying out innovations in emerging markets -- he calls them "blank slates" -- in part because it doesn't cost so much if an idea fails. He learned that the hard way during the 1990s Internet boom, when an Infosys spin-off, OnMobile, tried and failed to sell U.S. wireless carriers on plug-and-play services such as mobile-advertising support and ringtones. OnMobile pulled back to India, where it became the largest provider of such services and is now expanding internationally. "It's inevitable," Shibulal says, that "innovation will start moving both ways."

Even from Bangladesh, one of the poorest nations on the planet. France's Groupe Danone started a joint venture there with microfinance pioneer [Grameen Bank](#). As part of the business plan, it agreed to build local microplants that produced one one-hundredth of the yogurt of a standard Danone facility, in part due to the lack of refrigerated storage. The microplants produced yogurt almost as cheaply as the larger ones. "It was a big surprise," says Emmanuel Marchant, deputy general manager of danone.communities, which operates its social business ventures. "It has inspired a plant in Indonesia, which we've already built. Now we're talking about other business markets where the plant could be adopted." Lessons from operating in Bangladesh have also helped Danone launch Ecopack, a low-cost yogurt line, in France. Marchant eventually expects Danone to mainstream other ideas first tried in Bangladesh.

A similar example might come from Indian banks, where transactions are about one-tenth of the typical U.S. bank's. India's ICICI operates profitably in such a climate, thanks to its highly efficient systems. Suddenly cash-starved U.S. financial firms are looking to ICICI -- and the substantial number of lower-income consumers in their own backyard -- and asking, "How is it that companies in emerging markets can serve these customers and we can't?" says McKinsey's James Manyika.

Innovation won't always trickle up, of course. At Nokia, Ledlie isn't sure something like Mosoko will ever break through the West's cluttered retail market. But he's confident that Nokia has a proving ground for voice recognition in a sales application. And, Ledlie says, "there's trickling sideways." If it works in Kenya, it should work in other developing markets where cell-phone penetration far exceeds desktop Internet, such as Mexico. Harold L. Sirkin, coauthor of 2008's *Globality: Competing With Everyone From Everywhere for Everything*, cites some successful "sideways" examples, including Brazil's Natura, a cosmetics firm that bested Western companies on its home turf and has expanded throughout Latin America and now Europe, and China's Goodbaby, which has 28% of the U.S. stroller market.

The emerging world, then, is no longer a dumping ground for trailing-edge technology. Brace yourself for the next wave of immigrants: ideas.