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THE HINDU

Why MNCs need to create products for India locally

R&D laboratories targeting consumers have opened up opportunities

A SILENT revolution is under way among the R&D subsidiaries of many global high-technology firms. After establishing bases in China and India and utilising Indian talent to work on essentially western problems, the wheel is finally turning full-circle: IT majors are now seeking to tap local customers in emerging markets by developing affordable, relevant solutions for them.

The 3 quadrant theory

MNCs initially established subsidiaries in emerging economies to sell their current products and services to a new customer base. As higher GDP growth rates led to enhanced per capita incomes in these economies, global corporations increased their investment levels. Relatively low manufacturing factor costs (even on a PPP basis) and the availability of highly-skilled talent acted as a catalyst. Combined with mass economies of scale and government policies that encouraged export-led growth since the mid-1980s, China rapidly became the global sourcing and manufacturing hub. Today, Chinese goods cost 3-5 times less than those manufactured in the West. On the other hand, India has taken a slightly different path. With over 200,000 English-speaking engineers graduating every year, it has established itself as an important worldwide off-shoring and software services development base.

Greater exposure to emerging markets and the increased confidence of MNCs in the ability of their local subsidiaries to carry out complex tasks led to the establishment of locally-based R&D centres. Governments across emerging markets also played an important role; in most cases by announcing favourable tax policies which encouraged MNCs to invest in innovation locally. The establishment of over 250 R&D labs by MNCs in China and India since 1995 indicates the success of these initiatives. In the adjoining figure, this represents the shift of R&D centres from their traditional western bases to emerging market locations (quadrant 1 to 2).

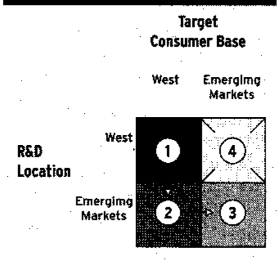
WORKING IN ONE EMERGING MARKET PROVIDES INSIGHTS THAT CAN BE DEPLOYED IN CULTURALLY ADJACENT MARKETS.

Despite the locations of R&D subsidiaries in developing nations, their research has mostly centred on meeting consumer demand in western markets. This is unsurprising; for two reasons. First, most of these centres were headed by expatriates and staffed with western-educated local talent. Second and more critical, most MNCs did not view demand in these nations as significant enough for them to carry out localised research. One illustration is General Electric's (GE) John F. Welch technology centre in Bangalore which is the first and largest integrated, multi-disciplinary R&D lab outside the U.S. Over 2,200 scientists, researchers and engineers work almost exclusively on GE's global technology initiatives.

Changing focus

This trend of emerging markets-based R&D labs focusing on Western issues is changing. A number of R&D labs are now working on affordable and locally relevant products and services. The convergence of a number of global trends has aided this shift. First, the growing aggregate consumer base and increasing per capita incomes in emerging markets represent a latent consumer demand that is beginning to get realised. Second, the increasing high-skilled employment opportunities now provide a secure base for India's brilliant technologists and engineers and promise many a vibrant future. Third, immigration issues in the U.S.

CHANGING R&D PARADIGMS



have led to a disenchantment with the West, increasing the emphasis on studying domestic problems. This transition to solving problems and creating solutions specifically for emerging markets is as significant a move for global innovation (quadrant 2 to 3) as the earlier shift.

The operation of subsidiaries based in emerging markets and conducting research targeted at domestic consumers offer radically new opportunities to MNCs. First, inventing solutions that are tailored to local consumers in emerging markets can often represent a "big win" opportunity.

Harvard professor Clayton M. Christensen refers to this as "competing against non-consumption," pointing to the opportunity that companies derive to define a new segment, and grow it profitably in the absence of competitors. In 1992, for instance, the absence of quality broadcasting content in India led to an explosion in channels once the cable television industry was liberalised.

Second, working in one emerging market provides insights that can be deployed in culturally adjacent markets. Hindustan Lever took its learning with shampoo sachets in the Indian market and applied it to a number of emerging Latin American markets.

Third, working in the difficult emerging markets presents a new opportunity for firms to take their innovations upwards and compete in more established western markets.

Harnessing these global trends by encouraging MNCs to carry out product innovation for local consumers represents a big challenge facing India today. In general, the lack of strong political and industry-wide leadership has left a void that is waiting to get filled. The strict and disciplined product development culture that other Asian nations such as Taiwan, Japan and China excel in is largely absent in India. Further, the poor research records endemic of Indian academic centres exacerbates this problem. Solving each of these problems will take time but is imperative if the Indian nation is to take big strides forward.

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