Go frugal!

Future belongs to “good enough” products with attractive value proposition

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Succeeding in India and other emerging markets often requires developing market-specific products and services that enable an attractive value proposition without taking recourse to (excessive) over-engineering. Moreover, the innovations should be able to circumvent the given infrastructural restrictions ever so present in the rural and semi-urban areas. We see an increasing demand for “frugal” products also in the industrialized nations of the West.

Abdul Rahim Khan-i-Khana, one of the nine “jewels” in the court of India’s great Moghul Emperor, Akbar, and an avid poet known for packing great and pointed insights in small couplets, cautions in one of his dohas (verses) against relying excessively on the “big” solutions. “A task that can be achieved by a needle,” reminds Rahim, “often cannot be performed by a sword”, even though a needle is small and inexpensive and a sword big and much more expensive.

This metaphor, perhaps, can succinctly summarize the appeal of “frugal” solutions that are sought by the large and voluminous markets in India and other emerging economies. Most consumers here are wary of purchasing products that are beset with functionalities that are not required; costs of ownership that are too high; a build that is too fragile; and a price point which is not affordable. An average consumer in a market like India is basically carrying a paradox within. On the one hand, he (or she) aspires for consumption and yearns for a better standard of living; on the other he is often driven by nothing less than a “passionate rationality” about his purchasing decisions.

It is this challenge of simultaneously addressing these two paradoxical wants, which firms need to master for succeeding in such a market, and what we call is the “frugal challenge”.

A report in the German newspaper Die Welt a few months ago brought this challenge to the fore: German machines in the construction sector are “too...
good to succeed “in the emerging mar-
Kets, it said. They win a lot of innova-
tion prizes at industrial exhibitions, it
said, not the purchasing orders.

What is frugal?
In terms of dictionary meaning frugal refers to “economical in use or expen-
ditute; prudently saving or sparing; not wasteful; entailing little expense;
or requiring few resources”. It there-
fore implies careful and saving use of
resources, for example through pru-
dent planning in the disposition of
resources so as to avoid unnecessary
cost, and does not seek to compel
him (or her) into purchasing more than
what his perceived requirements are. In a sense, it is a “democratization” of
innovation, because a customer can
choose “add-on” features and upgra-
des depending on his taste, choice and
financial resources within the para-
meters defined by regulatory quality
standards.

At another level, frugal innova-
tions also signify a transition from
heavily technology and R&D driven
“inventions” to more market-driven
“innovations”. Frugal innovations
remind us that the primary purpose
of a product development activity is to
nap an unfulfilled demand, and enable
consumption. Frugal innovations show
that sophistication of a solution is not
rooted in “the newest and most advan-
ced technology” but in a “comfortable,
robust, and affordable solution capable
to up the standard of living to the
next better level”.

Drivers of frugal innovation

Opportunities for future growth
now mainly lie in the unsaturated mar-
Kets of the emerging economies. With
a great reduction in the absolute number
of people living below poverty line a
new class of consumers has emerged in
the developing world creating a large
market ready for consumption. Since
the purchasing power of the most of
these consumers does not allow them,
yet, to consume at the same level as
the most of their counterparts in the
industrialized West, they need pro-
ducts which can match their aspira-
tions while catering to their specific
environmental and cultural require-
ments. In the era of the Internet and
television the traditional concepts
building upon the international pro-
duct life-cycle theory have been ren-
dered redundant. It is no more feasible
for companies to send their commodi-
tized “outdated” products to the coun-
tries of the “Third World”.

Second, the relative importance of
developing nations is set to increase
even further. They have not only
become major recipients, but also major
sources of foreign direct investment
(FDI). Between 1992-2012, the stock of
inward FDI in developing nations rose
from 611 8,592 billion US-Dollar,
demonstrating the growing economic
activity there. Increased (outward) FDI
by emerging market firms also means
that they are bringing in their frugal
products also to the Western markets.
To pre-empt this threat many Western
domestic firms are turning apprehensive of over-engi-
neered products and the planned obsolescence, which deliberately crea-
tes products that deteriorate almost as
soon as the guarantee period is over,
inducing the customer to make a new
purchase. There are also economic fac-
tors associated. A recent study by the
International Federation of Red Cross
and Red Crescent Societies states that
in Europe there are “43 million who do
not get enough to eat each day”.

Summarizing, it may be stated that
the presence of a large and unsatura-
ted young population, driven by aspira-
tions, creates a unique opportunity
for firms to create new and affordable
solutions. The volumes can compen-
sate thin margins. At the same time,
India’s innovation eco-system allows
firms to create affordable, “good enough” solutions. A high focus
on technology-driven “high tech, high
price” innovations runs the risk of
losing the sight of the changing con-
sumer wants.

Therefore, it would be worthwhile
to listen to Adam Smith, who wrote:
“Consumption is the sole end and pur-
pose of all production; and the interest
of the producer ought to be attended
to, only so far as it may be necessary
for promoting that of the consumer.” If
this is made to be the guiding principle
during product development for India
– and indeed elsewhere – not much can
go wrong.