The Frugal Paradigm

*Developing a Conceptual Framework for Affordability-Driven Innovations*

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**Agenda**

- Understanding “frugal innovations”
- Bibliometric analysis
- Core insights
- A framework for “frugal innovation”
- Summary / research outlook
What is “frugal”, what is “innovation”?

- “Frugal” is an adjective:
  - **Meaning:** economical in use or expenditure; prudently saving or sparing; not wasteful; entailing little expense; requiring few resources;
  - **Antonyms:** wasteful; extravagant; luxurious; lavish
  - **Synonyms:** Economical, thrifty, frugal all “imply careful and saving use of resources”, e.g. prudent planning in the disposition of resources so as to avoid unnecessary waste or expense

- Innovation is a noun, which signifies
  - “the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.” (OECD, 2007).

www.global‐innovation.net
What “frugal innovation” is not!

“It will be a problem demolishing it, sir. Why not just put a board ‘low cost housing complex’ and leave it?”

By: R.K. Laxman

Tracing the intellectual antecedents

- Identification of 33 terms (synonyms) in 95 different variations (such as singular/plural, with or without hyphen)
  - “frugality”, “frugal engineering”, “Gandhian innovations”
- Not including “BOP” (Bottom of the Pyramid) literature
- Total >1050 hits in academic literature databases of Ebsco Host, GVK Plus and Google Scholar, as of June end 2013
**Bibliometric analysis**

- A total of 590 publications were identified, of which 68 were journal articles:
  - The earliest article was from von Hayek (1932) titled *A Note on the Development of the Doctrine of Forced Saving* in the Quarterly Journal of Economics (47:1, 123-133).
  - Most articles (44) published since 2010. Also Google search results show similar results.
- The largest number of articles (19) was published in marketing and consumer research related journals, followed by journals on technology management (7), those focused on emerging markets (6), and psychology (6).
- A content analysis confirmed such a division in focus: While around 46% of the published papers dealt with consumption issues, about one-third dealt with it as an “innovation phenomenon” (technologies, implications for R&D etc.)

**Supporting preliminary studies**

**Summarized Findings from 5 Cases**

**Common Features**
- Importance of an attractive value proposition
- Need for robustness
- Emphasis on user friendliness
- Need to reduce the overall cost of ownership
- Potential for volume-based business

**Selected Implications for propositions**
- Solutions for problems “rooted in the present”
- High price sensitivity of the targeted customers
- Often absence of legacy systems → “product vacuum”
- Significant in-house R&D capabilities and access to cutting-edge knowledge at low cost
- Sophistication of solution not rooted in “the newest and most advanced technology” but in a “comfortable, robust, and affordable solution capable to uplift the standard of living to the next better level”
"Frugal“ innovations seem to contain several aspects such as B2C and B2B dimensions, and can act as an encompassing umbrella

**Core insights**

- Frugal innovations seem to go much beyond the mere “low cost” approach targeted at end-consumers. These target the price-sensitive customer including in B2B areas.
- Quality perceptions and image concerns (value proposition) play a key role in the acceptance of frugal products.
- There is an increasing relevance of frugal products in the industrialized nations due to factors such as:
  - stagnant economic growth leading, in some cases, even to recession,
  - the growing environmental concerns
  - ethical issues in reaction to (a perceived) materialism/consumerism practiced so far
Summary & outlook

Proposing a definition

“Frugal innovations seek to minimize the use of material and financial resources in the complete value chain with the objective of substantially reducing the cost of ownership/usage of a product while fulfilling or even exceeding pre-defined criteria of acceptable quality standards.”

Future research

• A co-citation analysis of the identified literature to identify the schools of thought that have shaped the scholarly discourse on frugal innovations.
  – Include literature on BOP in this analysis (?)

• Look into the demand for frugal products in industrialized nations and the possible differences in motives of consumers in accepting them, as well as at contextual similarities/dissimilarities to low-income consumers in developing nations.

• Implications for established firms (threat of cannibalizing own portfolio; long-term implications when consumers have higher purchasing power)

Thank you for your attention!

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