innovation blowback

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Innovation blowback refers to the unforeseen outcomes of investments that corporations make in emerging markets. The setting up of business in new territories often encourages companies in the host country to improve their processes, products, and performance. In turn, they emerge as competitors of the original investors, both in the local market and the investor's home market. The concept gained attention through the McKinsey report (2005) on disruptive innovation.

Investing in emerging economies in order to increase growth tends to activate new imitative competition in those territories. The challenge posed by innovation blowback is that it boosts the development of disruptive products and services, which eventually pose a threat for the original investors.

Companies in emerging markets have proven to be more aggressive with innovation practices than the foreign investors from developed economies. Their ability to engage in frugal creative innovation provides them with the competitive capability to produce low-cost products. The low price of the products creates a high demand from the mass market at the base of the economic pyramid.

The scale of the demand for mass-market products provides the companies in the emerging markets with new economic power. The innovative products and services that they create quickly evolve into a major source of supply, both in the emerging and the developed markets.

The dynamics of innovation blowback creates the need for a shift in the mind-set of corporate executives. Entering new emerging markets to create growth may no longer be a viable, long-term strategy. The benefits derived would be temporary, and would diminish as the local companies come up to speed to produce the same goods and services, usually at a lower cost. Given their low-cost advantage, the emerging competitors are bound to expand into international markets in the long run.

One percent of China's gross domestic product (GDP) is earned from export to Walmart stores. Companies in emerging markets are investing heavily in innovating low-price products to service large-scale, mid- to low-income segments in America, Latin America, India, China, and Africa. Walmart provides an existing distribution network for such products.

Walmart's strategy is to ride the wave of the innovation blowback phenomenon to its advantage. Rather than resisting importation, it has embarked on a cost-conscious policy to encourage the new breed of manufacturers and to channel their low-cost products at the mass retail markets.

In order to counteract blowback, businesses could target low-income customers that constitute large-scale markets. Businesses must engage in product innovation and operational dexterity to thrive. Lower manufacturing costs and more efficient process management become the key competitive forces.

See also *disruptive innovation*; *frugal innovation*; *innovation strategy*; *R&D strategy*; *technology and standards in network industries*

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