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Global development through frugal innovations?

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Global development through frugal innovations?

Bonn, Berlin, 22 April 2013. What do a USD 35 tablet computer, an USD 800 electrocardiograph (ECG) and a USD 2500 car have in common? They all come from India, and they all have been referred to in the business press in recent years as “frugal innovations”, examples of a possible new innovation paradigm. According to the dictionary, “frugal” is synonymous with “simple” or “scanty”. And indeed, these products could be described as simply or scantily equipped. The business press celebrates them for this particular reason: the innovation lies in the consistent reduction of the products to their core function or the functions users regard as indispensable.

This enables the selling price to be reduced, thus, new groups of potential buyers to be targeted. It is reported that the Aakash tablet enables users to do little more than to surf the internet and read documents. However, that was all that was wanted, since the Indian government is subsidising sales to give as many students as possible access to the digital world. General Electric’s Mac 400 is a portable ECG, reduced to its essential functions and capable of running on batteries. It is particularly designed to make it easier to carry out medical diagnoses in rural areas. The Nano, launched in 2008 by the Indian conglomerate Tata, was advertised as the world’s cheapest car and ought to be India’s Volkswagen.

Sales of the Nano have been far lower than expected, and the Aakash tablet, which India recently advocated at the United Nations, is attracting growing numbers of adverse headlines about supply bottlenecks and technical inadequacies. What is important, however, is not the individual product, its strengths and weaknesses, but the underlying principle: the concentration on the core function or core uses of a product. The tablet is designed to enable processing documents and giving access to the internet, the ECG to make

essential medical diagnoses possible and the car to get people from A to B. Products of this kind have no “extras”, they do not cater for any special requests, but they do meet the basic needs of the people who use them: communication, education, health care and mobility.

“New middle classes” as drivers of innovation

In debates it is now possible to hear voices describing the frugal innovation paradigm as an approach to solving development problems. There is no denying that these problems still abound and that innovative solutions are needed. Food security, health care and access to education are still focal issues in global development. In view of global population growth, these challenges are not diminishing. However, people’s income situations have improved significantly with the dynamic economic development that many countries are experiencing. For many years, the global business world has therefore been discussing the prospect of billions of new consumers, who are labelled as the “new middle classes” emerging in many countries. There is no comparison yet with what the West understands by “middle class” in terms of income levels.

As an analysis by the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) succinctly puts it: “Many of those who used to have nothing now have a little more.” But even this “little more” means a huge increase in purchasing power in emerging economies. And this is the target at which businesses are aiming with frugal innovations: they are trying to meet the needs of these “new middle classes”. For those currently able to gain access to the net only by going to an internet café, owning a tablet – however slow access to the internet with it may be – is a definite leap forward. What is new about this is that product development and marketing are

increasingly taking place in emerging markets rather than the old industrialised countries.

Brazil, China, India and other dynamic economies are undoubtedly tapping their local innovation potential more and more. In a growing number of cases, orientation towards local needs and local purchasing power is becoming both a commercial necessity and at the same time a deliberate strategy. In the past, catching up with global value chains as quickly as possible was regarded as the best approach. Today, it is clear that consistent concentration on the local market may well enable products manufactured by global enterprises to be ousted.

The growing orientation of product development towards the needs of the “new middle classes” may indeed contribute to development in the areas of nutrition, health and education. Refrigerators and stoves, medical diagnosis and treatment devices, smart phones and computers are everyday equipment that we take for granted. But globally, many people will be using these devices and their functions for the first time in the next few years. As a result, their quality of life will improve.

Development needs more than frugal innovation

What is also clear, however, is that there are still, and will continue to be in the foreseeable future, far too many people who lack financial means to meet even their daily needs. The United Nations still assume that approx. 850 million people are currently undernourished. For these people there is sadly no sign of a rapid solution in the form of frugal innovations. What they undoubtedly need above all are (socio-)political rather than frugal innovations. New products – innovative and helpful though they may be to the individual – do not automatically solve systemic problems. How useful is a tablet without learning content or a medical device without a trained health worker to operate it? What benefit is to be gained from a car if it is used in megacities suffering from constant gridlock.

For many people, having a little more access to innovative products is certainly a step forward, but it does not mean that the development problems faced by many countries – even the emerging economies – will solve themselves.



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