亞新商業創造 ASIA NEW BUSINESS CREATION

A sharp focus on customer needs, a knack for cost innovation, and a rapid speed of reaction. Those are the main competetive advantages that Asian companies tend to have. But how do they achieve it, what goes on inside the companies, and why are they doing things differently than companies in the West?

www.asianbc.dk

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Universe Fonden
STYRKER INNOVATION OG LÆRELYST

> »The innovation approach and mindset between Asia and the western world are very different. They inspire us to renew ourselves and take innovation to the next level.«

Michael Holm Hansen, Director, Front-End Innovation, Coloplast

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This report is published by the Universe Foundation, Denmark, 2011.
The AsiaNBC project is sponsored by the Danish agency for Science, Technology and Innovation

ISBN: 978-87-994849-1-1

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Layout: Mediegruppen
Photo credits: iStockphoto, cColourbox ,Wikimedia (p.27), Universe Fonden

Introducing AsiaNBC

The Asia New Business Creation project – or AsiaNBC – is a study of the differences in approach to innovation and new business creation between companies in Asia and the West. The main purpose of the project is to identify methods that could be transferred between cultures and across specific local contexts in order to improve the efficiency of innovation.

The project is coordinated by The Universe Foundation and sponsored by the Danish Ministry of Science and innovation.

The core of the project has been an exchange of experiences and methods between 8 participating companies – 5 Danish, and 3 Asian companies from Singapore, China and Korea.

The companies have participated in in-depth interviews in order to describe two case stories from each company; one successful case and one, which was less of a success.

The companies have met for two intense 4-day learning exchanges; in Shanghai in may 2010, and in Copenhagen in November 2010. On both occasions, the companies presented methods and challenges to each other, and they were supplemented by presentations from a number of international experts.

During the project the companies have been visited and interviewed by researchers in order to follow how the companies have learned and implemented the findings from the project.
In addition the Universe Foundation and its knowledge partners have conducted extensive research over a two year period, visiting and interviewing more than 40 Asian experts and companies along the way.

This article is meant as a short and very practical overview of the main findings of the project. It is adressed at managers and developers in companies, and its emphasis is on presenting experiences and method which can be used directly by a Western company wanting to improve it's methods for new business creation.

It is not an academic paper, but it is based on an extensive background material. Anyone wishing to get into more details can find short video interviews, longer descriptions, additional analysis, case stories, references and links at the www.asianbc.dk website.

The AsiaNBC website also features an interactive tool for analysis, which has been developed to guide companies towards considerations and information that is specifically suited for their particular challenges.

»If we are to maintain our leading position in the market, it's crucial for us to understand how competitors from Asia, particularly China, work and develop products«

KELD HJORTSHØJ, DEPARTMENT MANAGER, FLSMIDTH

PARTICIPATING COMPANIES

From Denmark:

Grundfos

Novozymes – Rethink Tomorrow

Coloplast

Gabriel

FLSmidth

From Singapore:

ST Electronics – A company of ST Engineering

From Korea:

Woongjin

From China:

Haier

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The research has been conducted by the Universe Foundation in collaboration with:

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Claus Lønborg, executive director and **Zhu Bin**, senior consultant and deputy manager at Innovation Center Denmark, Shanghai

4 big concepts

Evidently, any attempt to characterize the Asian approach to innovation must be very general. Asia is a big continent, and there are great differences in culture and levels of economic development among the countries – and even within countries. For instance, in China, there are huge differences in approach between the new private startups and the old, giant state-owned enterprises.
Among the Asian countries, the project has clearly put most focus on China as a reflection of the particular importance and strong interest in understanding the approaches of Chinese companies.

This project does not claim to describe all aspects of Asian innovation – however, the methods identified and described in this article are certainly prevalent, and among the characteristics that any Western company will encounter when they compete against Asian companies in the global marketplace.

The challenge to go mid-market

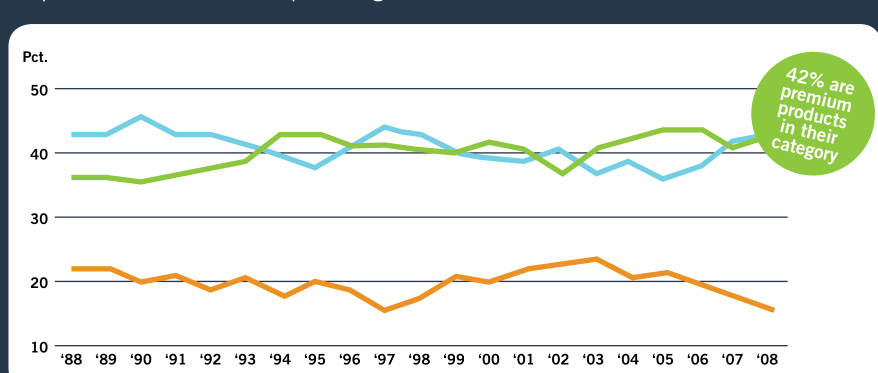
Western companies that wish to extend their business in new markets face a fundamental challenge to the mindset that they normally operate from. The usual Western strategy for expansion would be to identify the segment of a potential market in which customers have an income and a lifestyle that's similar to the company's traditional customers. This allows the company to export its existing products with few adjustments. A typical push strategy.

This approach is increasingly insufficient, because the most important and dynamic markets are now in the emerging economies – and in particular in the mid-section of the emerging markets. Many Western companies only address the relatively small top section of consumers, although the opportunities might be much greater if the company modified its product to fit the needs and budgets of the huge and rapidly growing mid-section of the market.

Not only is it a lost opportunity to ignore the midmarket, but long-term it can also be extremely risky. By neglecting to offer products suited for the mid- and lower end of the market, a Western company risks being out-competed from below, by local companies offering products that sell broadly at a cheaper price, and which can gradually be developed to be acceptable even for consumers in the Western company's home market.

Danisk export: Increasing share of up-market products

Proportion of total Danish exports of goods



Source: Eurostat + Dansk Industri

Up-market products   Middle-market products   Down-market products

Cost innovation - from nice to have to need to have

Cost innovation is difficult for Western companies that usually pride themselves of their focus on high quality. Western consumers are relatively wealthy and demanding, and companies have differentiated themselves by offering more advanced features, high quality and reliability – often in excess of the actual needs of the customer.

Many Western designers and engineers will point out that they are not trying to simply give the customers what they want, because the customer may not know what they want or need – particularly in the case of completely new products. The company sees itself as competing by staying ahead of the markets demands.

In emerging markets it is crucial to focus on low cost. Mid-market customers there will not pay for features that exceed their needs and demands. Companies are forced to carefully examine what parts of their products are need to have – as opposed to what's nice to have.

At the same time, Western companies need to understand the new markets well enough to make adjustments or add special features that improve the products utility in the particular local context.

Electrically powered bikes are common in China. Many of the models look extremely basic, but designs are rapidly improving. Soon, this industry could develop cheap and useful products that sell globally.

FOUR INTERRELATED CONCEPTS

There are 4 interrelated concepts that collectively cover the main characteristics of Asian innovation:

Suitable
Letting go
Fluidity
Catch up context

Likewise, the characteristics of Western innovation can, very generally, be summarized in 4 concepts:

Brand
Strong brand, with a reliable and well known quality

Difference
Adding value by designing the entire consumer experience, not just raw functionality

Experience
Unique features that justify a higher price

Rigidity
Mature organizational structure. Optimized, rationalized, but also in-flexible

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SUITABLE

Western companies should ensure that they don't price themselves out of markets by offering qualities and features that exceed the demands of the large and rapidly growing numbers of mid-market customers. Companies must listen carefully to customers in order to develop solutions that really make a difference.

In short: Products and solutions should be suitable for the particular market. This is a strategy that Asian companies seem very good at.

Haier, the giant Chinese manufacturer of household appliances, is an excellent example of creating suitable products. At their headquarters in Qingdao, Haier has a large showroom with a bewildering number of different washing machines and other white goods, each carefully targeted at the demands of a very specific market segment.

In China alone, Haier divides customers into more than 70 different segments - a much more detailed approach than their Western competitors.

As part of Haiers research to understand the customers of rural China, they noticed a complaint from a farmer, who was dissatisfied that his washing machine clogged when he used it to wash potatoes before bringing them to market to sell. Another manufacturer might have suggested that the farmer simply stopped using the machine for washing potatoes, but instead Haier adjusted the design, and they now offer a machine that can wash both clothes and potatoes.

Likewise, Haier identified that half of rural households in China place their white goods outside, so Haier started manufacturing a line of appliances in plastic to prevent rust. For cold regions, Haier has developed washing machines that can operate at freezing temperatures. For areas plagued by mice and rats, Haier has developed appliances with rodent-proof base and wiring.

Haier follows the same strategy in other countries. For Africa, Haier has developed a freezer, which can keep cold for many hours during power outages. Haier has designed an extra large washing machines to accommodate the large robes that women in Muslim countries wear, and for Australia, Haier has developed sophisticated technology to save water – even a washing machine using electrolysis rather than detergents to remove dirt.

For Haier, custumer understanding - listening and adapting to the demands and needs - is a crucial core competence.

The Indian Tata Nano car is another example of an effort to open a new market segment by rethinking existing products to match exactly the needs and budget of a segment of the population, which so far hasn't had access to this type of product. The Tata Nano has no power steering or radio. There is only a rearview mirror in the driver's side and the engine is two cylinders and has four gears. There are no airbags, no watch, and no glove compartment.

But the price is unique, around $2.500. Tata Nano is targeted to a group of consumers for whom the alternative is to transport the whole family balancing on a motorcycle or scooter. The Nano costs around half of what the cheapest cars on the market used to cost, and this breakthrough in price means that it suddenly becomes a realistic option for millions of families who are moving up in the global middle class, to buy a car.

Tata Nano's greatest significance may lie beyond the Indian home market. A cheap car is attractive in many other countries, and although the target customers are in the emerging markets, Tata is preparing a better-equipped version as a low cost car for developed countries, including Denmark.

SUITABLE =
cost innovation
+ localized features
based on strong
customer insight.

Haier

Among the many different washing machines sold by Haier are models with a mouse and rat-proof base. One model is suitable for washing potatoes, besides clothes.

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By radically lowering the price of the Nano, Tata has made cars available to whole new segment of consumers.

Listen – and act

A precondition for pursuing a strategy of creating such suitable products is the ability to listen carefully to the customers. This takes a dedicated effort, and it requires an organization that's able to process observations and input from the market into product development.

Obviously, the need to understand the market's needs applies everywhere, yet not all exporters make the effort to listen. For a company entering a new market, listening implies being present in that market, observing, discussing and interacting with local customers in order to develop locally suited solutions.

You cannot, for instance, develop suitable products for an emerging market from the design department in your headquarters in the West. Unless your developers are in the market you will not be able to pick up the crucial local insights.

An example of this is the development of single use packages of shampoo, detergent and lotions for the Indian market. By selling in portions costing just a few rupees, the brand name manufacturers have opened their authentic experience to the large part of consumers who don't want or can't afford to invest in a whole bottle or package.

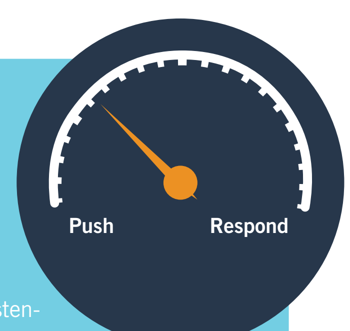
Such an understanding of the customer's context is not possible at a distance.

Woongjin/Coway – a Korean producer of electronic bidets, air-and water purifiers and other appliances for home comfort – offers an example of how a company can stay in close contact with its customers. Woongjin doesn't sell its products, instead they are leased to customers, and they are installed and maintained by a large workforce of so-called Coway ladies, who come to the customer's home every few months to service the appliances, change filters etc. In Korea, Coway employs 15.000 of these Coway ladies. They are the companies' eyes and ears, and their reports of the customers' complaints and wishes are an important source of knowledge for further product development.

Adjustments based on cultural understanding

Companies adjust to local markets to a very different degree. At the simplest level, companies need to conform to the technical standards and requirements – for instance by supplying the proper power plug. Next step would be to create user manuals and support in the local language. However, as important as these adjustments are, they are not likely to be enough to distinguish the product.

To be truly suitable, a solution should be based on a cultural understanding. For instance, a Western manufacturer of sound systems needs to understand that Asian consumers prefer to listen to music through headphones. This insight would allow the manufacturer to focus on systems that offer a personal experience, rather than trying to sell expensive loudspeakers. Or, the company may benefit from the additional insight that when Asians listen to music together, it is often because they are singing karaoke. Karaoke functions are an important feature for a sound system in Asia, but the designer at the headquarters of a Western company could easily overlook it, because it is not part of the Western culture.



STRATEGIC CONSIDERATION

As described, Western companies typically have a "push" approach; developing products based on what they already feel are the right features and quality.

In contrast, Asian companies tend to be extremely responsive; listening closely to costumers needs and developing solutions that fit, both in terms of features and price.

A western company could consider if it should become more responsive. How could it become better at listening to the market?

What procedures would it need to set up in order to make designers and developers act on the consumer insights?

Small shops and stalls throughout India sell single-use packages of shampoo and detergent – a way to make foreign brand names affordable in low income regions.

Cost innovation

A good western engineer or designer will almost instinctively try to improve products by adding new features, using better materials and creating better services. The consequence, however, is that prices tend to move upwards a little each year, every time a new and improved model is launched.

An Asian company aiming at an emerging market is more likely to be innovative in terms of cost saving. Rather than adding features or improving quality, an Asian company may try remove features that are not strictly necessary, or to find ways of offering the same functionality using cheaper materials. It is an approach that is closely related to the idea of products being suitable for the market.

Although they may be less inclined to cost innovation there are plenty of examples of Western companies that have found ways to radically lower their cost and thereby opened large new markets of consumers who previously could not afford to buy this type of products.

- Ryanair, Easy Jet and other budget carriers have changed the airline industry, by systematically removing non-essential costs and services.
- Ikea has made furniture of good design and decent quality available to all segments of the population by "knocking down" furniture into components that can be transported in flat boxes and assembled by the customer at home.
- Swatch opened Swiss watches to the mass market, through modularized designs, automated production and by using cheap materials.

STRATEGIC CONSIDERATION

Although engineers and designers may sneer at the low cost producers, they could consider if cost innovation might be a worthwhile challenge to take on. It takes skills, creativity and insight to create solutions that are satisfying but cost a fraction of the usual offerings on the market.

How might a Western company focus on lowering prices, rather than raising the sophistication? What is the essence that the company offers? What could be optional?

Difference

A challenge for almost any mature Western company is to avoid commoditization. Often a company will have its first commercial success by developing a new product, which offers a breakthrough in terms of functionality or price. For a while the company will enjoy having a unique advantage, and earning good margins, because it doesn't face much competition in its niche. This situation has been described as being in a "blue ocean".

Soon, however, competitors and copycats will start to move in and try to grab their share of the market. The technology matures and gradually reaches a point where most of the products on the market deliver the necessary, basic functionality. Eventually, the product becomes a commodity that's hard to differentiate on anything but price. The blue ocean has turned "red"; crowded with dangerous competition. For producers from expensive developed countries this is generally not very attractive, and therefore companies will add new features and services, strengthen the brand, and otherwise try to create some difference that will make their product stand out and justify it's higher price.

Asian low cost producers are quite comfortable in the "red ocean". For the company, which can produce the cheapest, it's not a problem that it's offering more or less the same as everybody else. Imitation makes sense if you have low production costs.

山寨

SHANZHAI

The most extreme examples of low-cost producers are the so-called "Shanzhai" companies. The term shanzhai (山寨) means "the bandits' hide-out" in Chinese. It is usually used to describe the copies of brand name luxury goods like watches, bags and clothes, which are sold on street corners and in underground tunnels. The blatant copying extends far beyond that, though. Even advanced product like phone handsets, medical devices and cars are copied outright, and to the untrained eye it can be very difficult to spot the differences between the original and the copy.

Shanzhai is interesting in terms of innovation, because beyond the producers that simply make cheap copies of Western originals, there's a large number of manufacturers who clearly imitate, but who also add innovations – either by figuring out ways to deliver the essential functionality in a simpler and cheaper way, or by adding new features based on their understanding of the local market.

This strategy is at the core of Chinese industry and it typifies a number of the main characteristics of Asian style innovation:

- Adjusting and adapting rather than inventing from scratch
- Imitating and building on what seems to work already
- Low cost focus
- Adding features based on local knowledge and explicit demand

An example of this is the Shenzhen-based producer of handsets and tablet computers, Yulong Coolpad, who developed a phone handset with two slots for SIM cards, based on the insight that users combine subscriptions from different carriers depending on the services they access, if they travel, or switch between private and work related use.

The handset itself is based on standard components that are manufactured by an abundance of suppliers in the Shenzhen area, so the phone is both cost-competitive and it offers a way for customers to save even more on their communication bill.

Spot the difference: You have to look very close to see that this is not a Toyota Aygo but a BYD car.

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The Apple Peel is a Chinese designed case which fits around an Ipod in order to make it work like an Iphone. It's compatible with Apple software – but at a third of the usual price.

r&D

Compared to the West, Asian companies spend fewer resources on original research and analysis. Instead their efforts are focused on the development stage. STe, one of the participants in the AsiaNBC project, describes this is as “r&D – with a small r”.

In part this reflects a mindset among those working with innovation. In the West there is a strong culture of wanting to develop everything yourself. The most respectable form of creativity is seen as inventing something entirely new from scratch, preferably on your own. Western innovators will try to fundamentally re-invent solutions by doing basic research and they will often chose not use solutions that were developed by others – what’s known as the “not invented here” – mindset.

Asian innovators seem more likely to examine what solutions and technologies are already available, and use those as a starting point for improvement. Asian innovators will copy, combine, remix and adapt existing solutions to fit the demands of the market – and this is one of the reasons why Asian companies are so fast to react to changes in the market.

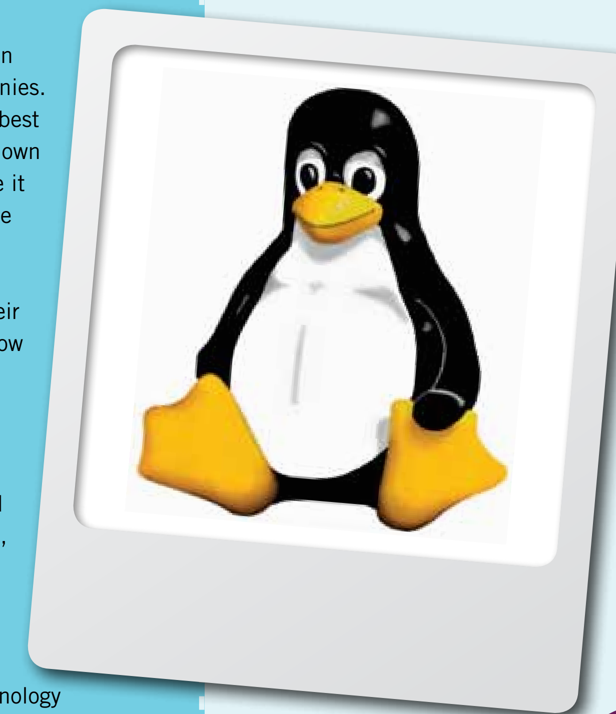
Interestingly, there has been great interest in “open innovation” in recent years among Western companies. Innovators have a growing understanding that the best solutions might come from outside the company’s own research lab, and digital communication has made it much faster and easier to cooperate and coordinate global partnerships of development.

The American corporation P&G was an early adopter of the open innovation philosophy, and their extensive product development departments are now working under the motto: Connect and develop – rather than research and develop.

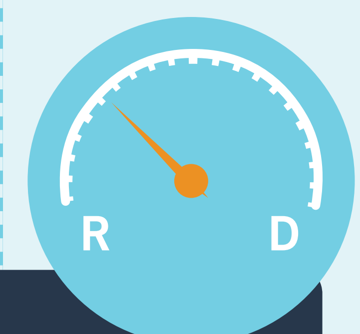
This resembles the Asian innovation approach. It’s rare for Asian companies to do basic research. In China, new technologies are typically developed at universities or government technology institutes, and the cooperation between companies and university departments is often much more direct than what is seen in the West.

Asian companies will also tend to acquire new technology through licensing, or through technology transfer agreements as part of joint ventures with Western companies.

The open attitude of Asian companies does not seem to be equally strong when it comes to sharing information and ideas with others. Whereas they may be good at listening, learning and applying their findings to new products, they are strategically more reluctant to share with others what they know.



Open innovation. The Linux operating system is an example of global cooperation around open source software. The program is free to use, and anyone can try to modify and improve the software. Although many companies invest heavily in contributing to the development of Linux, no one owns it.



STRATEGIC CONSIDERATION

Doing original research is slow, expensive and risky. It can pay off well, and it may be necessary to avoid commoditization, but Western companies could consider what would be the implications if they put more emphasis on development and less on research.

How would budgets change?
How would the work of innovators in the company change?

LETTING GO

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Asian companies generally seem prepared to change – even quite radically. Whereas a Western company often prides itself on having a unique and strong identity, Asian companies seem more willing to adapt to the current context. This is evident both as a willingness to adapt and design products that please the market, and in a willingness to change the way the company operates in order to fit into partnerships.

Ready to change

Any westerner dealing with companies in Asia will have noticed that Asians more often than not have adopted a Western style first name. It's a gesture which signals a willingness to engage in the Western culture, and for the Westerner, this makes the Asian person much more accessible.

The significance of this small gesture becomes clear if one tries to imagine a Westerner taking an Asian name and using it on a regular basis. To most Westerners this would be almost unthinkable.

It's an example of an attitude, which one might summarize as a willingness to let go – to move beyond the way you've been doing things so far.

The pros and cons of strong brands

There are two parts to opening up: One is listening, the other is a willingness to change. Mature companies can be very reluctant to do things differently – for good reasons. Much of the strength of an established company lies in the stability, reliability and predictability it offers its customers. Western companies typically rely heavily on their brand, and they spend considerably to build up and protect it. A trusted brand is an important way to avoid commoditization in industries, where the difference in quality and functionality of the actual products is hard to demonstrate.

Sacred brand - or pragmatic brand

A strong brand signals that the company has the expertise and insights to move the field forward. In some cases this results in an almost patronizing or arrogant attitude to consumers.

For instance, Apple computer have several times forced their customers to change simply by launching new models, without old features that were still considered standard on other makes: examples include floppy disk drives, particular connectors, or support for Flash software.

Similarly, BMW took a big risk by introducing the Idrive interface, which placed many of the central electronic controls of the car in a new, un-familiar knob.

Danish Bang & Olufsen is another example of such a "sacred brand", whose customers trust it to move them forward to experiences that they could not have imagined themselves.
The attitude is expressed by Bang & Olufsen's lead designer, David Lewis who has said that "I don't think [customers] know what they want". Likewise, Bang & Olufsen's company vision emphasis its "courage to constantly question the ordinary in search of surprising, long-lasting experiences".

In comparison, Asian brands generally have a more "pragmatic" attitude. Huawei, one of the best-established and most innovative Chinese brands, does not speak of changing the world in its vision statements. According to its founder and CEO, Ren Zhengfei, Huawei strives to "be the world's leading vendor in telecommunication industry".

Huawei is extremely ambitious about it's size and position, but it realizes its plan by following market demands closely. Huawei does not develop solutions that it doesn't see an immediate need for, and there is a clear policy of listening and reacting to customers' complaints and comments.

It's unlikely that any customers knew they wanted this type of loud speakers – until B&O designed them

When brands become a burden

The drawback of a strong brand is that it can leave the company with very little freedom for experimentation and change – in contrast to less established companies, that have less to loose by trying out new strategies and technologies.

Asian companies are generally likely to send products to market faster than Western companies that usually first want to thoroughly test whether everything is in order and in accordance with the signals reported in the market surveys.

As Edward Tse, head of the consulting firm Booz & Co. 's operations in China, says, Chinese companies use the market to test their ideas. They launch a series of products and see what happens. If it doesn't sell, they are quick to try something else instead. New products need not be absolutely right when they are launched. It is good enough if they are approximately right.

You can afford this strategy as long as you are relatively new in the industry and the market is changing rapidly. The better known and respected a brand becomes, the less the company behind it can afford to make mistakes.

This shows the dilemma of strong branding: The consistency creates customer loyalty and justifies a higher price – but it becomes difficult to keep up the speed of development and renewal without making too many mistakes that could compromise the reputation.

Over many years, Toyota carefully built a reputation for being the manufacturer of cars with the least defects. But in their eagerness to also become the world's largest automobile manufacturer they began to neglect the quality. In recent years the company has run into a large number of product related accidents, and it has had to make massive recalls of cars. The incidents have severely damaged its reputation for flawless production.

Without belittling Toyota's fatal arrogance in dealing with the quality issues, it is worth considering what would have happened if instead of Toyota it were a Chinese automaker, which had similar production errors. Most likely it would not make the front pages of the global media if the brakes failed on a Geely, Tailwind or BYD car.

Dual branding allows for experimentation

It can be risky for an established Western brand to launch low-cost or "de-featured" versions in order to enter an emerging market. The market place is global, and if a company sells its product with lower specifications or chooses to sell at lower prices in one market, it may spill over to other markets and damage the brand or cannibalize sales of the more expensive offerings.

One strategy is to establish a second brand with which the company can take chances and operate without the constraints that protecting the main brand creates. A successful example of dual branding is Danfoss Drives, which acquired Holip, a local Chinese manufacturer of power converters. Danfoss gives technological support and adds some of the trust and reliability that the association to a large international company provides, but Holip has Chinese management and it develops and produces in China for the Chinese market.

Having a local brand allows Danfoss to address and learn about the mid-market. Having a low-cost offering also gives Danfoss the possibility to bid for lower paying contracts, which over time may lead to orders for the more expensive solutions which the main brand can offer.

STRATEGIC CONSIDERATION

A strong brand allows you to stand out in the crowd of competitors, and it gives customers confidence in your products. But a company with a narrowly defined identity may not be able to adress new markets. How far can you experiment without losing the identity of the brand? How can you be both flexible and reliable to customers? What parts of your brand can be changed – what parts can not be changed? What would happen if you extended the range of products and levels of quality offered under your brand name?

Bill Russo, Senior advisor, Booz & co, in Beijing describes how the Asian attitude of bringing in technology from outside of the company is different from Western ideals of innovation:

»We don't reward and recognize engineers for building on other's ideas; we tend to reward them for doing something that no one has done before. And yes, that's a way to be innovative, but who is to say that innovation can't stand on the shoulders of the giants that preceded you? There is definitely room for best practices as a platform to build up even more innovative products«

FLUIDITY

The Asian business environment is “fluid”; offering less resistance to change than the more regulated conditions in the West. There is a cultural expectation of change and a recognition that events are hard to predict – and this is reflected in business practices. Companies can move quicker and be more flexible, but are perhaps also less reliable seen from the customers’ perspective.

One way of describing the difference between business in Asia and in the West is in terms of fluidity and rigidity. A mature Western company will have developed an elaborate set of procedures that ensure stability and attempts to optimize processes. Manufacturing is typically automated or outsourced, along with other non-core competencies.

These structures provide stability and improve efficiency, but they also make the company rigid. It’s very hard to move forward in different steps or at different speeds than what the organization is geared for.

Often, Western companies will spend a lot of effort and involve most stakeholders in making detailed business plans looking several years ahead, while Asian companies tend to operate on more of an ad hoc basis. The chairman and the very top management will do the planning and they can change plans as they find it necessary.

Agreements in Asian business rely heavily on trust and personal relationships, and this allows for more flexibility to accommodate shifting conditions. Contracts can be less detailed, and even a signed contract can be subject to re-negotiation if circumstances change.

Furthermore, regulatory requirements in Asian countries can be less strict or the enforcement of regulations may be very relaxed, for instance in areas such as environmental protection, workers’ safety and consumer rights.

Investing in automation of production is not worthwhile when labor costs are low, so production in Asian factories relies on manual labor to a large extent. This gives a greater flexibility, as companies can quickly scale production up or down, or make changes to the product in response to market demands. By outsourcing their manufacturing, Western companies lose some of their ability to make such rapid adjustments.

A culture of change

The Asian fluidity is rooted in cultural traditions. Asian philosophy emphasizes the changing nature of everything and the necessity of considering contexts and relations. There is an acceptance of paradoxes and an assumption that contradictions can co-exist and be managed. These cultural traits are the basis for an attitude that seems more accommodating to ongoing change.

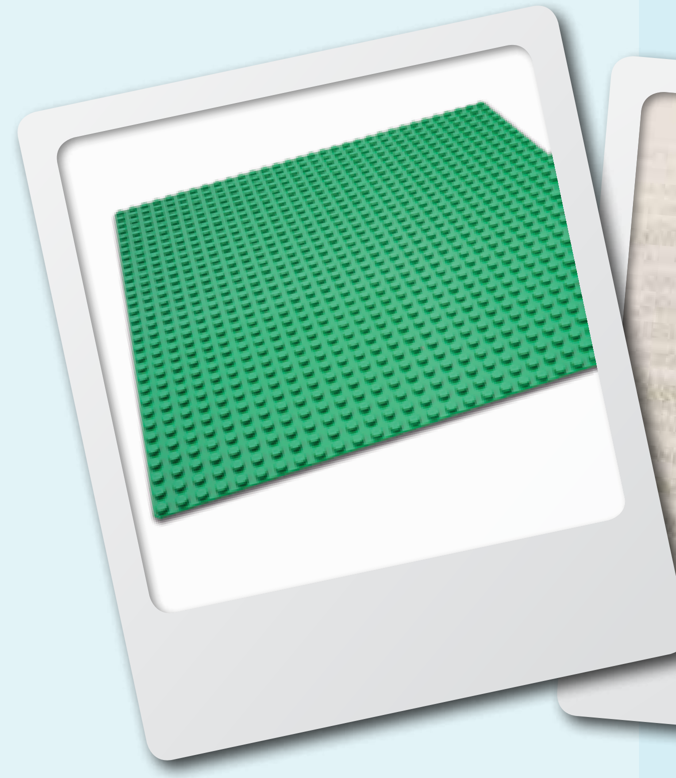
Software development is different

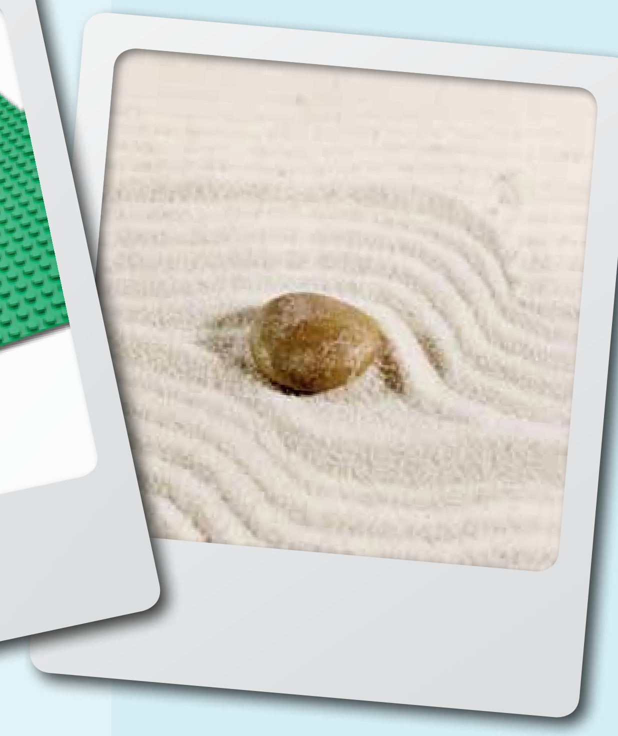
Many of the approaches that make the innovation style of Asian companies different from their Western competitors are in fact quite common in one important area of Western Industry: Software and digital services.

Fast and frequent updates, small incremental improvements, early launches, remixing and recombining input from other manufacturers, collaboration with customers – this is the way that things are done in the software business.

This raises the question whether Western companies will become more like Asian companies in their approaches, as an increasing part of the value creation and differentiation between products takes place in the digital aspects of their functionality?

WEST EAST





RIGID FLUID

Western companies typically operate in mature structures that only allow changes in certain steps.

Asian companies operate in a fluid environment, that is less resistant to large and small changes.

WEST		EAST
Stability	⟷	**Constant change**
Linear evolution	⟷	**Cyclical development**
Objects	⟷	**Substances**
Independent	⟷	**Interdependent**
Categories	⟷	**Relationships**
Either/or	⟷	**Middle way**
Single truth	⟷	**Acceptance of paradoxes**

Granularity

It's often mentioned that Asian companies work at a higher speed than their Western competitors. However, it may be more accurate to say that Asian companies are faster to change and adapt, because they work in smaller increments. One way of describing this is in terms of granularity. Asian projects are typically organized in smaller, but more frequent sections.

Western companies tend to make substantial and basic changes that involve a lot of research and analysis. A new product launch often represents a considerable investment, and combined with the need to honor the expectations of the brand, this means that new products typically take 2-3 years – or more - to develop and launch.

The innovation process of an Asian company will tend to be in smaller increments, making adjustments and adaptations based on immediate market demands and using existing technology. New products can be developed and launched in a 6 -12-month time frame – or even less. Generally, Asian companies seem to organize projects in shorter intervals, with frequent deadlines and reviews. This contributes to a sense of urgency. If a project is running for 3 years, it is not so important if a particular job takes 3 weeks rather than 2. But if you need to launch in 6 months, a delay of a week becomes critical.

Parallel product development

Whereas a Western company will typically try to avoid duplicating efforts by narrowing down options quickly and focusing on bringing one solution forward, Asian companies often develop a large number of variations in parallel.
Asian companies will ask designers for portfolios of 10-20 different concepts and they will develop each of them quite far before testing one or a few of them in the market.
The approaches of Apple and Samsung illustrate this. Apple offers only one phone, the Iphone, with a few variations in memory and the choice of black or white design. Samsung may launch more than 100 different phone handsets in a year, knowing full well that only a few of them will become bestsellers. Having many versions ready allows a company to move very quickly when new demands or fads appear.

Launch early

It is a common complaint that Western companies are so concerned that the products they launch are perfect, that projects are delayed in endless analysis, discussions and PowerPoint presentations. Asian companies seem less hesitant to launch quickly – and as mentioned, they can afford to make mistakes, because their brand is less pristine and the investment in each particular new development is smaller. Speed to market is an important competitive factor, particularly in areas where circumstances or technologies are changing fast. In such cases, customers may be quite willing to risk buying an imperfect product, because they want the improved features now, and they are not planning on keeping the product for long anyway.

Short term ROI

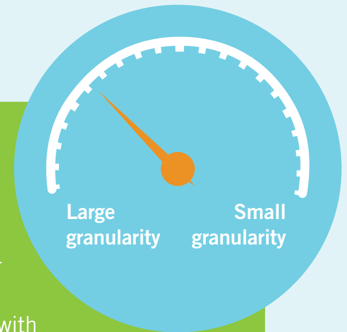
Another important aspect of the finer granularity of Asian innovation processes is that Asian companies strive for very short-term returns on investments. Many companies are still young and do not yet have the greater financial reserves and access to investments that an established Western company has. They cannot afford to spend years developing a new product. Furthermore, they are operating in an extremely dynamic and competitive context. By the time a long-term development project finally hits the market, demands may have changed or new solutions could have emerged.

Whereas Western companies often focus on a few large development projects, Asian companies will work on many, slightly different products that are quickly launched.

»Connect, connect and connect is the only way to succeed in new business in the Asian region – strong relationship comes first – business will then follow.«

THOMAS LYKKE SØRENSEN, FRONT END CHAMPION, NOVOZYMES A/S

STRATEGIC CONSIDERATION



Spending heavily up front on research and analysis can be risky, because you may come too late to the market, or because the development you have bet so much on, may turn out to fail with consumers. Instead, Western companies may consider organizing their innovation with a finer granularity.

How could the company develop in smaller increments? What would happen if it chose to launch rapidly, rather than waiting for everything to be just right?

CATCHING UP CONTEXT

Asia may become the world's economic center in the 21st. century, but, for now, most companies are working hard to catch up with the Western companies and economies, and the strategies they use are shaped by their less developed starting point. Many of the current characteristics of Asian innovation are closely related to the catching-up context.

The Asian industry is relatively young. It is only recently that Singaporean and Korean companies have achieved status as truly world-class companies offering independently developed products. In China, the modern industrialization dates back just 30 years, to the economic reforms of Deng Xiaoping.

The emerging markets in Asia are rapidly making their way out of poverty. The economies are extremely dynamic, undergoing in a few decades a transformation that took the western countries more than a century. This is clearly a very different business environment than the stable, almost stagnant markets of the industrialized countries.

It's obvious that the motivation for improvement is greater when you are getting by on salaries that are a tenth or a fifth of what a similar job pays in the West – while at the same time, the goods and opportunities of affluence are in full view among the many in society that have already become rich.

"Hero" bosses

Western companies are typically publicly owned, often with an employed management that is accountable to shareholders through the board of directors. Listed companies are required to be quite transparent to the stock market.

In China, the private sector didn't start growing until about 30 years ago, so most companies are still owned and managed by the founder. Even in listed companies the founder will usually maintain control.

Furthermore, hierarchies are much steeper. Consequently, a lot of power resides with the CEO of a Chinese company. He is free to make rapid and radical decisions, and to take chances based on personal hunches. This makes the company able to move quickly to exploit new opportunities – however, it is also risky. It's great for a company to be led by a "Hero" like Ren Zhengfei, who founded Huawei, or Wang Chuanfu, the founder of BYD. But if the Chairman makes the wrong decisions it can be disastrous.

Fast follower

In many respects, catching up is easier than leading. The leader needs to navigate, develop new solutions and runs the risk of moving first.
As a follower, you simply watch what the leader does, imitate the successful elements and try improving the weak spots. It takes less effort to move fast, when you are following in the tailwind of others.

Many Asian companies are fast followers. The emphasis on development rather than research, the use of parallel development and a top-down decision making process which allows for quick bets, mean that an Asian company is organized well for a strategy of observing what the industry leaders and first movers do, and once they spot a success, they quickly develop similar offerings.

There is some truth to the 20/80 idea, that a company can achieve 80% of the functionality for the first 20% of the costs. The last 20% of the utility are much harder to achieve, and they require more advanced technology, sophisticated design, systems integration, precision manufacturing and more expensive materials, the closer to perfection a manufacturer aims.

20%

The upper 20% of a product's quality are also the elements that involves more specialists at higher wages - which is a reason why the salaries in Western companies are so top-heavy. The 20/80 effect helps the fast follower who can quickly and cheaply create a good enough product that answers customers basic needs.

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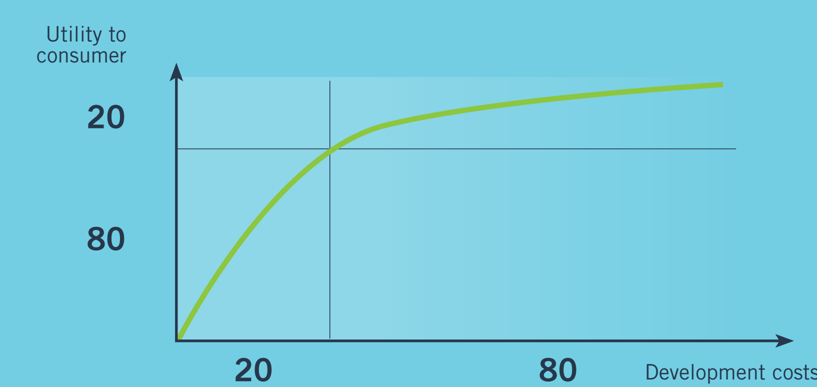
DIMINISHING RETURNS



STRATEGIC CONSIDERATION

Western companies may consider if they could reduce costs and risk, and increase their flexibility by consciously choosing a fast follower strategy. It may be less glamorous, but could the sales and returns end up being higher, if you let others make the first moves?

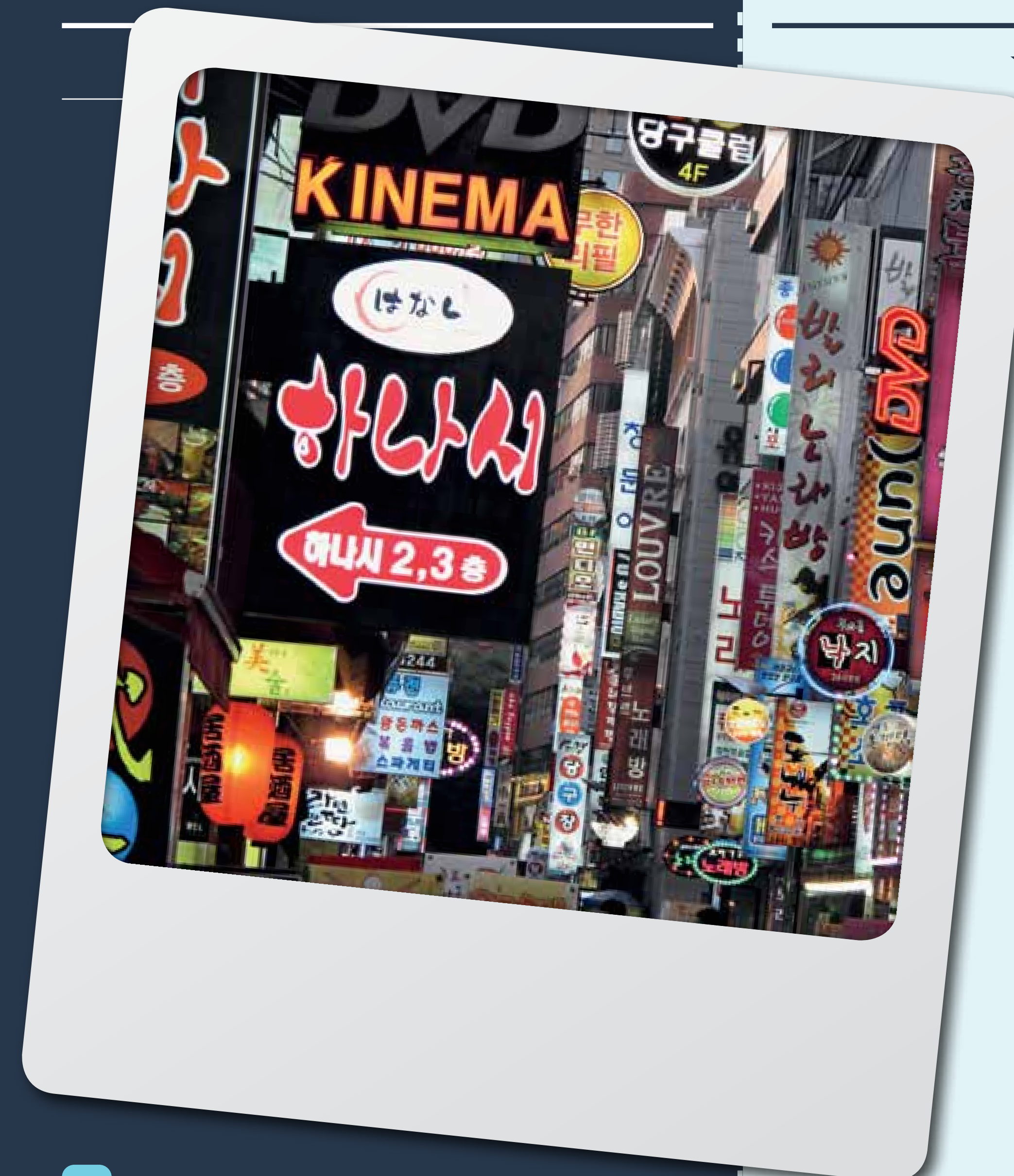
How would this change planning, budgets and necessary skills?

Why is Asian innovation important?

Many of the characteristics of the Asian approach to innovation may not appeal to Western companies – and in fact, they may not be the right approach for a mature company with high costs and a cultural and technological expertise based on a wealthy home market.

Never the less, Western companies need to beware what they are competing against, and they should consider if they could apply some of the approaches that their Asian competitors are using. Rapid changes, low cost and a close match to local market needs are important in all markets, but particularly so in the highly dynamic emerging economies, that are driving the world's economic growth, now and in the coming decades.

This is not just relevant for companies competing in the emerging markets. Business is increasingly globalized, and even a company with a national homemarket focus will find themselves in competition with producers from the emerging economies.



»Danish companies that want to succeed in China would do well to study the behaviour of their local competitors, and then adjust their own processes, products and business models to achieve a sustainable competitive advantage«

CLAUS LØNBORG, EXECUTIVE DIRECTOR AT INNOVATION CENTER DENMARK, SHANGHAI

You can find extensive documentation, case stories, interviews and further observations on the differences between Asian and Western innovation at our website:

www.asianbc.dk

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