

HOW TO INNOVATE in Developing Markets

A guide for Finnish companies

**PARTNERS
FINANCING
RESEARCH**



This guide has been produced as a part of Aalto University's Co-creation for sustainable business within the BOP research project. The project was funded by Tekes. The guide brings together a wide range of programmes, financiers and possible partners in order to initiate sustainable business in developing markets.

ENTERING HIGH POTENTIAL MARKETS IN DEVELOPING COUNTRIES

AS GROWTH slows in Western countries, the economies in developing markets are currently growing as fast as 10 percent annually. The rate growth is accelerating most in India and several African countries, even though it is beginning to decelerate in China.

People are moving to the cities, which are bustling and also changing the population within and around them as the middle class grows, although many of the taken-for-granted services and amenities of Western life are still lacking. Due to this rapid growth, companies in the emerging markets cannot meet this new demand by themselves. Thus, competition in, for example, emerging African markets, is not yet as fierce or merciless as it is in saturated Western markets, which is why those emerging markets should be entered now.

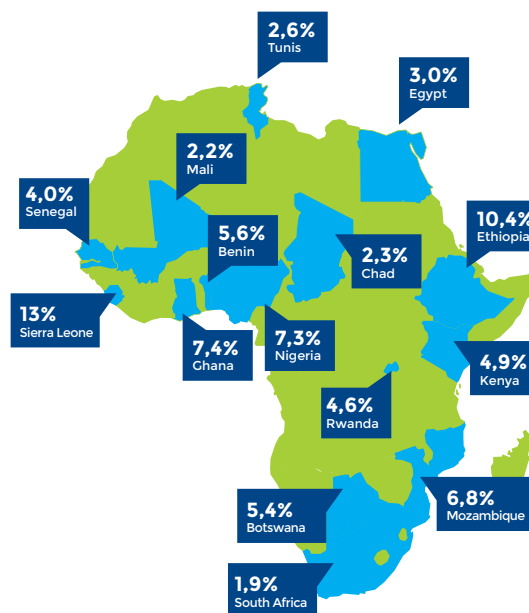
The Finnish business ecosystem is also changing

To help enter those developing markets, Finland is preparing several tools to ease the start-up of business there. Tekes – the Finnish Funding Agency for Innovation – and Finland's Foreign Ministry have launched the Business with Impact Programme, Aalto University is hosting New Global Innovation Programme and several NGOs are offering partnerships for companies wishing to support sustainable business.

What is impact business?

Impact business, has direct or indirect positive impacts on the economy, social welfare and environment. All of which are evaluated from the perspective of sustainable development.

African GDP Growth Rates



Source: African Statistical Yearbook 2014.

Poverty penalty

the phenomenon that poor people tend to pay more to eat, buy and borrow than the rich. For instance, water costs are more expensive when clean water is not piped into a house and has to be bought in bottles and canisters; loans are more expensive when guarantees are unavailable or financial centres are not conveniently located; and energy costs more for those who are not connected to a large grid system. Easing such difficulties presents business opportunities.

BOP

high potential Base-of-the-Pyramid markets. Four billion people of the world's population belong to this group.

INNOVATIONS RISE FROM THE DEVELOPING MARKETS

Frugal innovation

Frugal innovation is a resource scarce solution (i.e., product, service, process, or business model) that is designed and implemented despite financial, technological, material or other resource constraints, whereby the final outcome is significantly cheaper than competitive offerings (if available) and which is good enough to meet the basic needs of customers who otherwise would remain un(der) served.

Reverse innovation

Reverse innovation is a resource constrained solution (i.e., product, service, process, business model) that has been introduced first, either with success or not, in emerging markets or developing countries and which has then successfully transferred (with minor modifications) to developed countries. For instance, Nestle sells affordable noodles, created for the Indian market, as a health product in Australia. GE markets low-cost, high-quality infant warmers that were designed in India to 80 countries, including the USA.

Disruptive innovation

An innovation can be disruptive for conventional actors in a market if it challenges an established product on the market or the way people think and act. Old technology is thus replaced and new user segments are found, resulting in price reductions. Innovations created in the developing world are increasingly challenging developed world technologies and processes.

SPARES RESOURCES: minimised loss, radical effectiveness	SOCIAL: empower individuals and communities
SIMPLE: easy to use and maintain	SUSTAINABLE: recycle energy, materials and ideas

"Innovation isn't enabled by new relationships, it is the relationship." Stuart Hart, 2009

Case Megaklinikka – a model for an effective process from India

The founders of the dental care company Megaklinikka, Heikki Pilvinen and **Anssi Mikola**, had been bothered for years by the ineffectiveness of Finnish dental clinics. When Mikola was doing research for his doctoral thesis on the processes of Aravind Eye Clinic in India, he realized that some of those processes would work in Finland as well. He estimated that the use of Aravind's operating methods would mean only five doctors would be required to take care of all the cataract surgeries in Finland. However, the Finnish cataract surgeries market lacked the necessary flexibility in its outlook to adopt the innovation and it was also too small, but Mikola saw a business opportunity in transferring the model into dental care.



Anssi Mikola

megaklinikka

Aravind Eye Hospital

Aravind is famous for its process effectiveness: it allows a doctor to work on two patients simultaneously just by turning around on a seat. The prepared patient waits on the other side and the nurse simply hands over all the necessary equipment. A surgeon in Aravind operates on 70 cataracts a day, while six to fifteen patients is the figure for a Finnish surgeon.

PARTNER PROGRAMMES

IN ORDER to start a business, it is essential to find the right partners and to learn to know the market. Finnish organisations have established several programmes to support companies in this.

Partners are now necessary in Finland when choosing target market areas and getting to know them. For instance, certain actors have already begun cooperating with selected companies and allowed them access to their networks and knowledge, advising them on how to put their information to good use.

New Global

The New Global project aims to develop and construct Finland's national capabilities for engaging in frugal and reverse innovation, so as to be able to benefit from their future market potential, both in emerging and developed markets.

The required knowledge and capabilities are generated through action research. Pioneering companies, ranging from start-ups, SME's and larger companies, are welcome to join in the co-creation, rapid prototyping and test innovations in selected emerging economies. The focus is on creating value for all stakeholders, including low-income communities, and on being attentive to creating business ecosystems together with local actors.

The New Global project combines the advanced knowledge from the different schools of Aalto University in the areas of inclusive business, renewable energy technologies, design thinking, architecture and water engineering. A well-established global network of partners provides a skilled and flexible base for innovation that is deeply embedded in the local contexts of emerging markets.

New Global is open to both small and large Finnish companies. The priority areas are water, energy, clean-tech and affordable housing.

Sara Lindeman Project Manager, and **Petri Allekotte** Business Engagement Manager at newglobal.aalto.fi

Weconomy Start

Weconomy Start Global is a year-long innovation programme that takes companies to World Vision's areas of operation in India, Sri Lanka and Kenya. World Vision provides companies with contacts to officials and offers its networks in thousands of communities. The participation fee is 20,000 euros.

Weconomy Start is targeted at companies that want to develop product and service ideas suitable for poor areas. It does that in collaboration with end users, and economically disadvantaged people. It is a concrete way for World Vision to work with companies in long-lasting cooperative

units. The aim of such partnerships is that the company being helped and the economically disadvantaged communities surrounding it will benefit.

The Weconomy Start programme was developed from Base of the Pyramid (BOP) thinking. Its goal is to improve poor communities and create durable innovations that will benefit companies and give rise to responsible business within disadvantaged markets. The market in question consists of four billion people each living on an average income of less than five euros per day. They need new products and services to improve their well-being.

The target is that each participating company should develop a realistic business idea for profitable, welfare generating business at the BOP market level and be able to create a plan and implement it. The field trips and training are specifically tailored.

Project manager **Maija Seppälä**
www.weconomy.fi



Makeda Yohannes (left) facilitating a Impact Iglu workshop.

Partnering for official development aid projects

The largest financier of development aid in Finland, the Ministry of Foreign Affairs, encourages projects in which companies and NGOs co-operate. For instance UNICEF Finland has begun a sanitation project together with Biolan in Uganda. Company representatives work as specialists on the project and simultaneously learn about the market and its needs.

Cocreation trips to Zambia

Team Finland organises trade missions all over the world. With regard to impact business in developing markets, special attention has been given to Zambia. Together with Human Security Finland, Team Finland connects Finnish businesses to the mining value chains in the Lumwana area.

Jyri Wuorisalo, Human Security Finland/
Kuopio Innovation team.finland.fi

Impact Iglu

Impact Iglu is a community for value-driven entrepreneurs. The community encourages the development of impact business through collaboration, knowledge sharing and co-creation to create a better future globally. Impact Iglu promotes social entrepreneurship and innovation in Finland and connects businesses with developing markets in Africa, Asia and Latin America.

IMPACT IGLU OFFERS

- Networking events for entrepreneurs, start-ups and students.
- Knowledge about potential high-growth markets
- Coaching for business development
- Connections to trustworthy partners and networks

Makeda Yohannes, Impact Iglu lead
www.impactiglu.org

Earth House: Act fast!

Earth House participated in a co-creation trip to Zambia and immediately after the trip it founded a local company and started its business.

Earth House manufactures safe and affordable houses that can be expanded if needed. The houses are built using local materials and construction workers are trained and certified.

The co-creation trip to Zambia was a good start for the business. We met local people and learnt about their needs. But to make a business, we have had to work non-stop. Partners can help you organise trips or meet people, but after that, it is all about the entrepreneur, says Sami Juola, CEO, Earth House.

Earth House is now a UNHCR vendor and has closed two deals in Zambia with international aid organisations.

Earth House's buildings are built with local materials and the local construction workers get certified after the project.



CUSTOMISED FINANCING HELPS BUSINESS START-UPS

CUSTOMISED FINANCING is available to businesses that aim to have a positive development impact in developing countries.

Financing from the Ministry of Foreign Affairs

FINNPARTNERSHIP

Finnpartnership's mission is to increase commercial co-operation and promote business partnerships between companies in Finland and developing countries. The aim is to achieve positive developmental effects in developing countries.

Finnpartnership, provides advisory services for the business activities of Finnish companies in developing countries as well as financial support during the planning, development and training phases of a project. Business actors are now able to acquire information on new business opportunities and business partners in developing countries. Finnpartnership provides its services free of charge.

Finnpartnership supports Finnish companies and organisations throughout the lifespan of their business projects by providing its own services and/or by directing companies towards potential partners and by putting companies in contact with the correct or most appropriate organisations offering internationalisation services.

■ www.finnpartnership.fi

FINNFUND

Finnfund is a Finnish development finance company that provides long-term risk capital for profitable projects in developing countries and Russia. Finnfund finances private projects that have a Finnish interest.

■ www.finnfund.fi

ENERGY AND ENVIRONMENT PARTNERSHIP

The Energy and Environment Partnership (EEP) supports the wider provision and use of renewable energy by facilitating renewable energy and energy efficiency, and by sharing relevant cooperation, dialogue and experience

among stakeholders within the public and private sectors. This is achieved by providing funding for projects, studies, capacity development and information sharing. EEP is a demand-driven programme and is ultimately expected to:

- Increase the availability of and access to renewable energy services and renewable energy technology in rural areas, especially for the rural poor, ethnic minorities and women.
- Develop and Invest in renewable energy and renewable energy technology.
- Advance project development and investment in energy efficiency and waste-to-energy programmes.
- Improve the knowledge base and tools available for supporting renewable energy project development, policy and the development of its legislative framework.
- Enhance access to information and funding for the development of renewable energy and renewable energy technology.

■ www.eepmekong.org

FINLAND-VIETNAM INNOVATION PARTNERSHIP PROGRAMME

The Innovation Partnership Programme (IPP) is an Official Development Assistance (ODA) programme financed jointly by the Governments of Vietnam and Finland. IPP runs until 2018.

IPP supports Vietnam's overall goal of becoming an industrialised middle-income knowledge economy by the year 2020. The programme's objective is to boost sustainable economic growth in Vietnam through the increased production and export of innovative products and services.

The programme works closely with key national and international partners to scale up innovation training in Vietnam and to improve local support mechanisms for new innovative companies targeting international markets. Furthermore, it provides seed funding and connections for the best teams in Vietnam, IPP builds the capacity of individuals and organisations through entrepreneurship and innovation training programmes.

Finnish companies can also apply for funding for finding partners in Vietnam.

ipp.vn/en

Tekes

Tekes funds research and development projects helping companies to grow and renew their business. Companies typically cover 50 percent of their development project costs themselves. More than half of the funding is targeted towards Finnish SME's seeking to grow into global markets.

At the beginning of 2015 Tekes and the Ministry for Foreign Affairs launched a joint programme BEAM, Business with Impact, to generate new, sustainable business in developing countries.

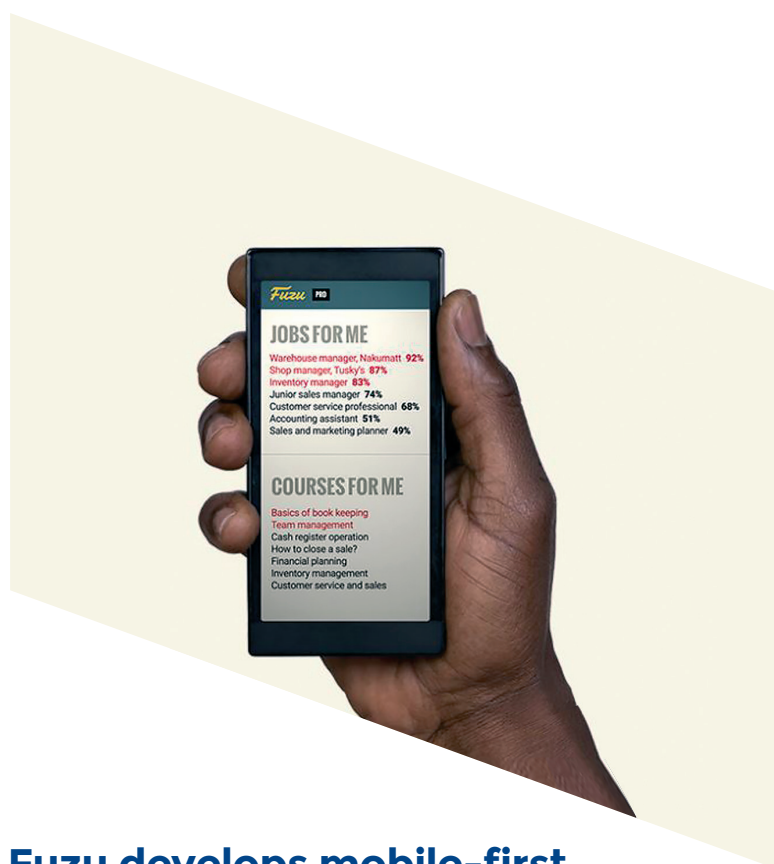
BEAM aims to assist Finnish enterprises and other actors in using innovations to address global development challenges. It does so by converting such innovations into successful and sustainable business in both Finland and developing countries. The programme supports Finnish companies, NGOs, research organisations, universities, universities of applied sciences and others in developing, piloting and demonstrating innovations that improve well-being in poor countries, while giving rise to international business opportunities for Finnish companies. BEAM is a five-year programme with a total volume of EUR 50 million.

www.tekes.fi/beam

Crowdfunding

Crowdfunding is becoming more and more popular. It allows a larger audience to have an impact on the kinds of products that come to market. Crowdfunding can also be used as part of the financing for a Tekes project.

REWARD-BASED	Kickstarter
PATRONAGE	(requires licence in Finland)
LOAN BASED	Kiva
EQUITY BASED	Indie-gogo, Finnish Invesdor
REVENUE BASED	(upcoming)



Fuzu develops mobile-first career building services for emerging markets

Fuzu is a mobile-first career development platform for users in emerging economies, from Africa and the Middle East to Asia and Latin America. Fuzu takes a fresh approach to job-seeking, recruitment and learning – with a focus on testing and developing the skills and talent of individuals.

Fuzu's product development takes place in Finland at the moment, but they have an employee in Nairobi to watch the market. For them, it is important to get feedback and build a reputation in, for instance, social media before its launch at the end of 2015.

Initially, Fuzu used financial support from Finnpartnership to build partnerships and later on they succeeded in raising private financing for their work.

www.fuzu.com

BUSINESS THAT LEADS TO SUSTAINABLE SOCIETY

RESEARCH AT Aalto University School of Business looks for solutions to alleviate poverty and ecological sustainability.

Aalto has conducted research on BOP markets since 2006 with the purpose being to find methods that increase welfare and ecological innovation in low-income markets through the creation of local businesses. Moving from polluting technologies to sustainable technologies, i.e. green leaps, is the desired aim of the project.

wiki.aalto.fi/display/BOP/Projects

New Global and AGI put research into practice

Aalto Global Impact (AGI) has been created to support Aalto University's societal mission of making the world a better place. It has been recognised that within the Aalto community there already exists a number of people, projects and practices that work both internationally and in Finland on complex societal challenges.



Teija Lehtonen

AGI's aim is to bring together the partnerships and groups with Aalto that work on societal issues and grant them further support in developing their activities. Aalto Global Impact is involved in the New Global research project. The aim of the project is to explore future strategic themes and directions for the Finnish economy and link research with education and practical innovation work in emerging markets.

AGI is a part of the international Global BOP Learning Lab network. Read more about New Global on page 4.

AGI's director **Teija Lehtonen**

www.aaltoglobalimpact.org

A wide range of courses for Master's students

The International Master's Degree Programme in Creative Sustainability (CS) is a joint master's degree programme at the School of Arts, Design and Architecture, School of Business and School of Engineering. It offers the students



New Global brings together Aalto's academic research on low-income markets and companies' innovative projects.



courses on development and innovations that alleviate poverty because part of the programme's field courses are organised with the intention of developing innovations together with local actors. The Sustainable Global Technologies and International Design Business Management programmes also organise field trips to developing markets and countries. And all the projects welcome partnerships with Finnish companies.

PATIENCE, KNOWLEDGE AND HARD WORK ARE NEEDED

WHEN WRITING this guide I discovered several factors that successful businesses in developing markets have in common.

First of all, they know their market and customers. Many of them have a strong personal motivation to start business in a particular market. Very often that is a result of having lived in area of the market.

Secondly, they have all faced problems, but have been patient and determined enough to overcome them.

Thirdly, they have excellent partners and are eager to network, although the drive for the business comes from inside and they are committed to doing the majority of work by themselves.

Lastly, instead of planning they do. They might apply for grants, but they don't plan their business in order to maximise grant money.

Good luck!

Sini Suomalainen



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