

## Innovate to survive

**The relatively low costs of labour in the emerging economies, combined with the ever-increasing pace of change, makes continued innovation an imperative for western companies, writes Alistair Schofield.**

I was recently invited to visit India to lead a workshop for business people on the subject of "leadership Pipelines". When I asked the conference organiser why they were willing to fly someone halfway round the world to lead such an event, I was told it was because of the interest Indian business people have in learning from the West.

This comment prompted me to consider where we in the West look for new ideas and new thinking. If I think back over all the lectures, workshops and seminars I have attended during the last 25 years or so, virtually all of the speakers have been either British or American. I can recall one or two people from Western Europe but no one from countries such as India or China.

Is it arrogance or is it really the case that we have nothing to learn from these countries?

It is certainly the case that in the past the Western economies have been the engines of innovation, with the emerging economies providing lower cost labour when products move into a more mature phase in their life-cycle. However, it would be complacent in the extreme to assume that, because this has been the pattern in the past that it will continue to be so in the future.

If this pattern were to change, the indicative signs would probably initially be a shortening of this cycle, with products moving from inception to offshore production much faster.

Although this is already happening, it may be that we can dismiss it as simply being symptomatic of the globally increasing pace of economic development. But is it?

Take Dyson vacuum cleaners for example. The first vacuum cleaner was produced in 1993 and production was moved to Malaysia just eight years later. More recently, Woodworm, the cricket bat manufacturing company that was launched in 2002 and whose products have taken a 10% share of the UK market, never even began production in the UK. The company only employs 5 people, with manufacturing being outsourced to India.

However, while these examples suggest a shortening of the cycle, the profits associated with these innovations still remain in the West.

Beat-All Sports (BAS) is a company similar to Woodworm in that they are a relatively young company, ship English willow to India, manufacture world-class cricket bats and supply them to cricketers all over the world. The difference is that BAS are an Indian company.

In another example, PicoPeta was an Indian start-up company in 2001 whose mission was to produce affordable computing devices for people in developing countries who face barriers of price, language and literacy. The result was the Simputer, which retails for less than 10,000 Rupees, approximately £130. In a country with 1.1 billion

"The size of India's computer-literate workforce is set to explode in the next decade as PC ownership takes off." *Peter Foster The Telegraph 4/8/05*

people but only 15 million computers, the domestic opportunity alone for PicoPeta is enormous.

Further evidence of the increasing success of these emerging economies can be seen in their economic growth. Whereas the UK is doing well amongst most European economies with GDP growth averaging around 3%, India has consistently managed 6% since the early 1980's and China 10%.

Clearly these countries are getting something right. But rather than learning from their success, I fear that our arrogance is causing us to ignore it.

For example, consider the recent fortunes of Corus, the Anglo-Dutch steel company. The company has suffered many difficulties during the past few years but has recently, under the excellent leadership of Chief Executive Philippe Varin, begun to fair much better, to the extent where the first dividend for more than four years will be paid in 2005.

The problem is that while Corus have been 'recovering', the Chinese (whose insatiable demand for steel during the last few years has driven steel prices to record levels) have been innovating by investing in their own modern steel refineries.

While China's additional steel mills are increasing the world supply of steel and causing prices to ease, they are simultaneously increasing the demand for iron-ore, leaving Corus in the invidious position of having rising raw material costs with falling finished product prices.

In recognition of the threat that Eastern economies pose to the more traditional industries of the West, many countries resort to quotas or tariffs in a vain attempt to buy time and to protect domestic companies. But as we have seen with the recent "bra wars" between EU member states and China, such measures are fraught with difficulties.

Staying ahead in a global economy is not a function of inheritance, nationality or geography, it is a function of innovation. In our quest for new ideas and new thinking it is vital that we do not restrict ourselves to the established economies of the West, but instead open our minds to the fact that we can probably learn just as much from the so called emerging economies as they can learn from us.

**About the author:**

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