

MAKING YOUR OWN LUCK IN EMERGING ECONOMIES:

Six innovative strategies for creating
new markets

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EXECUTIVE SUMMARY

It's a widely acknowledged truth that innovation plays a pivotal role in shaping the economic fabric of nations. In particular, **market-creating innovations**—which create new markets by democratizing access to previously exclusive products—have been a vital force for generating prosperity in wealthy countries, and are integral for building a prosperous future for today's emerging economies.

In order to create new markets for people who have traditionally been unable to purchase commercial products due to barriers like cost and access, organizations not only need to develop a product that meets their customers' needs, but must also develop a way to get it to them. This involves creating jobs and building infrastructure that wouldn't be necessary if the organization were targeting existing markets. Lasting prosperity follows—for the organizations creating new markets and the regions and societies where they operate.

But here's the problem. As important as market-creation is for economies, and indeed organizations, the phenomenon still remains, in large part, a mystery. Successful attempts are often attributed to the luck and timing of the entrepreneur. Consequently, starting new ventures, particularly in emerging markets where many market-creating opportunities lie, appears inordinately risky, causing would-be entrepreneurs and investors to shy away from creating new and impactful businesses.

In order to demystify the process of building market-creating innovations, we studied 100 market-creating organizations that we have identified as “successful”—meaning their efforts have focused on creating sustainable new markets that serve ignored populations of consumers. Spanning history, industry, and the globe, organizations profiled include global powerhouses such as Ford with its Model T car and Sony with its Walkman; as well as modern-day pioneers that show immense promise.

Despite the diversity of organizations studied, the results revealed that successful market-creating organizations have much more in common than simply luck, good timing, or the hard work of the innovators behind them.

In fact, they tend to employ common strategies in the ways they overcome broad challenges:

1. **Reducing the barriers to consumption:** 95% of the organizations we studied reduced more than one of the following barriers: money, time, access, and or skill.
2. **Employing breakthrough technology:** 55% used business models that employed novel technology not conventionally used in the industry.
3. **Developing a new value network:** 100% of organizations redefined their business activities and cost structure in order to reach new consumers while still ensuring a path to profitability.
4. **Integrating internally:** 84% took on operations in-house that are conventionally outsourced to industry partners.
5. **Integrating externally:** 47% of organizations undertook projects typically handled by the state.
6. **Managing government relations:** 57% devoted significant time and energy to managing relations with the state.

The encouraging findings of this research reveal that market-creating organizations have far more control over their destiny than many previously imagined. By using the strategies outlined in this research as guideposts, innovators can, to a large degree, make their own luck. In doing so, they stand to not only generate significant wealth for themselves, but also trigger shared prosperity in nations where many live in poverty.



INTRODUCTION

In the early 1850s, Isaac Singer was often shown the door the moment he brought up his idea to make sewing machines accessible to average Americans.¹ There was just no way it would work, many investors reasoned. Sewing machines were expensive products reserved for highly skilled professionals. If by some miracle there was demand for his sewing machines, how would Singer manufacture, distribute, and sell them? Considering the fact that he would have to build this entire business infrastructure for a market that didn't yet exist, it seemed impossible.

With the benefit of hindsight, we know that his I.M. Singer & Co. was wildly successful at creating a new market for sewing machines. In fact, Singer's company did so well that he expanded to Europe, Asia, and Africa, becoming one of the world's first truly multinational private companies.

Singer's story is far from unique. In the early 1900s, when Henry Ford decided to transform his company to one that made cars affordable to the masses, several of his investors pulled out.² Only wealthy Americans drove, and the infrastructure to make car ownership practical—roads, gas stations, auto repair shops, traffic regulations, and so on—didn't widely exist. But, just like Singer, Ford successfully built a company that made the automobile affordable and accessible to millions of people. And the new market created by his Model T triggered widespread prosperity for many.

There are many more examples of entrepreneurs and organizations that have created new markets in the most unlikely of circumstances. Citroen developed the 2CV, a car that enabled average people in war-torn France to buy and use automobiles for the first time following the devastation of the First and Second World Wars; Mo Ibrahim built Celtel (now Airtel) which made mobile phones accessible to tens of millions of Africans; Narayana Healthcare made high-end surgeries affordable to low-income earners in India; and Kenyan telecommunications company Safaricom built M-Pesa to become one of the world's most robust mobile money platforms. These are all examples of a particular type of innovation we call market-creating innovation.

New markets: The engine of sustainable prosperity

Market-creating innovations transform complicated and expensive products into ones that are simple and affordable so they become accessible to a whole new population of people who were previously excluded from consuming them. We call these people **nonconsumers**. For example,

Singer took something that was previously expensive, complicated, and time-consuming—the sewing machine—and made it simple and affordable enough for average people to buy and use.

But beyond democratizing access to products and services that people want and need, market-creating innovations have a unique capability to transform economies. When an innovator develops a product that serves nonconsumers, she must also develop a way to get it to them. This involves creating new jobs and building new infrastructure that wouldn't be necessary if her organization were targeting existing markets and competing for existing consumers.³ In contrast with many government- or philanthropy-led efforts to build infrastructure, which often go unfinished due to lack of funding⁴ or saddle struggling governments with crippling debt, market-creating innovations provide a sustainable mechanism for pulling infrastructure and jobs into an economy.⁵ When infrastructure is built to sustain a market, stakeholders who benefit from the market are incentivized to maintain it. It's this phenomenon that makes market-creating innovations an enduring engine of prosperity in society. When they create profitable new markets, lasting prosperity follows.⁶

But here's the problem. As important as market creation is for organizations and economies, the phenomenon still remains, in large part, a mystery with successful attempts often attributed to the luck and timing of the entrepreneur. Consequently, starting new ventures in emerging-markets appears inordinately risky, causing many would-be entrepreneurs and investors to shy away from creating new and impactful businesses.⁷

In order to demystify the process of building market-creating innovations, we studied 100 market-creating organizations that we have identified as “successful”—meaning they have focused on creating sustainable new markets that serve ignored populations of nonconsumers. Included in the study are organizations that successfully created new markets that address or addressed nonconsumption at the time—such as Ford with its Model

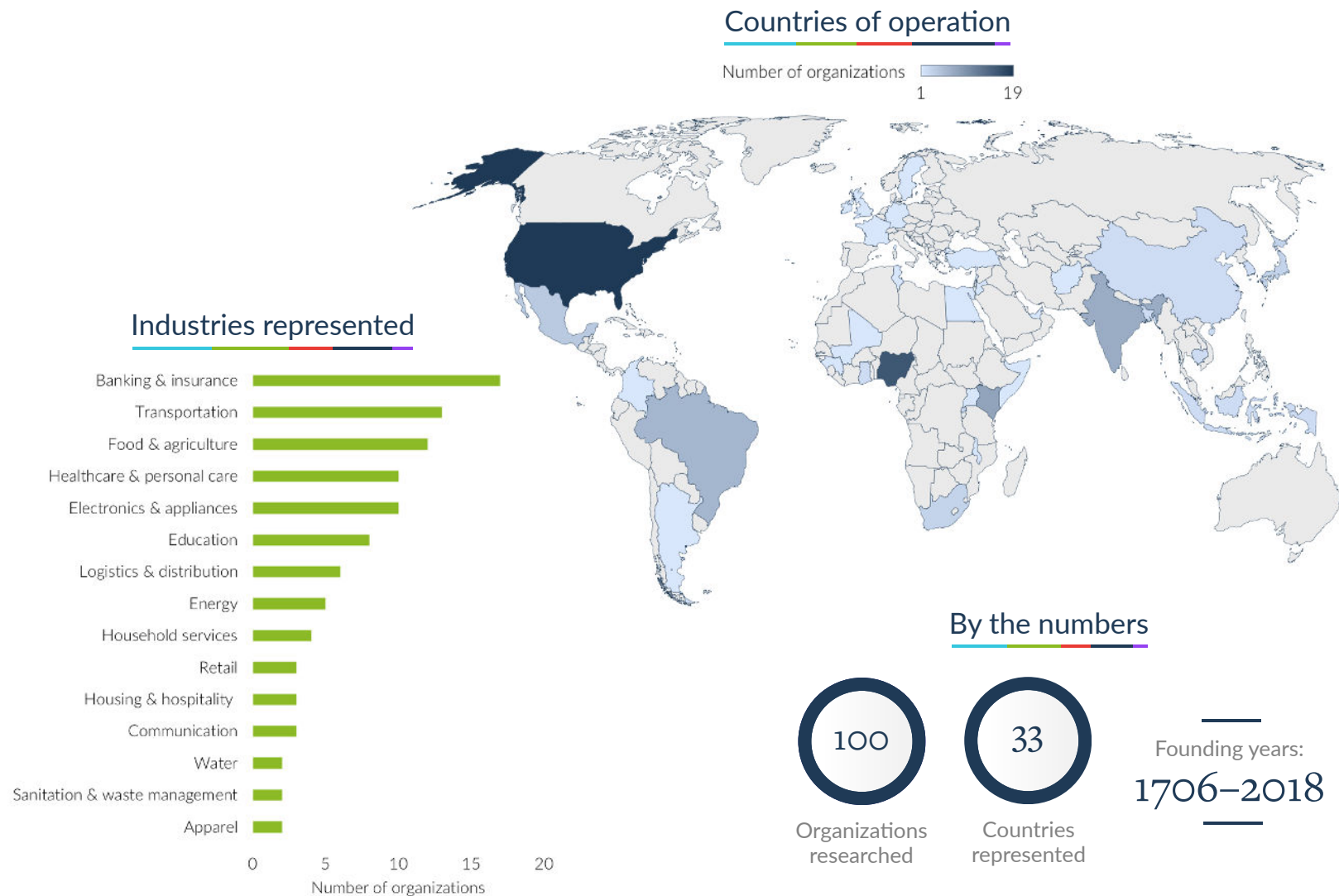
T, Sony with its Walkman, and I.M. Singer & Co. with its Singer sewing machine—as well as younger companies that show immense promise to do so.

Our research centered on a single question: what common strategies have these trailblazers employed to reduce the risk inherent in market-creation and to increase their odds of success? In order to better understand the circumstances in which certain strategies of the market creation process are important, we studied organizations and innovations throughout time and across the globe.

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Founding dates for these organizations go as far back as the early 1700s, and they represent an array of industries, including consumer electronics, automotive, healthcare, insurance, education, retail, transportation, and many others (see Figure 1). Some of these innovations helped shape the economic fortunes of what have become the world's most prosperous countries, while others are modern-day pioneers that show promise to do the same for many of today's emerging economies.

Figure 1. Scope of market-creating organizations studied



SIX STRATEGIES TO MITIGATE RISKS AND OVERCOME CHALLENGES

Despite the diversity of organizations studied, the results revealed that market-creating organizations have much more in common than simply luck, good timing, or hard work. In fact, they tend to employ common strategies in the ways they overcome obstacles and develop their organizations.

While many factors contribute to successfully creating a new market, the research revealed six strategies commonly employed by market-creating organizations.⁸ These strategies fall into three categories based on the broad challenges entrepreneurs face when creating new markets:

1. Designing a product customers will embrace
2. Creating a new market from scratch
3. Managing a difficult business environment

In this paper, we will illustrate the six strategies we observed that innovators often use to successfully overcome these challenges. These strategies can act as guideposts to those seeking to blaze their own trail today.

Challenge: Designing a product customers will embrace

Every day people around the world go without products or services they would benefit from using. A person with diabetes might forgo needed medical consultations because they are too time-consuming and difficult to schedule, or a person living in a low- or middle-income country might go without electricity because existing solutions on the market are too expensive. These individuals persist in their struggles because some kind of barrier renders good solutions difficult or impossible to consume.

In order to convince nonconsumers to embrace a new solution when they're accustomed to going without, our research revealed that successful organizations make a concerted effort to understand and reduce the barriers facing their prospective customers, sometimes with the help of breakthrough technology (see Figure 2).

Successful organizations make a concerted effort to understand and reduce the barriers facing their prospective customers, sometimes with the help of breakthrough technology.



Figure 2. Strategies for designing a product customers will embrace

Strategy	Definition	Prevalence among 100 organizations
1. Reduce the barriers to consumption	The organization reduced more than one of the barriers to consumption: money, access, time, and skill.	95%
1a. Reduce the money-related barrier	The organization made the product or service less expensive so nonconsumers could afford it.	80%
1b. Reduce the access-related barrier	The organization made the product or service available to nonconsumers at a convenient location, enabling consumers to access it.	70%
1c. Reduce the time-related barrier	The organization made buying and using the product or service less time-consuming so nonconsumers could consume it.	52%
1d. Reduce the skill-related barrier	The organization made the product or service simple enough for nonconsumers to buy and use it on their own.	34%
2. Employ breakthrough technology	The organization's business model relied on novel technology not conventionally used in the industry.	55%

Strategy 1. Reduce the barriers to consumption

Previous research has revealed a framework for helping innovators understand the four major barriers to consumption: money, access, time, and skill.⁹ Among the diverse set of market-creating organizations we studied, understandably, all needed to overcome at least one of these four barriers to consumption, while 95% needed to overcome multiple barriers at once. As in all aspects of the market-creation process, circumstances matter.

Money-related barriers were the most frequently encountered by the organizations in the study, and this held true across companies operating in countries of varying income levels (see Figure A2 in the appendix). The other three barriers—access, time, and skill—commonly proved necessary for organizations to overcome as well (see Figure A3 in the appendix for examples). What's clear is that all market-creating organizations must consider and remove the barriers so nonconsumers may begin consuming their products.¹⁰

The process for discovering and reducing customers' barriers to consumption requires a keen understanding of customers' struggles and, often, a degree of trial and error. To illustrate, consider how MicroEnsure, an organization that provides insurance for people in Africa and Asia, discovered and then overcame all four barriers in its efforts to create a new market during the early 2000s.

For many living in emerging economies, falling into poverty is often one unforeseen life event away.¹¹ However, despite this reality, access to insurance products that can help mitigate financial setback is very limited.¹² For instance, more than half the countries in sub-Saharan Africa have an insurance penetration rate of less than 1%.¹³ Globally, more than half the world's population cannot afford essential healthcare.¹⁴ Richard Leftley, MicroEnsure's founder, made it his life mission to solve this problem.

Two barriers causing nonconsumption of insurance were obvious to Leftley: it cost too much and was difficult to access in too many places. Leftley overcame these barriers by partnering with mobile telecommunication companies, which had already penetrated many emerging markets.

Rather than requiring customers to purchase insurance through a conventional network of sales agents that would take years to assemble, Leftley and his mobile network partners developed a model in which customers could simply purchase it along with their cellular subscription plans. Piggybacking on mobile telecommunication companies' well-established sales networks allowed MicroEnsure to reach customers in convenient locations close to their homes, thus efficiently overcoming the barrier of access. Customers gained basic insurance for free when purchasing mobile credits, and could add family members or increase their coverage for a small fee.¹⁵ MicroEnsure received a commission of these sales, operating as a middleman between mainstream insurers, who gained new customers, and mobile phone companies, who gained a new revenue stream. This innovative business model allowed all parties involved to benefit.

However, access and money-related barriers were not the only obstacles causing the nonconsumption of insurance; time and skill-related barriers were at play, too. Many of the customers MicroEnsure hoped to serve didn't have the literacy skills to read lengthy insurance contracts, and often lacked photo IDs and other documentation. This made registering for insurance complex and time-consuming.

Leftley and his team boiled the process down to three questions that took less than a minute to answer: the customer's name, age, and next of kin. Even so, they found that many customers still had difficulty filling out the questionnaire on their own. "We could track where people gave up," Leftley recalled during an interview several years ago. "Those three questions caused 80% of the people to not complete the process."¹⁶ MicroEnsure eventually got rid of the questions altogether, instead relying on a single piece of information: the customer's phone number.

The benefits of simplifying the sign-up process far outweighed the risk for MicroEnsure, which registered 1 million new customers on the first day it offered a new life insurance product in India. Tens of millions more have joined since, more than 85% of whom have never used an insurance product before MicroEnsure.¹⁷ What's more, MicroEnsure has already been profitable in 80% of the markets it has entered, and has contributed new tax revenue to local governments. However, it wasn't until it eliminated all four barriers to consumption that the innovative company was able to create a new market for insurance products.

Strategy 2. Consider breakthrough technology to open up new possibilities (but don't wait around for it)

Innovation is often associated with cutting-edge technology, but whether operating in the 18th, 19th, 20th, or 21st century, just 55% of the market-creating organizations studied harnessed technology considered novel in their industries at the time.

The research revealed valuable insights about both why breakthrough tech is beneficial as well as when it's unnecessary. New technologies tend to be useful when they radically impact a barrier to consumption.

At the beginning of the 20th century in America, Henry Ford harnessed new technologies like the manufacturing assembly line and the internal combustion engine to make cars affordable and accessible for average Americans. In modern times, internet and mobile phones have enabled MicroEnsure to make insurance affordable and accessible, and allowed mobile money companies like M-Pesa to bring affordable financial services to millions who had no way to access them before. Additionally, solar technology has been vital for helping energy companies like M-Kopa make electricity vastly more accessible in rural communities far away from conventional electrical grids. When widespread breakthrough technologies like these come into existence, they often unlock opportunities for new markets that didn't exist before.

However, innovators shouldn't just wait around for new technology to be developed—there are usually plenty of opportunities to create new markets using technology that's already available. Oftentimes, taking a simple, low-tech approach is just as effective as a high-tech one. The real insight is that breakthrough technology is a means for more efficiently addressing the struggle in nonconsumers' lives. When low-tech solutions accomplish the same thing, innovators shouldn't shy away from them.

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Low-tech, high-impact

Havaianas, which makes and sells sandals, created a new market for footwear in Brazil in the 1960s by developing a remarkably uncomplicated rubber flip-flop that rapidly became the go-to footwear for the majority of Brazil's lower-income citizens.¹⁸ In fact, it was precisely the lack of bells and whistles that made Havaianas sandals affordable enough for nonconsumers to begin consuming them. In contrast to conventional shoes which were complicated and time-consuming to construct, Havaianas were composed of a flat rubber footbed attached to a one-piece strap, making them cheap and quick to manufacture.

Similarly, at a time when ox-drawn carts dominated Korea's transportation scene, Kia Motors built a new market for automobiles by creating a simplified, three-wheeled vehicle suited for the practical and financial circumstances of average Koreans.¹⁹ For Havaianas, Kia, and many other companies in the study, taking a simple, low-tech approach proved effective enough to help organizations build a new market.

Challenge: Creating a new market from scratch

Understanding the barriers that inhibit consumption helps organizations to create a solution that works for nonconsumers. The next challenge is creating a new market that can deliver that product or service to customers profitably, enabling the organization to become sustainable and scalable. Building a market from the ground up requires creativity. The results from our study highlight three strategies common to market-creating organizations that have served nonconsumers: develop a new value network, integrate internally, and integrate externally (see Figure 3).

Innovators aiming to serve nonconsumers need to redefine their business activities and cost structure so that nonconsumers can afford their product—while still offering their organization a path to profitability.

Figure 3. Strategies for creating a new market from scratch

Strategy	Definition	Prevalence among 100 organizations
3. Develop a new value network	The organization redefined its business activities and cost structure so that nonconsumers could more conveniently access its product, while still offering the organization a path to profitability.	100%
4. Integrate internally	The organization integrated operations in-house that are conventionally outsourced in the industry (i.e., producing the raw materials used in its products).	84%
5. Integrate externally	The organization undertook infrastructure projects typically supplied by the state (i.e., electricity, roads).	47%

Strategy 3. Develop a new value network

A value network is the aggregation of all the activities that must take place in order for a customer to buy and use a product. These activities might include design, purchase of raw materials, manufacturing, distribution, sales and marketing, and after-sales services like repairs or customer service. Each step in a value network adds some value to the product, but it also adds cost.

Results from our study revealed that, across time and in all the various regions where these market-creating organizations operated, every last one had to build a new value network. That's because conventional value networks in many industries prevent companies from meeting the needs of nonconsumers, typically by adding too much cost to the product or limiting its accessibility in other ways. Consequently, innovators aiming to serve nonconsumers need to redefine their business activities and cost structure so that nonconsumers can afford their product. And innovators must do all this while still offering their organization a path to profitability.

Organizations can create new value networks in different ways. MicroEnsure managed to make insurance affordable and accessible by introducing mobile phone companies into its value network, while other companies built new value networks from scratch.

Galanz, now a world leader in home appliance manufacturing, built a new value network from the ground up in the early 2000s when it created a new market for affordable microwave ovens in China.

Since other Chinese manufacturers tended to focus on export markets, Galanz built showrooms and developed distribution lines within China to get its products to local customers (see Figure 4). Within two years of beginning production, it had created a national sales network of almost 5,000 stores. It even opted to advertise through newspapers instead of TV, thus saving money and enabling it to instruct many first-time customers on how to use microwaves.²⁰

Figure 4. Value networks for microwave ovens



Innovators creating new markets need to operate with the expectation that their final business will look different from the one they envisioned on the day they founded their company. Just as every organization we studied created a new value network, it was equally true that not one of them followed an entirely predictable, deliberate strategy from day one. This is due not only to the fact that organizations building new markets

operate in unpredictable environments, but also due to their need to serve nonconsumers who have been ignored by conventional companies. It's unrealistic that any entrepreneur, no matter how savvy or in tune with local people, will perfectly understand the needs of these nonconsumers from the outset. Instead, the path to success requires openness, flexibility, and many iterations to zero-in on how best to address the problems nonconsumers want solved.²¹

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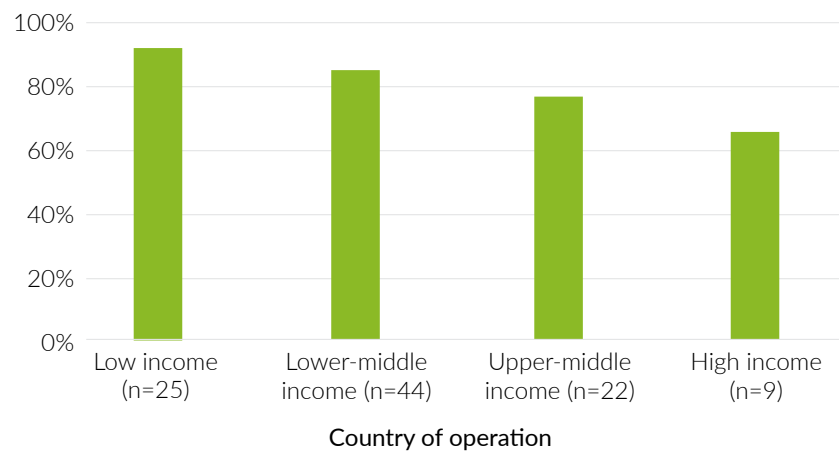
Strategy 4: Integrate internally

Almost all—84%—of the organizations studied needed to internally integrate operations that are typically outsourced by other companies. To successfully develop a new market, organizations chose to develop operations in-house that conventional companies did not see as core to their business.²²

For example, a typical computer company in a mature market might source component parts from several suppliers, use a shipping company to transport its products to retailers, and rely on those retailers for sales and repair services. This is standard practice in business as it enables companies to focus on their core competencies.²³

However, because market-creating organizations, as the name suggests, are creating new markets, the firms a company might outsource operations to often don't exist or are unreliable. Therefore, in order to reliably deliver their product, market-creating organizations usually need to develop many of these typically “outsourcable” operations in-house. The research revealed this phenomenon to be especially prominent among companies operating in lower-income markets; but even in high-income countries, two-thirds of market-creating organizations internally integrated in order to create a new market (see Figure 5).

Figure 5. Prevalence of internal integration across countries of varying incomes



Grupo Bimbo, now the world's largest baking company, began as a small venture aiming to create a new market for affordable fresh bread in Mexico City in 1945.²⁴ At the time, Mexico was a very poor country, and fresh bread was a luxury for many.²⁵ As Grupo Bimbo grew, its leaders recognized that to guarantee a predictable supply of quality flour for its bakeries, the company needed to develop its own flour mills. This was just the beginning of Grupo Bimbo's internal integration activities. In

the decades that followed, the company integrated agriculture, financial services, distribution and logistics, packaging, and more into its operations. Grupo Bimbo even developed its own two-year educational program to supplement its employees' education and train managers.²⁶

Similarly, in the 1980s and 1990s, Aravind Eye Hospitals, a network of affordable, high-quality eye clinics in India, found that two critical inputs of its value network—intraocular lenses needed for surgery and well-trained technicians—were difficult to reliably and affordably obtain. In order to deliver its service, the organization was forced to look beyond its core competency of performing eye surgeries and began manufacturing its own lenses and training its own technicians. These moves cut costs, increased reliability, and enabled Aravind to perform 400,000 low-cost or free eye surgeries annually.²⁷

The lessons learned by managers at Grupo Bimbo and Aravind Eye Hospital apply to all who create and lead market-creating organizations. (For more examples, see Figure 6.) Innovators need to shift their focus beyond their company's core competencies and consider the entire value network of their products and services. After identifying where in the market capabilities to manage those activities are unreliable or missing altogether, innovators can then develop those operations in-house.

Innovators need to shift their focus beyond
their company's core competencies
to identify which operations are best
developed in-house.



Figure 6. Internal integration among market-creating organizations

Organization	Date founded	Region	Initial core competency	Internal integration
Toyota	1937	Asia	Making and selling cars	Opened the Chubu Nippon Driver's School, which educated drivers and promoted motorization in a country where few had owned or driven cars before.
Havaianas	1966	South America	Making affordable footwear	Developed a new distribution network by sending salespeople in vans to set up mobile shopfronts in remote towns where nonconsumers tended to live.
Galanz	2001	Asia	Manufacturing microwave ovens	Created its own distribution network and integrated customer education so consumers would know how to use its products.
Metro African Express	2015	Africa	Moto-taxi ride hailing	Integrated financing into its business model to help its drivers purchase and own their motorcycles.

Sources: "75 Years of Toyota," Toyota (website), accessed November 14, 2020; "Havaianas History," Havaianas (website), accessed November 14, 2020; Zach Winn, "Creating a network of drivers to lift a community," *MIT News*, November 14, 2019; and Clayton Christensen, Efosa Ojomo, and Karen Dillon, *The Prosperity Paradox: How Innovation Can Lift Nations Out of Poverty* (New York: Harper Business, 2019).

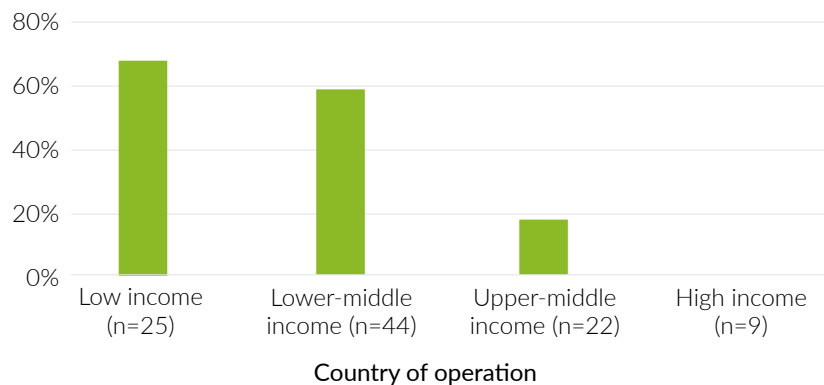
Strategy 5: Integrate externally

Successful market-creating organizations have a habit of assuming responsibility for any gaps in infrastructure that might hinder their ability to serve nonconsumers. We call this external integration. In contrast to internal integration, where organizations develop operations in-house that might usually be outsourced to another company, external integration means companies undertake services that traditionally fall under the responsibility of governments.²⁸

More than two-thirds of the market-creating organizations studied operate in low- and lower-middle income countries, where they face unique challenges (see Figure 7). Many emerging-economy governments simply don't have resources to reliably provide public infrastructure, social services, and efficient bureaucracies.²⁹ Electricity may be unreliable; education subpar; and transportation

infrastructure so dilapidated that it increases, not reduces, the cost of an organization's products. As a result, market-creating organizations have to build or perform many of these operations themselves.

Figure 7. Prevalence of external integration across countries of varying incomes



For example, Roshan faced a daunting uphill battle when it began creating a new market for mobile phones in Afghanistan in 2003. At the time, telecommunications infrastructure was virtually nonexistent in the country, and people often had to travel to neighboring countries just to make phone calls. To create this new market, Roshan performed a lot of activities that would ordinarily fall under the government's mandate. At each cell tower site, the company cleared landmines, built an access road, and installed two electric generators, since electricity infrastructure was severely limited.³⁰ In addition, Roshan spent as much as 10% of its annual budget on security.³¹ "In my world, a bad day isn't a train delay on the way to work or a line in the coffee shop," HR director Shireen Rhamani wrote in an article detailing her work experiences at Roshan. "It's a rush-hour terrorist attack that attempts to thwart the progress we are making in Afghanistan every day."³²

If Roshan had waited for the Afghan government to create a suitable environment for a telecommunications company to succeed, it would still

be waiting today. Instead, taking on roles that are traditionally managed by the government has enabled Roshan to become Afghanistan's largest telecom company with 6.5 million subscribers, and to create more than 35,000 jobs.³³ Its success inspired other players to enter the market in Afghanistan, and now 90% of the population has access to mobile phones, up from just 1% in 2003.³⁴

A striking parallel exists between the experiences of Roshan and other modern-day market-creating organizations in emerging markets around the globe, but the phenomenon is not new. In fact, the challenges they face closely resemble those of their predecessors who built new markets in previously poor countries such as the United States (see Figure 8). For instance, Swift & Company, which made fresh beef accessible and affordable in the United States in the late 1800s, needed to build its own national infrastructure of refrigerated railcars and ice stations to support them as there was no existing way to transport butchered meat.³⁵

The clear lesson is this: if an organization intends to create a new market in an emerging economy, it frequently may need to fill infrastructure gaps on its own rather than wait for governments to prepare the way.

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Market-creating organizations must be proactive and deliberate in how they manage their relationship with the government.

Figure 8. External integration among market-creating organizations

Organization	Date founded	Region	External integration
I.M. Singer & Company	1855	North America	Integrated railroad infrastructure in order to distribute sewing machines.
Swift & Company	1908	North America	Built a network of ice stations for the railroad to enable the transport of refrigerated goods.
Tolaram	1995	Africa	Created its own energy, waste management, water treatment, and other infrastructure, including a \$1.5 billion deep sea port.
Roshan	2003	Asia	Built and managed its own energy and security infrastructure.

Sources: Karim Khoja, "Connecting a Nation: Roshan Brings Communication Services to Afghanistan," *Innovations* 4, no. 1 (Winter 2009); "Gustavus Franklin Swift," *YourDictionary*, accessed November 14, 2020; and Clayton Christensen, Efosa Ojomo, and Karen Dillon, *The Prosperity Paradox: How Innovation Can Lift Nations Out of Poverty* (New York: Harper Business, 2019).

Challenge: Managing a difficult business environment

Understanding how to develop an effective organization goes a long way toward enabling innovators to create a new market, but sometimes even developing excellent business strategies and structures is not enough. The business environment in many emerging economies where there is significant potential for market-creating innovations is often unpredictable.³⁶ Government bureaucracy might be slow and steeped in overt corruption. How should market-creating organizations that choose to operate in these markets think about these obstacles? By being proactive and deliberate in how they manage their relationship with the government.

Figure 9. Strategy for managing a difficult business environment

Strategy	Definition	Prevalence among 100 organizations
6. Manage government relations	The organization must allocate significant time and resources to managing interactions with government in order to operate.	57%

Strategy 6: Manage government relations

Whether dealing with unpredictable bureaucratic hurdles, corruption, patent litigation, or civil conflict, market-creating organizations often need to expend significant resources engaging with local governments where they operate. Just as entrepreneurs who lack access to good infrastructure are often better off building it themselves rather than waiting for the government to do so, those who face challenges related to government institutions should focus on managing those challenges, rather than waiting for them to go away before beginning operations. Although organizations' specific experiences with governments vary, one constant seems to be the prevalence of interaction between the governments and market-creating organizations. Roshan, for example, had to navigate corruption, exorbitant taxes, and security concerns.³⁷ The organization had to be creative, and solutions have come in the form of a policy to never pay bribes and to work with community elders to ensure the security of its cell towers, rather than hire foreign security guards.³⁸

Past market-creating organizations in now-prosperous countries often faced similar trials and tribulations. For example, the aforementioned Swift & Company, in addition to other early American market creators like the McCormick Harvesting Machine Company, Bank of America, and Kodak,³⁹ all had to overcome challenges with the United States government as they created new markets in their respective industries. From legal battles over intellectual property to the threat of dissolution, the government seemed hell-bent on hindering their progress.⁴⁰

Whether they want to or not, market-creating organizations, particularly those operating in lower-income economies, often find themselves expending significant time and resources on managing their relationships with governments.⁴¹ Their experiences interacting with governments throughout time and around the globe suggest a helpful approach for organizations: implement an intentional strategy for managing government relations, rather than simply waiting to react and adapt when interactions with government occur. Dealing with government is a core business activity for many market-creating organizations, so they should set expectations to devote the time and resources necessary to manage it.

That isn't to say governments are never helpful; some are eager to see market-creating ventures flourish. Organizations such as Drinkwell,⁴² a water filtration company, and EarthEnable,⁴³ which supplies low-cost flooring, have formed harmonious partnerships with governments in Bangladesh and Rwanda, respectively. What's consistent, however, is how often market-creating organizations need to devote time and resources to their relationships with government. Rather than treating government relations as tangential, innovators should begin new ventures expecting these relationships to be central to their business strategy.



Rather than treating government relations as tangential, innovators should begin new ventures expecting these relationships to be central to their business strategy.

Figure 10. Government interaction among market-creating organizations

Organization	Date founded	Region	Government interaction
Commonwealth Edison	1887	North America	A group of Chicago city officials extorted money from Commonwealth Edison by forming their own dummy company and giving it a 50-year contract to provide Chicago's electricity.
Bank of America	1904	North America	The bank's rapid and widespread adoption made government officials uneasy about the possibility of a monopoly, so California's banking commissioner consequently rejected many of Bank of America's petitions to expand.
Citroen	1919	Europe	Citroen executives had to hide the designs for their 2CV automobile from Nazi forces that wanted to commandeer it for their efforts in WWII.
Pan American Airways	1927	North America	Britain closed its airports to Pan Am after the company introduced "tourist class" tickets that cut prices and allowed average Americans to fly—a move that threatened British airlines.
Kia	1944	Asia	In 1981, the South Korean government forced Kia to stop making cars against its will and instead build trucks for a period of time as part of state-directed economic policy.

Sources: Commonwealth Edison Company," Encyclopedia.com, accessed January 21, 2021; Philip Anschutz, *Out Where the West Begins: Profiles, Visions, and Strategies of Early Western Business Leaders* (Oklahoma: Oklahoma University Press, 2015), 348-351; "The 2CV concept Hitler never found," *The Telegraph*, February 6, 2006; Stanley Turkel, "Jaun Terry Trippe, Founder of Pan Am World Airways and InterContinental Hotels: Aviation Genius, Financial Wizard and Hotel Pioneer," Hospitality Net, December 21, 2006; Andrew Pollack, "It's Small, Cheap and Not a Hyundai," *The New York Times*, May 29, 1994.

CONCLUSION

The phenomenon of successful market-creating innovation has long remained shrouded in mystery. Although qualities such as grit and hardwork are important for success, they are not sufficient. It's vital that emerging market-entrepreneurs also develop a robust strategy against the challenges they will invariably face.

The encouraging conclusion of this research is that market-creating organizations have far more control over their destiny than many previously imagined. Good timing and lucky breaks always play a role in any entrepreneurial venture, but success in market creation has more to do with the strategies organizations employ to overcome common hurdles.

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By addressing the barriers that prevent consumption, using outside-the-box thinking to develop business operations, and proactively managing government relations, market-creating organizations, to a large degree, can make their own luck.

Vast nonconsumption exists for a myriad of products and services in emerging economies today. This signals widespread opportunity for modern entrepreneurs, investors, and multinational corporations. The organizations included in this study—operating across the globe during the past several centuries—all demonstrate that when innovators take previously expensive, complicated products and services and make them simple, affordable, and accessible, they can tap into entire populations of new consumers, creating new, profitable markets.

Beyond creating significant wealth, the emergence of market-creating innovations has the potential to trigger shared prosperity in nations where many live in poverty. The widespread adoption of innovations in emerging markets is not just beneficial; it is vital.

APPENDIX

Figure A.1. Six innovative strategies for creating new markets

Challenge	Strategy	Definition	Prevalence among 100 organizations
Designing a product customers will embrace	1. Reduce the barriers to consumption	The organization reduced more than one of the barriers to consumption: money, access, time, and skill.	95%
	1a. Reduce the money-related barrier	The organization made the product or service less expensive so nonconsumers could afford it.	80%
	1b. Reduce the access-related barrier	The organization made the product or service available to nonconsumers at a convenient location, enabling consumers to access it.	70%
	1c. Reduce the time-related barrier	The organization made buying and using the product or service less time-consuming so nonconsumers could consume it.	52%
	1d. Reduce the skill-related barrier	The organization made the product or service simple enough for nonconsumers to buy and use it on their own.	34%
Creating a new market from scratch	2. Employ breakthrough technology	The organization's business model relied on novel technology not conventionally used in the industry.	55%
	3. Develop a new value network	The organization redefined its business activities and cost structure so that nonconsumers could more conveniently access its product, while still offering the organization a path to profitability.	100%
	4. Integrate internally	The organization integrated operations in-house that are conventionally outsourced in the industry (i.e., producing the raw materials used in its products).	84%
	5. Integrate externally	The organization undertook infrastructure projects typically supplied by the state (i.e., electricity, roads).	47%
Managing a difficult business environment	6. Manage government relations	The organization must allocate significant time and resources to managing interactions with government in order to operate.	57%

Figure A.2. Barriers to consumption across countries of varying incomes

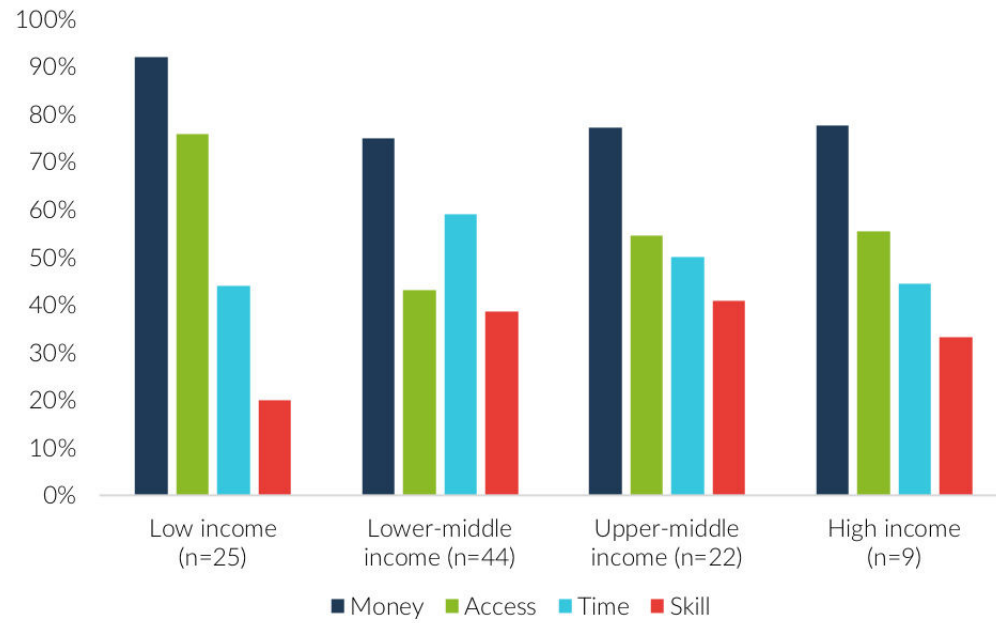


Figure A.3. Market-creating organizations overcoming barriers to consumption

Market-creating organization	Money	Access	Time	Skill
Bank of America Designed a banking model that served smaller customers other banks viewed as unprofitable	✓	✓		✓
Celtel Made mobile telephones affordable and accessible for average people in Africa to own and use	✓	✓	✓	
Clínicas del Azúcar Created a simple, affordable treatment system for diabetes in Mexico	✓		✓	✓
Indomie Noodles Sold and distributed instant noodles throughout Nigeria, providing an affordable means of nutrition	✓	✓	✓	
Jamalon Made Arabic books accessible to many who previously had to travel long distances to buy them		✓		
Kia Introduced simple vehicles for Korean consumers who previously couldn't afford their own cars	✓	✓		
Kodak \$1 Brownie camera made photography accessible to nonprofessional photographers	✓	✓	✓	✓
M-Pesa Used mobile technology to make financial services available for those who didn't previously have access	✓	✓	✓	✓
MAX (Metro Africa Xpress) Harnessed mobile technology to make transportation quicker and more affordable in Nigerian cities	✓	✓	✓	
MicroEnsure Developed a cheap, simple insurance product for individuals who couldn't access traditional insurance	✓	✓	✓	✓

NOTES

1. Edwin Wildman, *Famous Leaders of Industry: The Life Stories of Boys Who Have Succeeded* (Boston: The Page Company, 1921), 251-252.
2. Jeff Dyer, Nathan Furr, and Mike Hendron, "Overcoming the Innovation Paradox," *MIT Sloan Management Review*, July 20, 2020, <https://sloanreview.mit.edu/article/overcoming-the-innovators-paradox/>.
3. In contrast to market-creating innovations that target nonconsumers, other types of innovation usually aim to provide improved performance or efficiency for existing consumers who can already afford and access available but inferior solutions. These other types of innovation are useful, but because they don't create new markets, they usually don't require building new infrastructure or creating new jobs at the scale of market-creation innovations. See Clayton Christensen, Efosa Ojomo, and Karen Dillon, *The Prosperity Paradox: How Innovation Can Lift Nations Out of Poverty* (New York: Harper Business, 2019).
4. Bent Flyvbjerg, "What You Should Know about Infrastructure Megaprojects and Why: An Overview," *Project Management Journal* 45, no. 2 (April–May 2014): 6-19.
5. Alberto Asquer, "How Can Developing Countries Pay for Infrastructure Development?" *Times Higher Education*, accessed January 21, 2021, <https://www.timeshighereducation.com/write-times-higher-education>.
6. Clayton Christensen, Efosa Ojomo, and Karen Dillon, "Cracking Frontier Markets," *Harvard Business Review*, January–February 2019, <https://hbr.org/2019/01/cracking-frontier-markets>.
7. Creating a new market often looks like a risky or radical idea to investors, meaning innovators need to be creative about how they obtain capital. For example, more than half (52%) of innovators we studied got their initial capital from friends and family, foundations, or grants. See also William Jilltoft and Emil Westman, "Early Stage Venture Capital in Emerging Markets," (master's thesis, KTH Royal Institute of Technology, 2016) <https://kth.diva-portal.org/smash/get/diva2:1074515/FULLTEXT01.pdf>.
8. See Figure A1 in the appendix for a table with complete descriptions of each strategy and its prevalence among MCIs in our research. This table has been broken into sections and included throughout the paper.
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10. See Figure A.3 in the appendix for notable examples of innovators that addressed barriers to consumption in order to reach nonconsumers.
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12. The vast majority of insurance is consumed by those living in wealthy nations. The entire continent of Africa, for example, accounts for just 1.5% of global insurance premiums. See blog post by Corneille Karekezi, "Driving Up Insurance Penetration in Africa," African Reinsurance Corporation, October 18, 2017, <https://www.africa-re.com/blogs/1-article/articles/53-driving-up-insurance-penetration-africa#:~:text=According%20to%20the%20World%20Bank,of%20the%20world%E2%80%99s%20total%20premiums>.
13. "Rate of Insurance Penetration in Sub-Saharan Africa by County, 2017," Statista, accessed January 21, 2021, <https://www.statista.com/statistics/727403/insurance-penetration-in-sub-saharan-africa-by-country/>.
14. World Health Organization, "World Bank and WHO: Half the World Lacks Access to Essential Health Services, 100 Million Still Pushed into Poverty Because of Health Expenses," news release, December 13, 2017, <https://www.who.int/news-room/detail/13-12-2017-world-bank-and-who-half-the-world-lacks-access-to-essential-health-services-100-million-still-pushed-into-extreme-poverty-because-of-health-expenses>.

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16. Christensen, Ojomo, Dillon, *Prosperity Paradox*, 56.
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18. "History," Havaianas (website), accessed November 14, 2020, <https://www.havaianas-store.com/en/history>.
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21. Innovation consultant Scott Anthony provides insights as to how companies can test great ideas for new growth markets in his book *The First Mile*. See Scott Anthony, *The First Mile: A Launch Manual for Getting Great Ideas into the Market* (Boston: Harvard Business School Publishing, 2014), 83-104.
22. Innovators have employed strategies similar to this, such as vertical integration or vertical combination, since they were pioneered by innovative businessmen like Andrew Carnegie and Gustavus Swift in the 19th century. See David Harrell et al., *Unto a Good Land: A History of the American People*, (Grand Rapids, MI: Eerdmans Publishing Company, 2005), 605.
23. See "Core Competencies," Bain & Company (website), April 2, 2018, <https://www.bain.com/insights/management-tools-core-competencies/>.
24. Michelle Caruso-Cabrera, "Grupo Bimbo: Meet the Mexican CEO Who Made Your English Muffin," CNBC, June 7, 2013, <https://www.cnbc.com/id/100798699>.
25. In 1945, life expectancy in Mexico was just 45 years, and half the county's population lived in rural areas and engaged in agriculture—typically all signs of poverty. Christensen, Ojomo, Dillon, *Prosperity Paradox*, 171.
26. Christensen, Ojomo, and Dillon, *Prosperity Paradox*, 173.
27. Aravind uses profits generated from its paying patients (40–50% of customers) to provide free or at-cost surgeries for the 50–60% of patients who wouldn't otherwise be able to afford care. See Aravind Krishnan, "Aravind Eye-Care System: McDonaldization of Eye-Care," Harvard Business School Digital Initiative, modified December 9, 2015, <https://digital.hbs.edu/platform-rctom/submission/aravind-eye-care-system-mcdonaldization-of-eye-care/>.
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38. Liuhto, "Groundbreaking Telecom."
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About the Institute

The Clayton Christensen Institute for Disruptive Innovation is a nonprofit, nonpartisan think tank dedicated to improving the world through Disruptive Innovation. Founded on the theories of Harvard professor Clayton M. Christensen, the Institute offers a unique framework for understanding many of society's most pressing problems. Its mission is ambitious but clear: work to shape and elevate the conversation surrounding these issues through rigorous research and public outreach.

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