FRUGAL INNOVATION

Authors
Sammut-Bonnici T., McGee J.

Reference this article

Abstract / Definition
Frugal innovation can be defined as the practice of simplifying product components and manufacturing processes into basic elements, in order to redesign both the product and the processes to become more efficient and cost effective. The economic relevance of frugal innovation is the creation of low cost mass market products that are affordable to all social strata including the less affluent segments. Since the price of a frugal product is low, the margin per product is proportionately low. However, the volume of the mass market is vast and the total gains are extraordinarily high. Cost savings through frugal innovation rely on three ways of reducing expenditure: subcontracting, utilizing existing technology and applying mass-production techniques. Frugal innovation can be explained through the economies of substitution. It works best when the cost of substituting older components with newer, more technologically advanced components, is lower than the cost of designing the product afresh. The substitution effect in frugal innovation occurs because of the time lag in the technological development of different components within a product. The dynamics of economies of substitution and frugal innovation create an inter-temporal substitution of components and a process of modularity in the design of high performance products.

Keywords
Bandit innovation, constraint based innovation, frugal innovation, incremental innovation, guerrilla innovation, low-cost strategy, radical innovation, reverse innovation, substitution effects

Link to publication