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On innovators and pinballs

Caroline Ashley

All blogs

Caroline Ashley welcomes – and challenges – the 'pinball effect'.

Our Editor's Choice this month couldn't be a sharper contrast – and challenge – to our monthly theme. Counting how many people at the Base of the Pyramid are reached by an inclusive business is the topic of two new publications, and blogs by entrepreneurs on the Hub. Forgetting about direct reach and doing better to value indirect results – influencing other businesses and indeed competitors – is the theme that is central to 'Of Innovators and Pinballs'*.

It's a well-crafted thought-provoking read. The core concept is that innovative businesses are 'pinballs' bouncing on and off other market players, making them change too.

Authors Mike Kubzansky (OmidyarNetwork) and Paul Breloff (Accion Ventures Lab) are targeting impact investors, donors, incubators, and accelerators, to challenge their assumptions that investee success and scale is all that matters. But actually I think if you are a business seeking to 'shift the needle' on how things are done in your market – or alternatively a first-mover worried about being out-competed by second-movers – it will be a fascinating example-packed read.

So what is this pinball effect? The authors describe it like this:

We believe that there are not only direct pathways to scale but also indirect pathways to scale—specifically, scale through the indirect inspiration or motivation of copycats and competitive responses that build on, extend, and sometimes even replace the initial pioneer.

Three different pinball effects are outlined, with interesting examples:

- competitors imitate the innovator's success (Eureka Forbes following WaterHealth and Water Life as an example), sometimes succeeding where they could not;
- incumbents have to react, to adapt or keep up, and improve their own offer (Capri Sun's adapted product following Honest Tea's success is a good example given);
- gaps in regulation or policy are highlighted by innovators, and are then addressed by changes in policy or funding (Envirofit catalysing Shell Foundation's interventions is given as an example. This newish trend is also highlighted in BCtA's Breaking Through report).There are many things here which strike very true, and one that I challenge.

The authors argue that these indirect effects can ultimately be more significant than any direct effects of a single enterprise. That this poses a real challenge for investors and donors, not only because results are hard to measure, but because investors' first loyalty is to companies in their own portfolio. There is a real tension because a failed innovation can be a very effective pinball. And they point out that even if we value them more, or try to measure them, many of them are likely to be hard to anticipate in advance. All wisely said and implications for impact investors are huge.

As for the challenge? The authors say: for investors and pioneers, indirect paths to scale through copycats and competitors are irrelevant at best and antagonistic at worst. While there is no doubt that first-movers who get overtaken by second-movers are the big losers here, I'm struck how many entrepreneurs I've spoken to that really want to be a pinball. They have no qualms about changing and building the market, alongside building their business.

In the first conversation with Saraplast some years ago, founder Rajeev Kher described his vision for changing sanitation practice in India. A generation ago, he said, anyone would have laughed at the idea of paying for a bottle of water. But look around now. So he thinks paying to use a clean low-cost toilet can become normal practice for millions of slum dwellers. If they do, Saraplast will grow, but so will many other businesses. The CEO of SolarNow, selling solar home-systems in Uganda, was similarly bold in a recent interview, calling for MNCs and large companies to get into the solar market in Africa. Given the scale of unmet need, it's big enough for them all, he argued.

Influencing the market and not just the bottom line may seem like bad business. But, in fact, other lessons tell us that inclusive business success depends on patience, passion and vision (pdf). So amongst the entrepreneurs that have these qualities for success, it's no surprise that some have ambitions to move the needle for others too.

*The article appears in the September Edition of *Stanford Social Innovation Review*. The full title is longer: 'On Innovators and Pinballs: Five Paths to scale in early-stage impact investing' and the article itself is short, snappy, lucid, and puts a huge issue in clear frank terms.

Notes

This blog was originally posted as Editor's Choice for January 2015 on The Practitioner Hub website.

The link between individual inclusive business and changes in markets is a bubbling topic. On the same theme, Tom Harrison has just posted a blog on the Hub entitled Towards a unifying theory of everything.

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