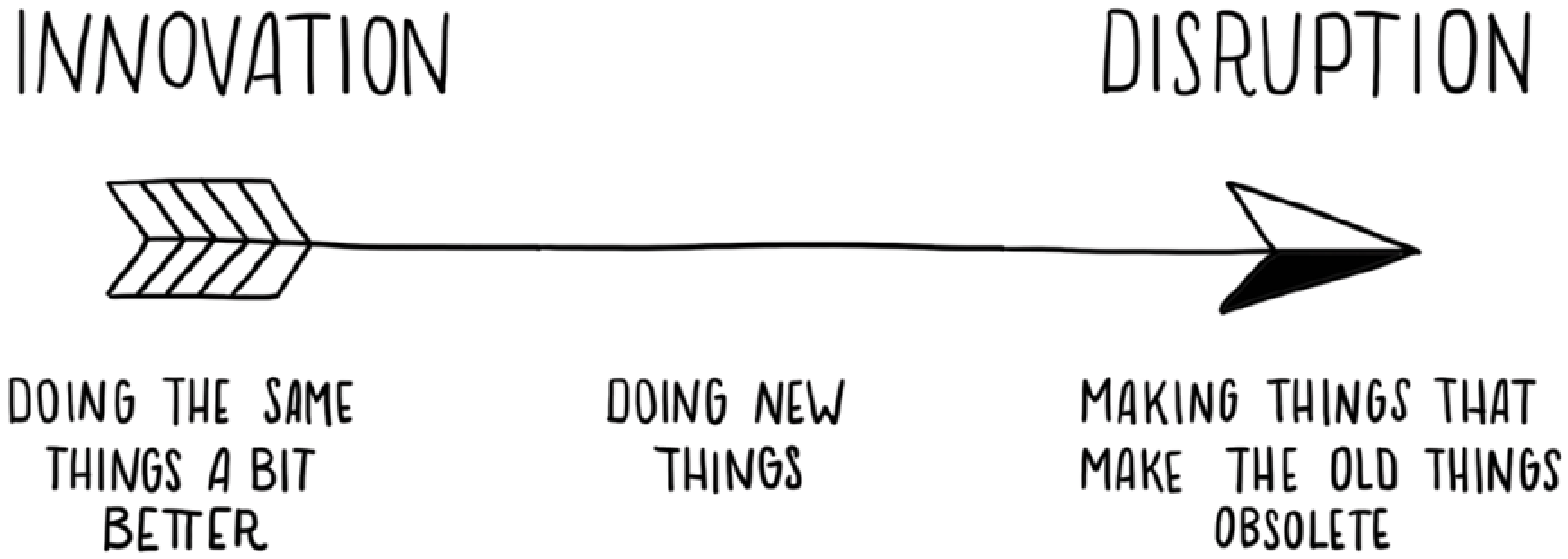
Is your business under threat from Disruptive Innovation?



Disruptive innovation

Disruptive innovation is a challenge which all organisations can face – an organisation may either be the disrupter or be disrupted by innovation.

The theory of disruptive innovation was created by Harvard professor Clayton M. Christensen.

Christensen explains how many successful companies are pushed aside by disruptive technologies because they fail to abandon traditional business practices and outdated business models. Businesses have a choice: innovate or die; disrupt or get disrupted.

1. Disruptive innovation fundamentally changes entire industries; therefore, it can make core resources and capabilities obsolete.

2. Disruptive innovation often develops in niche markets, being ignored by core businesses due to its perceived inferiority. These businesses are then undermined once the innovation improves.

Disruptive innovation refers to any innovation that creates a new market by providing a different set of values, which ultimately and unexpectedly overtakes an existing market.

One typical way innovation starts is when a disruptive market entrant introduces an inferior, yet inexpensive and accessible product or service to the market.

Because larger companies often have a superior offering, they ignore the new entrants as competitors in their industry.

As the innovation process unfolds, the disrupter increases their offering's value while still maintaining low cost and convenience, ultimately edging out the established companies, taking their market shares on the strength of a new business idea.

Finding a new way to produce or deliver an existing product or service is the most common type of innovative disruption.

Christensen argues that disruptive innovations can be difficult for established companies to pursue.

This is because they often require new business models, new manufacturing processes, and new distribution channels.

Established companies may be reluctant to invest in these new areas because they are seen as risky and unproven.

Moreover, disruptive innovations often have a lower profit margin than existing products and services.

This means that established companies may be reluctant to invest in them because they do not offer the same return on investment.

Examples of Disruptive Innovations

In the late 1800s when the first automobile was invented it was not immediately disruptive.

The first cars were expensive and unattainable and therefore didn't disrupt the market for horse-drawn carriages right away.

However, the invention of the assembly line and mass-produced automobiles in 1908 completely disrupted the transportation industry and life as people knew it — in the first year, 15.5 million factory-made vehicles were sold in the U.S. alone.

A classic example of Disruptive Innovation is Kodak, which dominated the photographic film market for decades.

Despite having developed the first digital camera in the 1970s.

Kodak failed to capitalize on this technology and was eventually overtaken by competitors such as Canon and Nikon.

- Eventually digital cameras became "good enough" and disrupted the market

- The same is now happening to digital cameras

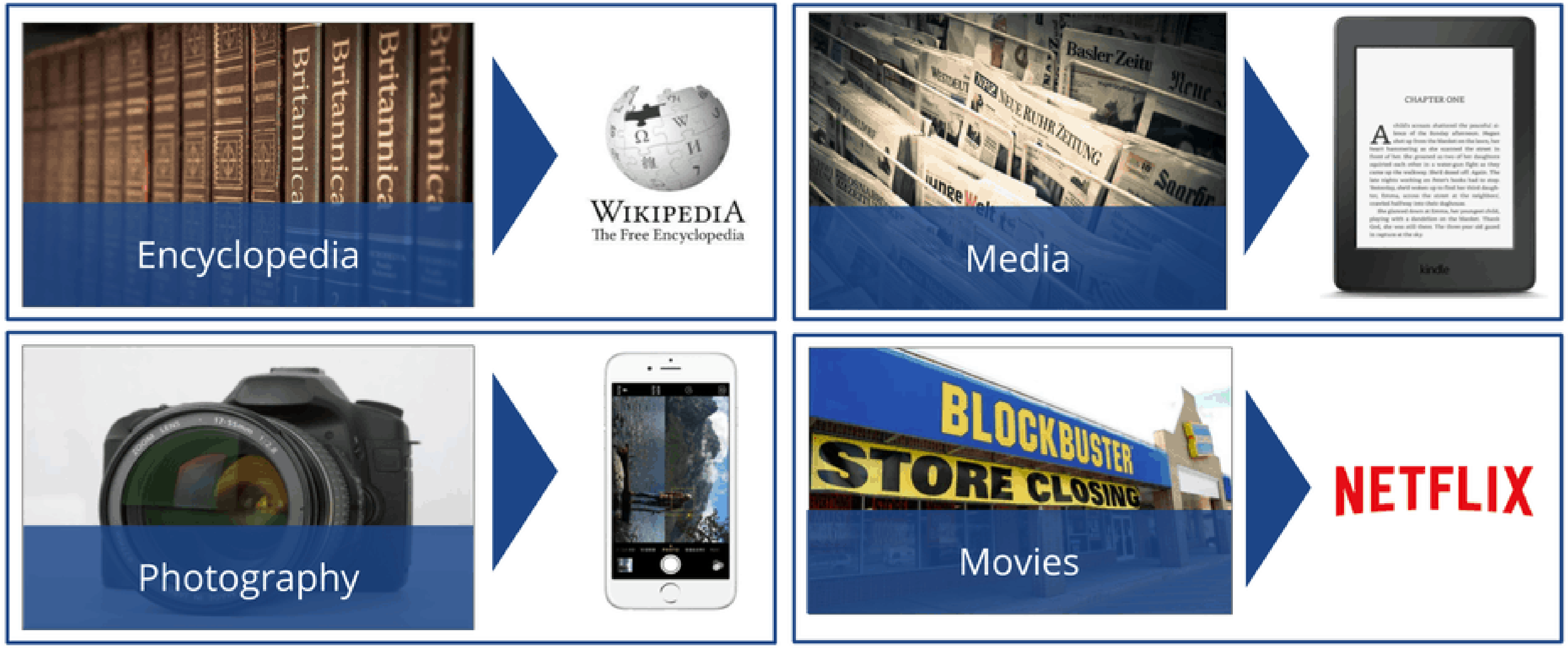
Another example is Nokia, which dominated the mobile phone market in the early 2000s. Nokia was slow to adapt to the rise of smartphones and was eventually overtaken by competitors such as Apple and Samsung.

Within 2 years in the early 2000’s Cathode ray tube TVs were disrupted by Flat Screen models.

Despite the CRT TV’s having a far superior picture quality than the early FS models, the market far preferred the space saving and aesthetics of the Flat screen products.

In business, disruption is defined as a fundamental change that alters how organisations and their business environments create and appropriate value. This form of change goes well beyond the simple distinction between radical and incremental change.

Examples of Disruptive Innovation :



The following are all examples of disruption caused by innovation:

Disruption causing obsolete business assets:

Disruption involving major changes can make key existing business assets obsolete, including expertise, organisational structures and business models.

Disruption by ‘inferior’ products and services:

Christensen argues that disruptive innovation is particularly peculiar because the new technology, product or service is often initially seen as inferior by the core customers.

Asset-light business model disruption:

Digital platforms such as Facebook, Airbnb and Amazon are characterised by asset-light business models.

Requiring limited initial capital asset investment, they have disrupted conventional media, hotels and retail companies.

Types of Disruptive Business Models

- **Freemium Model** - Freemium is the combination of "free" and "premium." The freemium business model refers to offerings that are free of charge to use but require consumers to pay a premium to unlock more advanced features. For example , Zoom offers a free but limited video chat application, but charges for conference calls.
- **Subscription Model** - The subscription business model allows customers to pay a flat fee (typically monthly or yearly) for unlimited access to a service or product. Amazon Prime members can order goods and have them delivered quickly. Amazon's disruptive model has completely changed the retail shopping environment.
- **Free Offerings -** Facebook and Google, for example, offer a free service to consumers, but sell data to other companies for marketing and advertising purposes. Instead of getting paid by the customer, they get paid by the companies advertising on their platforms.
- **Marketplace Model -** The marketplace business model connects buyers and sellers on a common platform such as eBay. They make money through combinations of commissions, transaction fees, memberships and advertising.
- **Access-Over-Ownership Model -** In the beginning, Airbnb offered a low-value solution for a low-value customer, As it expanded and improved the quality of its offering, it became more appealing to high-value customers. Airbnb revolutionized the travel and leisure industry by creating a new market for people looking for convenient, affordable, high-quality travel accommodations.
- **Pyramid Model -** In this business model, the company such as Amazon Affiliate will recruit a large number of affiliates or resellers who advertise their offering to boost traffic and sales. The affiliates get paid on a commission basis. Especially among social media influencers, the pyramid business model is highly attractive. It's a low-cost and easy way to increase traffic and sales.

As we progress into the Fourth Industrial Revolution, we will see the rise of even more disruptive companies and new technologies that will fundamentally alter the way we live, work and do business.

In order to manage potential disruptions, innovation needs to be recognised as a core organisational capability. This capability should be developed to simultaneously:

- **exploit core business**
- **explore emerging opportunities in new fields.**

These emerging disruptive opportunities may replace current core businesses in the future.

Organisations that protect and advance a core business whilst exploring new and potentially disruptive business are described as ambidextrous organisations.

Organisations which are affected by disruption can adopt the following appropriate managerial strategies to manage disruption:

- **Separate teams.**
- **Explore emerging business opportunities.**
- **Invest in stages.**
- **Change the management ethos.**

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