Disruptive innovation...

Reference:
**Innovator’s Solution**
Clayton Christensen & Michael Raynor
The Disruptive Innovation Model

Performance Metric vs. Time

- **Disruptive Innovations**
  - Start out serving a low-end, lower performance market by offering better cost, ease of use.
  - Performance gap

- **Sustaining Innovations**
  - Performance surplus
  - Performance that customers can utilize or absorb

Reference: Innovator's Solution. C Christensen and M Raynor
Testing for Disruptive Ideas

• **Test I: New-market disruption?**
  - Is there a large population who have not had money/equipment/skill to do this thing themselves and have gone without or had to pay someone else to do this?
  - To use the product or service, do customers go to an inconvenient, centralized location?
Testing for Disruptive Ideas

- **Test II: Low-end disruption?**
  - Will low-end/overserved customers buy a product with “good enough” performance at a lower price?
  - Is there a business model with attractive profits at the discount price required to win this business?
• **Test III: Sustaining innovation?**
  - Is the innovation disruptive to *all* the incumbent firms in the industry?
  - If it appears sustaining to one or more significant players, the entrant is unlikely to win
## New Growth Business Approaches

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Sustaining Innovation</th>
<th>Low-end Disruption</th>
<th>New-market Disruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product performance</td>
<td>Improve performance of attributes valued by industry's most demanding customers</td>
<td>Good-enough in terms of traditional metrics at low-end of mainstream market</td>
<td>Lower performance in traditional attributes but improved performance in new attributes (eg, simplicity, convenience)</td>
</tr>
<tr>
<td>Market</td>
<td>The most profitable customers in the mainstream market willing to pay for improved performance</td>
<td>Overserved customers in the low end of the mainstream market</td>
<td>Nonconsumption: potential customers who lacked money/skill to buy &amp; use the product</td>
</tr>
<tr>
<td>Business model</td>
<td>Exploit existing processes, cost structure, and competitive advantage to improve/maintain profit margins</td>
<td>New operating/financial approach: lower gross profits with higher asset utilization to earn attractive returns at discount pricing</td>
<td>Must be profitable at lower price per unit and low initial volumes</td>
</tr>
</tbody>
</table>

- New entrants are unlikely to succeed competing against existing sustaining innovators

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Market Segmentation

- Segmentation based on attributes only doesn’t often work (e.g., customer demographics, price point)
- Critical unit of analysis is circumstance in which customers find themselves
  - Customers have “jobs” to get done
  - Look for product/service to “hire”
The Danger of Asking Customers to Change Jobs

• The things people want to accomplish in their lives don’t change quickly
• Ideas requiring customers to prioritize jobs they didn’t care about in the past will most likely fail
Pattern for Extracting Growth from Non-consumption

- Target customers trying to get a job done but lack money/skill or simple inexpensive solution
- Position disruptive product as an alternative to having nothing at all
- Product use must be foolproof to tap untrained consumers
- Create a value network employing new channels and new use venues

Reference: Innovator's Solution. C Christensen and M Raynor
Integration vs. Outsourcing

- Closing performance gaps initially requires proprietary / interdependent architectures
- Technological improvement exceeds customer’s need
- The basis of competition changes; new performance measures become important to customers
- Competitive pressure forces companies to move from proprietary / interdependent to modular architectures in order to be fast & responsive
- Modularity enables the “dis-integration” of the industry; integration can become a competitive disadvantage
Commoditization Cycle

- Low cost modular product assemblers compete against higher-cost integrated suppliers
- Once proprietary / integrated suppliers are driven from the market, low-cost suppliers must move up market to continue growing due to market price collapse
- The constraint to quickly moving up-market becomes the performance defining subsystems, which become not good enough
- Subsystem suppliers must move to proprietary / integrated architectures to improve performance
- Leading sub-system providers are now selling differentiated products with attractive margins

Reference: Innovator's Solution. C Christensen and M Raynor
Avoiding Commoditization

- Companies positioned in the value chain where performance is not yet good enough will capture the profit.
- Position the company to be where the money in the value chain will be, not where it is today.
- Competitiveness is more about doing what customers value than what you think you are good at.

Reference: Innovator's Solution. C Christensen and M Raynor
Growth vs. Non-growth Cycles

- Launch without massive resource outlay
- Emergent processes for finding strategy
- Resources spent actually create growth
- Value opportunities that don’t grow fast

Growing

- Launch requires massive resource outlay
- Aggressive strategy with untested assumptions
- Wasted resources make need to grow more urgent
- Value fast growth opportunities

Not growing

Reference: Innovator's Solution. C Christensen and M Raynor
Conclusions

- Don’t target markets that are attractive to established sustaining innovators
- Instead of targeting customers already using pretty good products, target non-consumption
- If non-consumers aren’t available, look at low-end disruption
- Don’t try to get customers to change what they are trying to get done; make easier for them instead
- Segment the market by circumstances & jobs, not attributes
Conclusions

- Don’t get trapped in the assumption that the basis of competition won’t change
- Develop competencies where the money will be made in the future
- Choose the right organizational home for the project (resources/ processes / values)
- Make sure the channel is right for the idea
- Staff project with those who have grappled similar problems being faced
- Get early evidence that strategies are working
- Be impatient for profits
- Keep the overall organization growing to remain patient for growth from new ventures

Reference: Innovator's Solution. C Christensen and M Raynor