



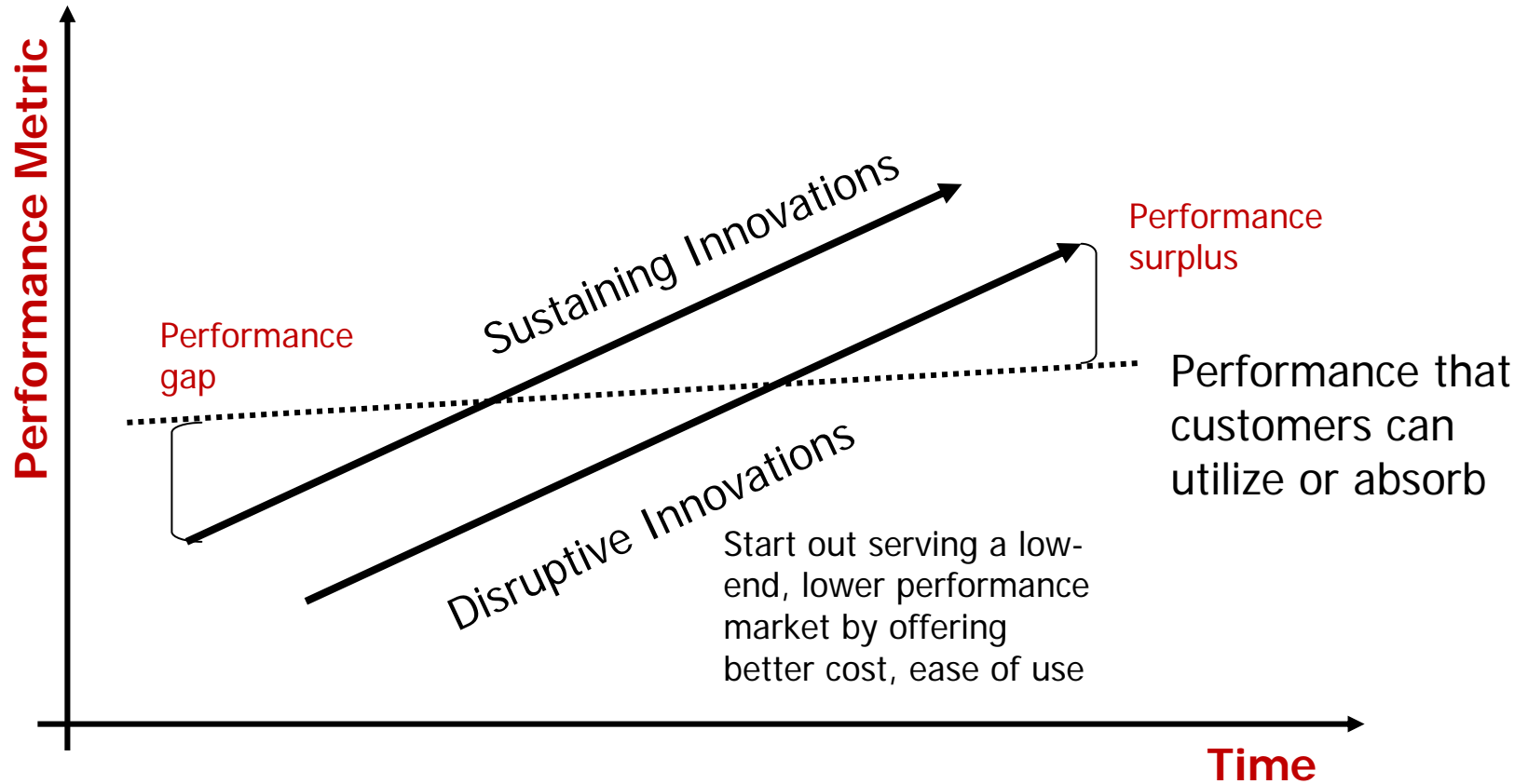
Disruptive innovation...

Reference:

[Innovator's Solution](#)

Clayton Christensen & Michael Raynor

The Disruptive Innovation Model



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?

- **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

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

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

- **Segmentation based on attributes only doesn't often work (eg, 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

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

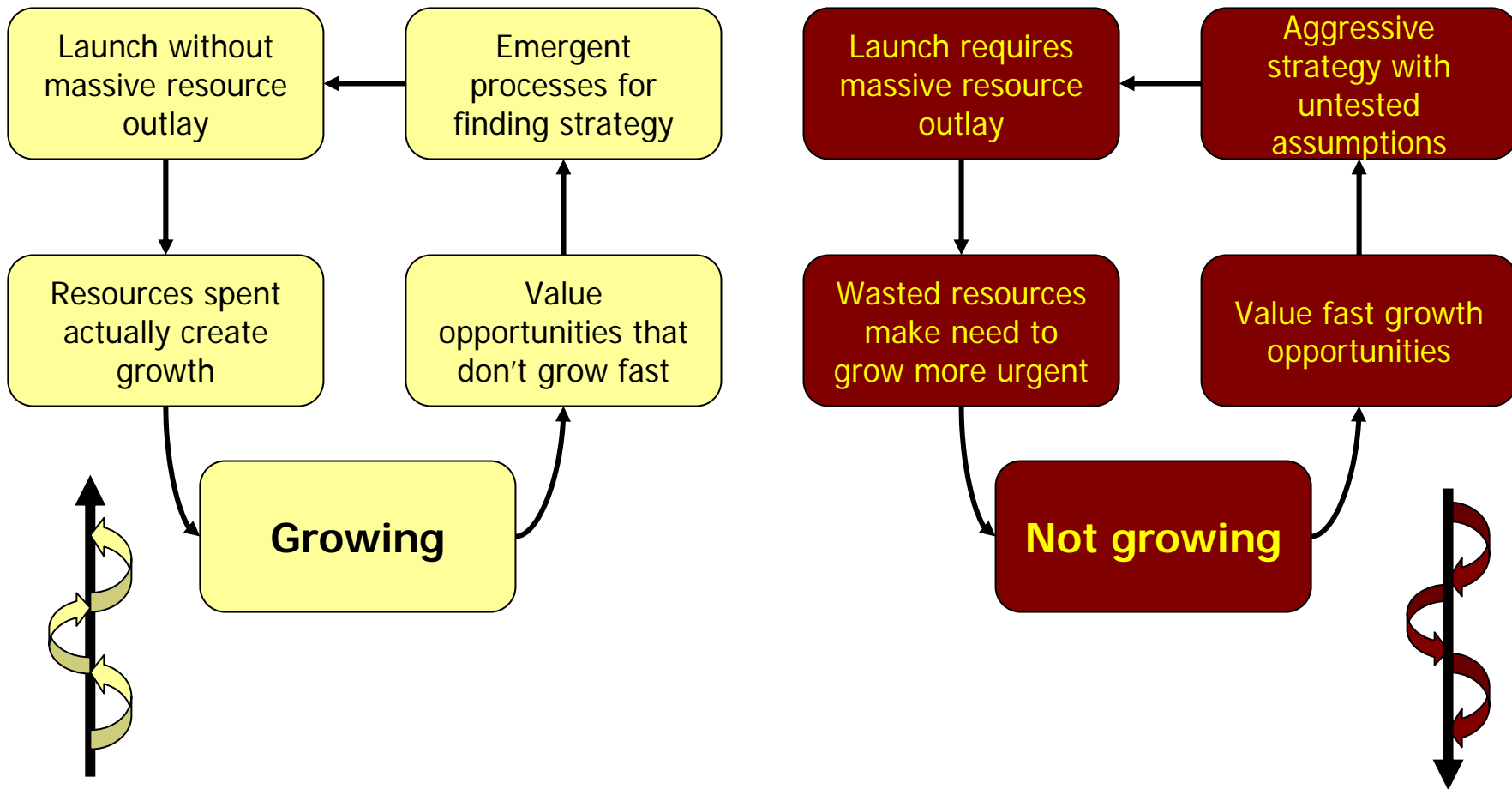


- **Low cost modular product assemblers compete against higher-cost integrated suppliers**
- **Once proprietary / integrated suppliers are driven from the market, low-cost suppliers must move up market to continue growing due to market price collapse**
- **The constraint to quickly moving up-market becomes 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**

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

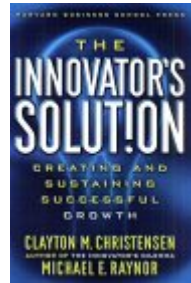
Growth vs. Non-growth Cycles



- **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**

- 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

Get the reference!



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