DISRUPTION | INNOVATION

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WHAT DO THESE HAVE IN COMMON?

[Image of an iPhone]

[Image of a Facebook profile]

[Image of a camera]

[Image of a USB drive]

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Fox School of Business
TEMPLE UNIVERSITY®
OLD WORLD – NEW WORLD

Porter “Five forces”
SWOT
Financial analysis
“Best practices”

Disruptive Innovation Theory - Christensen
Home

RichMillington The 3 thing community: http://cot.ag/bFER
about 4 hours ago via CoTweet
Retweeted by StevenLJohnson and 1

about 18 hours ago via bitly
Retweeted by StevenLJohnson and 17

johnmaeda A SQL-less way http://f.mp/bnm5Ag
about 2 hours ago via Twitter for iPhone
Retweeted by StevenLJohnson and 12

9:42 PM Sep 11th via web
Retweeted by StevenLJohnson and 14 others

Disruptive Innovation Theory

**Sustaining**
Move along a known path such as improve an existing product.

**Low-end**
Existing products are “too good” and relatively expensive such as Smartphones?

**New-market**
Change the product to get new people by changing its nature or by making it more convenient (reduce expertise or wealth requirement)

DISRUPTIVE INNOVATION STRATEGY

Your existing position + What’s going on in the environment = What to do

Options:
- Compete directly
- Serve a different market
- Create a new market
HOW DO COMPANIES INNOVATE?

- New products for high-margin customers
- Cheap alternatives to existing products
- New products for “nonconsumers”
RESOURCES, PROCESSES, VALUES

Resources
- Assets
  - People, cash, products

Processes
- Way of working
  - Hiring, budgeting, product development

Values
- Criteria used to make decisions
  - Customer demands, ethics, cost structure

UNDERSTANDING SIGNALS OF CHANGE

Undershot Customers
When companies are filling up-market need i.e., new data analytics software to handle “big data”

Overshot Customers
When companies are filling down-market need i.e., Netbooks, Kindle Fire

Non-consumers
When new markets are being created i.e., Facebook, iPad

Nonmarket Contexts
Barriers to innovation are changing i.e., Government regulation
Non-consumers / Not consuming

- Signals
  - Growth rate
  - Specific segments (college students!)
  - Product or service delivery chain
  - RELATIVE low price

- Change
  - Simple
  - Increase access
  - Increase ability
  - Reduce financial barrier
  - Reduce skill barrier
  - Easily
  - Effectively

- How
  - Convenience
  - Customization
  - Lower price

- Leads to: New market disruptive innovation

Undershot

- Signals
  - Consumer frustration
  - Negative reviews
  - Willingness to pay higher prices
  - Prosperity of niche integrators
  - Specialists struggle

- Change
  - Incremental
  - More radical

- How – existing customers
  - Performance - Reliability
  - Performance - Functionality
  - Integration - need it for radical
  - Compatibility
  - Interoperability
  - Legacy

- Leads to: Sustaining up-market (radical or incremental innovation)

Overshot

- Signals
  - Decreasing prices over time (refusal to pay for more)
  - Features not used
  - Complaints about ‘complicated’

- Change
  - Basis for competition
  - Make the product “less good”
  - Commoditize

- How
  - Value chain
  - Convenience
  - Customization
  - Low prices
  - Ease of use

- Leads to
  - Low-end disruptions (convenience/price)
  - Specialists displace integrated players (need modularity)
  - Standards based competition
Disruptive Innovation Theory Rubric

What is the new technology innovation?
(you must be able to specify this, otherwise Christensen is likely not applicable)
- A single new feature or a bundle of new features
- A new attribute/representation/bundling that simplifies previously complex features
- A new kind of product/service
- A mix of other innovations

What will this new technology innovation cost?
- It will be much lower cost than what you spend to get the capabilities >> ‘low end’
- It will cost quite a bit more or it will be a new cost that cannot be compared >> ‘new market’

How easy to use will this new technology innovation be?
- Much easier to use >> ‘low end’ or ‘new market’
- It will do something entirely new which will require a learning curve >> ‘new market’

How does the above innovation compare to existing similar products/services?
- Significantly better >> ‘new market’ or ‘low-end’
- Slightly or somewhat better >> ‘sustaining’

Who is using these existing products / services?
- (describe the customers, their demographics, size of market, etc.) >> ‘sustaining’ or ‘low-end’

Who will use new technology innovation?
- Consumers who use similar products/services >> ‘sustaining’
- Consumer who use adjacent or completely different products/services will migrate over >> ‘low end’ or ‘sustaining’
- Hard to assess >> ‘new consumers >> ‘new market’

Where will this technology innovation be used?
- Where existing similar products/services are used >> ‘sustaining’ or ‘low-end’
- In a new location/time/context >> ‘non-consuming context’ >> ‘new market’
TWO INTERNET-ENABLED MODELS

“E-Business”
• Use the Internet as a conduit for connecting businesses

• B2B
• Electronic Data Interchange

The Cloud
• Use the Internet to access hosted services

• Amazon.com
• Netflix
• Dropbox
What does AWS do?

Why did Amazon get into AWS?

What is “muck”??
Why would a company use AWS instead of maintaining their own infrastructure?

Is AWS following a disruptive strategy or a different business model?

AMAZON CASE DISCUSSION
• Are cloud-based services “low-end” or “new market”?  
• How could it disrupt IT-related industries?  
• How could it disrupt non-IT industries?
What should Facebook do to increase revenue?

What is ‘best’ business model for Facebook going forward?
• Is Facebook “low-end” or “new market”? 
• How could it disrupt IT-related industries? 
• How could it disrupt non-IT industries?
ACTIVITY: COMPARE DISRUPTION

Process
• Form 4 groups (count off 1 – 2 – 3, 1 – 2 – 3, ...)
• As a group, discuss the following
• 5± minutes discussion per question
• One person reports out the group’s answer
• Different person reports out answer on next question

Questions
• Compare the Amazon, Google, and Facebook strategy. Which is more disruptive?
• In relation to the above which markets are they trying to disrupt / go after?
• Which company do you think will be more successful? Why?
A. What would you like to remember about disruption and innovation?

B. What do you have questions about?
Process Thinking
A series of steps and flows
Decompose

Systems Thinking
Collection of processes and technological components
Feedback loop
Synthesize

Disruption
Identify market
Apply innovations
Implement processes