What is Disruption?

A **process** whereby a **smaller** company with fewer resources is able to successfully challenge **established incumbent** businesses.

- Not a product or service at one fixed point
- Evolution of that product or service over time

Industry Examples of Low-End Disruptions

- **Chromebooks in Education:**
  - Chromebooks, initially positioned as low-cost laptops with a focus on web-based applications, disrupted the education technology sector
  - Provided a more affordable alternative to traditional laptops and desktops, enabling schools to access digital learning resources at a lower cost

- **Mobile Wallets for Financial Services:**
  - Mobile wallets like PayPal, Cash App, and Venmo started as simple digital payment solutions for peer-to-peer transactions
  - Disrupted traditional banking and payment systems by offering a convenient and low-cost way for individuals to send and receive money digitally

Industry Examples of New-Market Disruptions

- **No-Code Development Platforms (e.g., Bubble, Webflow):**
  - These platforms empower non-programmers to build web applications and digital products without needing to write code
  - Creating a new market segment for entrepreneurs and small business owners who previously could not enter software development

- **Remote Work Collaboration Tools (e.g., Zoom, Slack):**
  - Work and collaborate remotely and connect with people
  - The rapid shift to remote work, accelerated by the COVID-19 pandemic, led these platforms to serve a newly emergent market of workers and organisations that had previously relied on in-person interactions

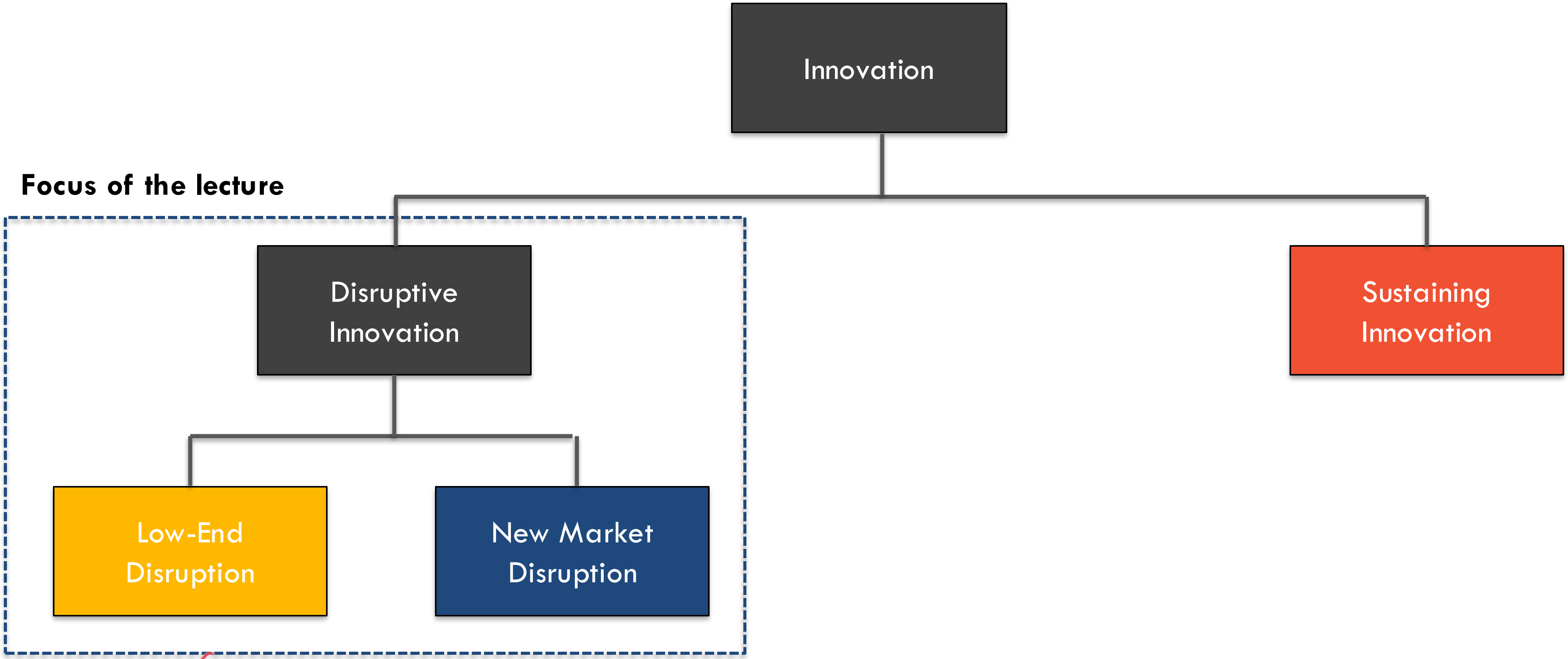
Disruptive Innovation

- According to Christensen, innovations can be either disruptive or sustaining

- **"Disruptive innovations"** – Target markets overlooked by incumbents
  - i.e. Target overserved or unserved markets

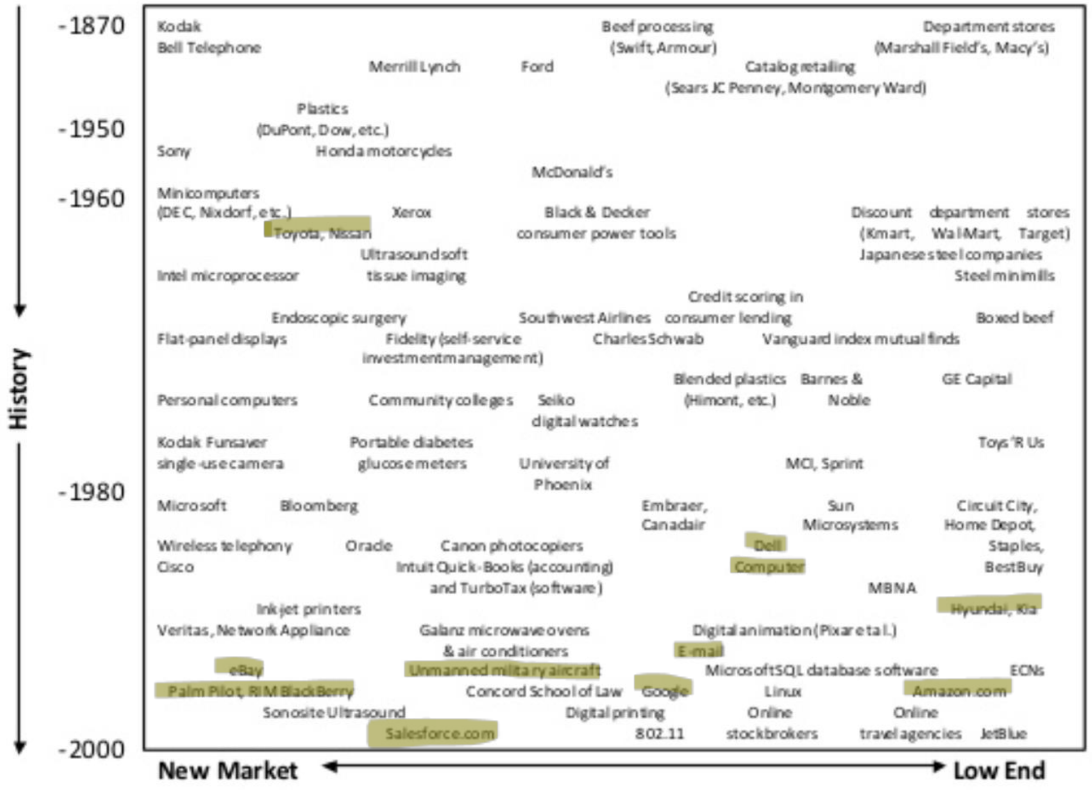
- **"Sustaining innovations"** – Move upmarket
  - i.e. incremental advances or major breakthroughs, but they all enable firms to sell more products to their most profitable customers

Structure of the Framework



Types of disruptive innovation

- Christensen distinguishes between:
- **"low-end disruption"** – there are customers who do not need the full functionality or performance of products already on the market so cheaper alternatives can take over.
- **"new-market disruption"** – there are customers who have needs that were not being addressed by existing products



- Christensen, C.M. and Raynor, M.E. 2003, 48

Case Studies – Low end disruption ?

NETFLIX	UBER	CLOUD MACHINE LEARNING ENGINE	TESLA	amazon kindle
Yes	Yes & No (Taxi vs limousines)	No	No	Yes & No (Cheaper alternative to iPad; replacing books)

New Market Disruption

Occurs when an innovation fits a new market that is not being served by existing incumbents in the industry

- Conversion of non-consumers into consumers
- Initially caters to the new market
- As it improves quality, it is able to induce consumers to defect from the existing market into the new market that it created

Case Studies – new market disruption ?

NETFLIX	UBER	CLOUD MACHINE LEARNING ENGINE	TESLA	amazonkindle
No	No	Yes	Yes	No

Porter's "Value Chain"

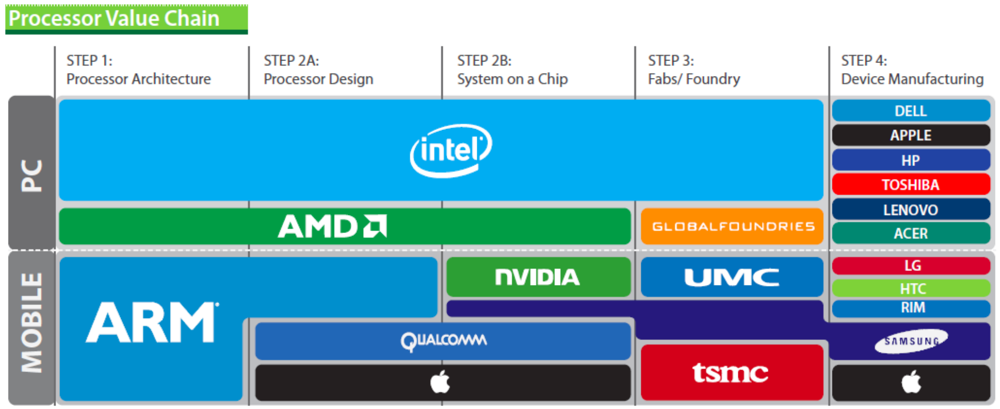
- Typically describe how value is added within different business units of a company
- **Products pass through stages and value is added at each stage**
- More suited to manufacturing physical goods than IT

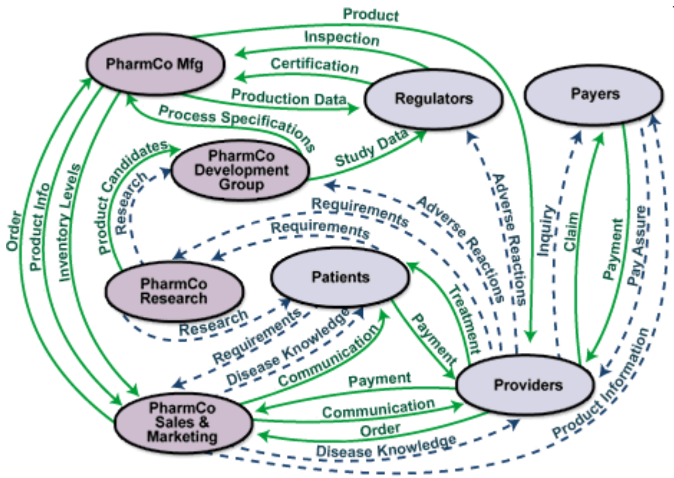
- Has been extended to show how **value flows** through an **industry**

- **In this course, we will only be talking about value chains within industries – industry value chain – not internally within companies**

Use of Value Chains/Networks

- Analysing value chains/systems/networks is useful for:
  - Understanding an industry (including relationships between companies)
  - Understanding your company's position within the market
  - Deciding where your company wants to be within that market
  - Looking for opportunities for disruptive innovations





Health Care Value Network

Disruptive innovators and value networks

- Recap: "value network" – Similar concept to "industry value chain" but usually **more focused on the whole system** rather than for a specific product/service type

- "When would-be disruptors enter into existing value networks, they must adapt their business models to conform to the value network and therefore fail that disruption because they become **co-opted**."
- *(Clayton Christensen, "The Innovator's Dilemma", 1997)*

Summary of "Disruptive Innovation"

Low-End Disruption

Come at the bottom of the market and take hold within an **existing value network** before moving upmarket and attacking the incumbent.

New Market Disruption

Take hold in a completely **new value network** and appeal to customers who have previously gone without the product.

“The Innovator’s Dilemma”

- Christensen identified the “innovator’s dilemma”…
- Effective established companies study the needs of their customers
- The companies innovate to meet these customer needs
- The companies sell new products/versions to their customers
- The most important existing customers are the high-end ones who spend the most so the focus is on them
- The dilemma is that a company needs to move upmarket to capture customer segments with higher profitability (i.e. sustaining innovation). However, in doing so, they are more likely to get disrupted (i.e. low-end or new market disruption).
- Examples:
  - Kodak and digital camera
  - Blockbuster and online movie streaming

Ambidexterity Strategy

- Strategy to resolve the Innovator's Dilemma
- **Ambidexterity**: The ability of a firm to simultaneously explore and exploit, enabling the firm to adapt over time
- Like the left hand and right hand of an organization:
  - The organization concentrate on serving clients well on one hand ("exploit")
  - The organization concentrate on innovation with the other hand ("explore")

- Discussed more in later Lectures