

Session 2: Preview of High-end and low-end Encroachment

Why incumbents often fail

Why firms fail
(Christensen)

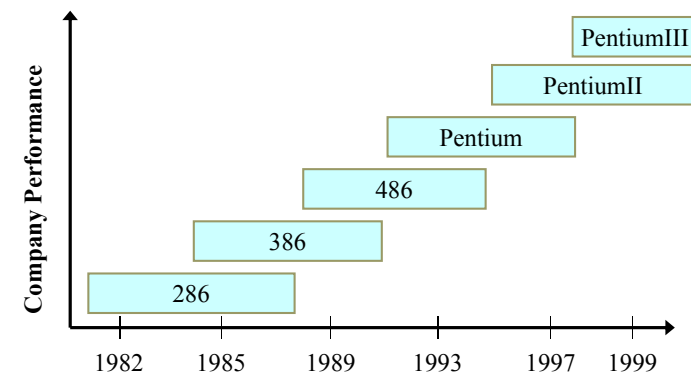
Why firms succeed
(Kim & Mauborgne)



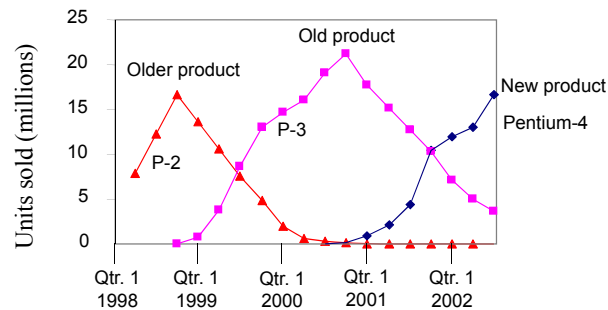
When do incumbents fail? (What is the pattern?)

- ❑ Merrill Lynch encroached upon by Schwab.
- ❑ Schwab encroached upon by E-Trade & Ameritrade.
- ❑ GM encroached upon by Toyota.
- ❑ Integrated steel mills encroached upon by mini-mills.
- ❑ MRI and CT scanning encroached upon by ultrasound.
- ❑ Major airlines encroached upon by Southwest.
- ❑ IBM mainframes encroached upon by PCs.
- ❑ Colleges encroached upon by U of Phoenix on-line.
- ❑ Meg Ryan's bookstore encroached upon by Fox Books.

Intel: same leader



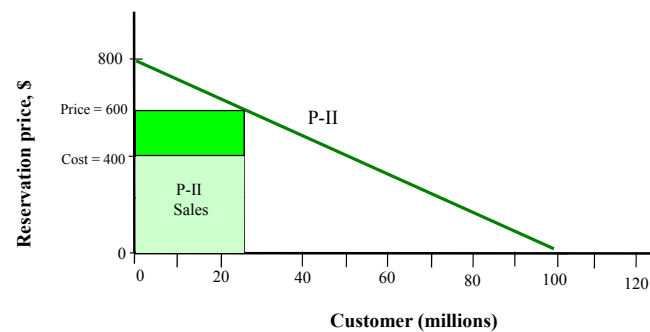
A new microprocessor immediately disrupts the previous generation but is NOT “disruptive”



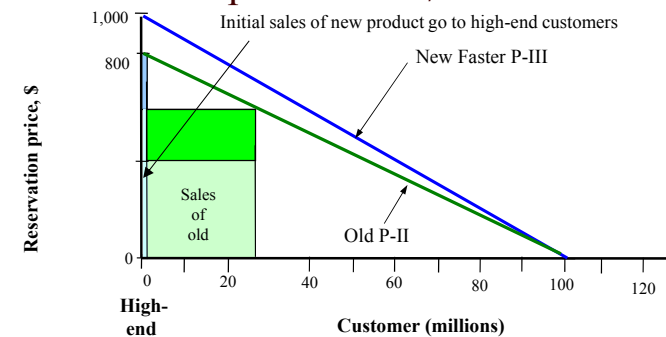
High-end Encroachment

The new product first encroaches on the high end of the old product market, and then progresses down market.

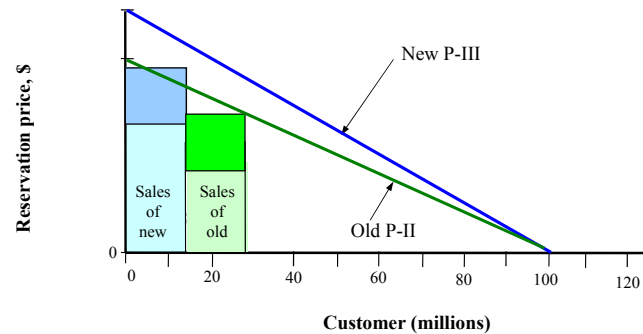
Say Intel has a monopoly selling P-IIs
Reservation price curve = demand curve



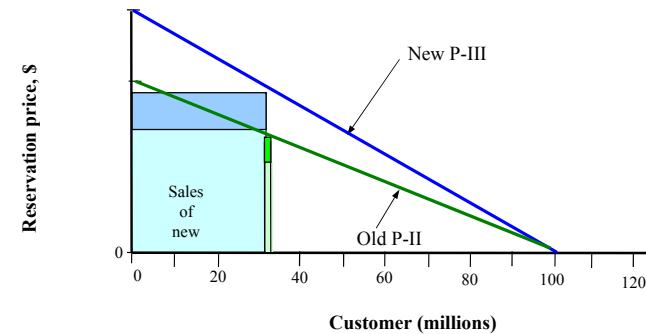
The higher-quality P-III results in
High-end encroachment
Reservation price curve \neq demand curve



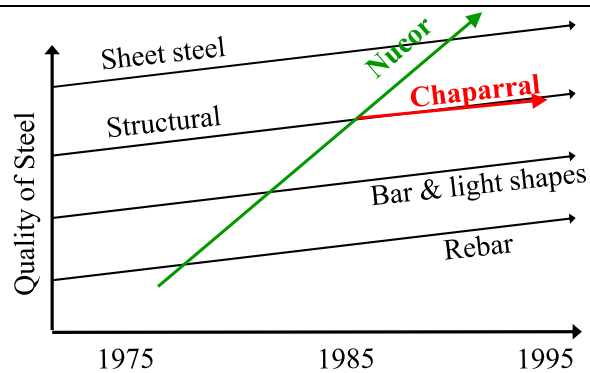
After about 1 year



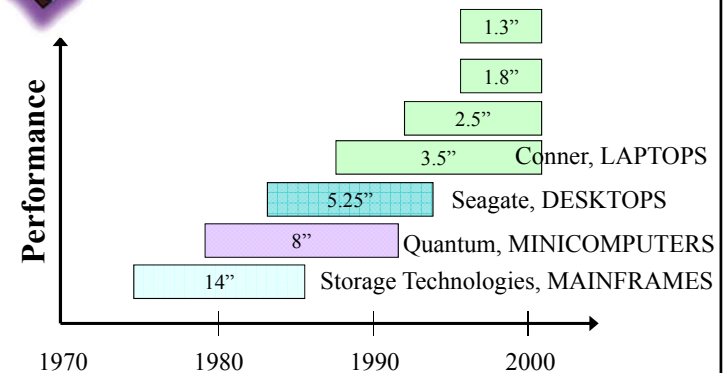
After about 2 years



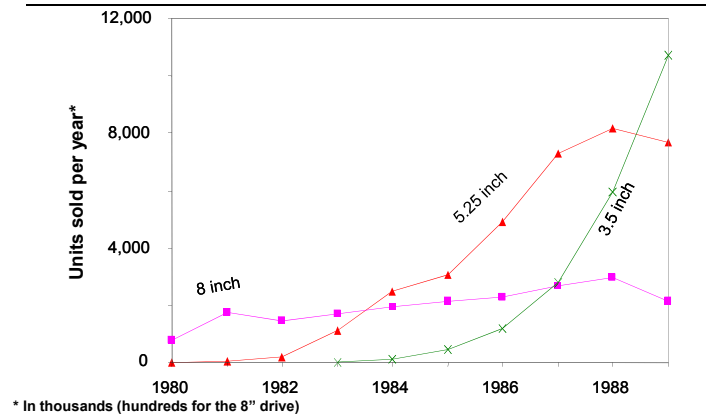
Chaparral vs. Nucor Mini-Mills



Disk drives: New leaders



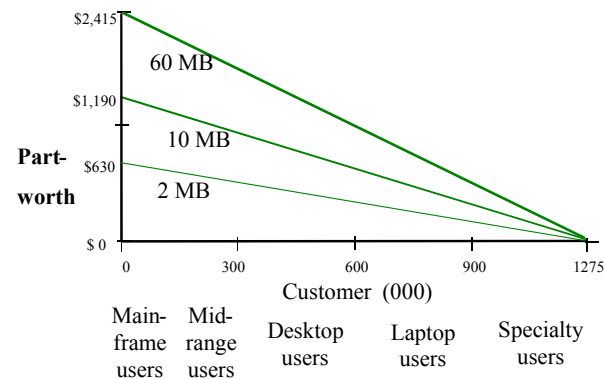
A smaller generation of disk drive doesn't initially disrupt the previous generation but IS "disruptive"



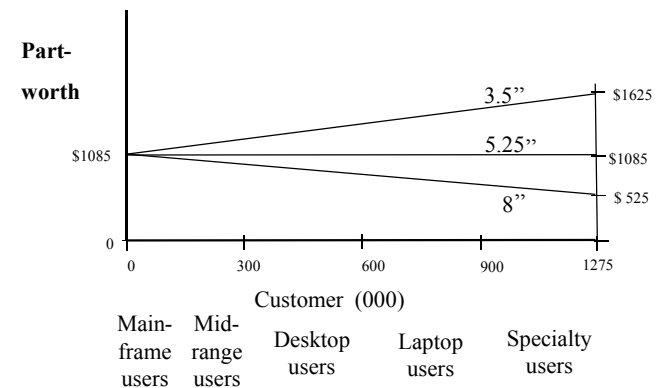
Low-end Encroachment

The new product first encroaches on the low end of the old product market, and then progresses up market.

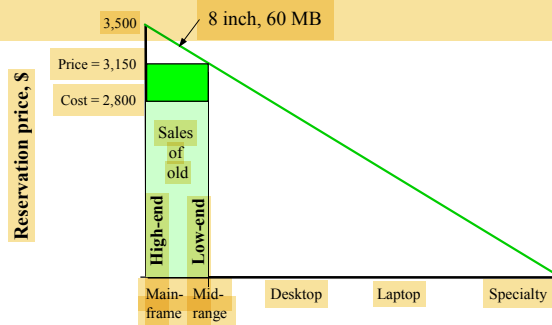
To high-end customers, more capacity means "Tastes Great"



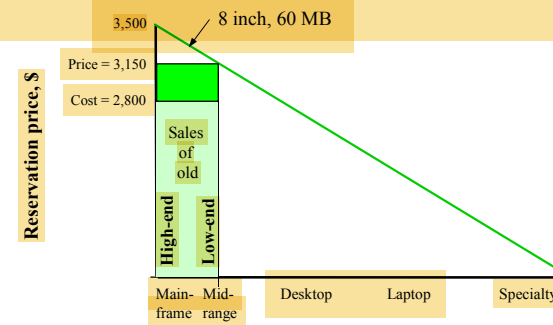
To low-end customers, smaller size means "Less Filling"



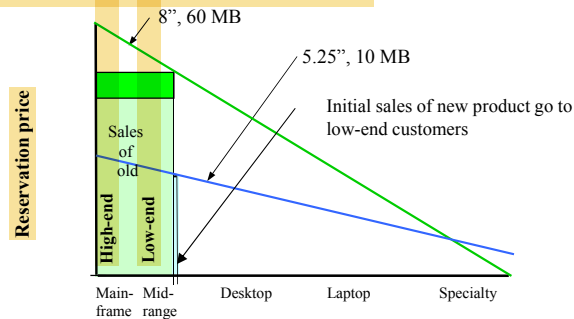
Say Quantum has monopoly w/ 8" drive
(Demand curve=reservation price curve)



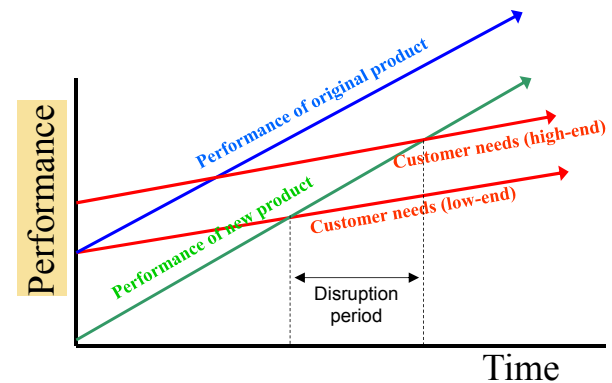
Say Quantum has monopoly w/ 8" drive
(Demand curve=reservation price curve)



Upon introduction of 5.25" (its 1st sale)
Reservation price curve \neq demand curve



Performance of PRIMARY Attribute



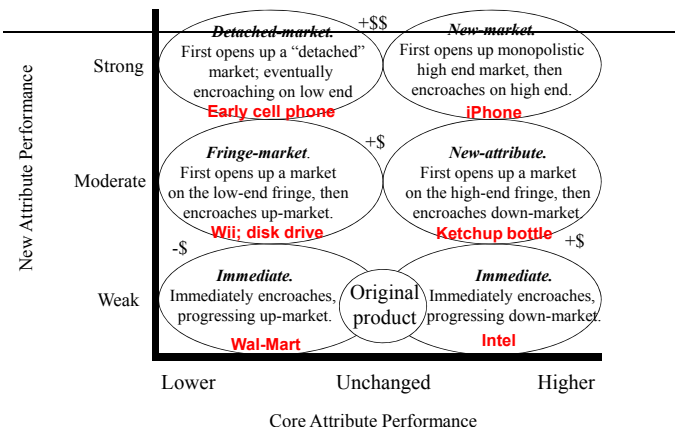
As Quantum, what would YOU have done?

- ❑ What happens upon introduction of Seagate's drive?
- ❑ What happens if / when Seagate's drive diffuses through the market?
- ❑ When is high-end encroachment advisable?
- ❑ When is low-end encroachment advisable?
- ❑ What are other examples?
 - What will an MBA (education) look like in 10 years?

Disruptive Innovation: a "ubiquitous but ridiculous" term

- ❑ The term was coined by Christensen (HBS).
- ❑ What is "Disruptive innovation?"
- ❑ Not what you think it is!
- ❑ High-end encroachment is IMMEDIATELY DISRUPTIVE! (But it's not "disruptive innovation.")
- ❑ Low-end encroachment is NOT immediately disruptive (but it IS disruptive innovation, per Christensen.)

Six Types of New Products...



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