

The Imperative of Disruptive Innovation

An estimated 65-75% of all new products that established companies introduced into their markets fail. Why? Because the companies innovate faster than customers' lives change. As a result, most organizations end up producing products that are too good, too expensive, and too inconvenient for many customers. By pursuing only these "sustainable innovations," companies unwittingly open the door to market entrants offering "disruptive innovations" — simpler, more-convenient, and lower-cost products to those customers who have no need to keep up with the accelerated pace of innovative change.

Discount retailers such as Walmart exemplify a disruptive approach that targets consumers overshot by existing offerings, in this case, department stores. Procter & Gamble's Crest® Whitestrips® product provides an example of a disruptive approach that created an entirely new market by targeting nonconsumers: those who find it too inconvenient or expensive to go to the dentist for teeth whitening. By making teeth whitening simple and affordable, P&G has created a new growth business.

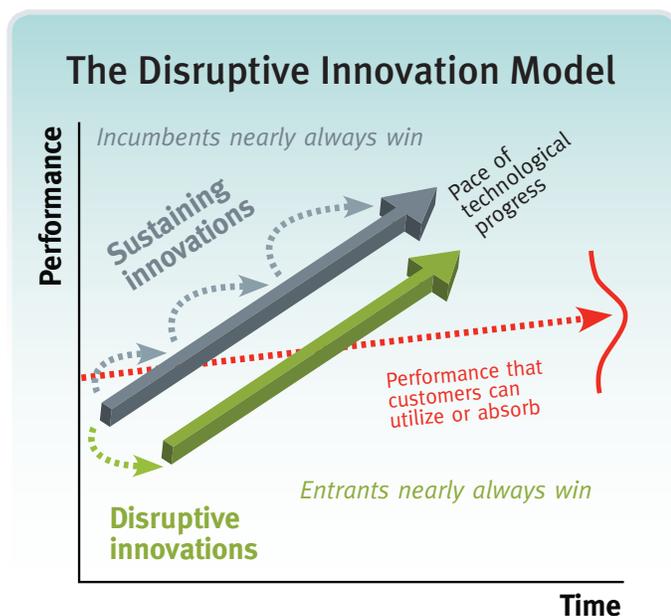
As Innosight cofounder Clayton Christensen chronicled in *The Innovator's Dilemma*, the seminal book on disruptive innovation, business history is littered with wounded and extinct companies that failed to pursue disruptive innovation. They found themselves shut out of new markets and later lost ground in their existing markets as disruptive upstarts moved up the value chain. However, companies that have recognized the value in pursuing growth through disruptive innovation — companies such as P&G, Intel, Cisco, Johnson & Johnson, Dow Corning, and IBM — have all profited from it at various points in their histories.

By creating new markets or reshaping existing markets by delivering relatively simple, convenient, low-cost innovations to a set of customers ignored by other industry leaders, these pioneers significantly supplemented growth in their core businesses with disruptive growth.

Keeping Innovation in Balance

Although disruption is the key to new growth, companies should never ignore their core offerings and should always continue to pursue sustaining innovation to maintain that growth. Historically, however, companies that dominate an industry have concentrated on core offerings to the exclusion of disruptive innovation. Good managers are trained to seek higher profits by bringing better products to the most demanding customers in the marketplace. They had little interest in pursuing disruption because the profit margins were often lower and innovations didn't address the needs of the company's best customers.

In the pursuit of those profits, companies end up overshooting less-demanding customers who are perfectly willing to take the basics at reasonable prices. And they ignore nonconsumers who have a desire to get a job done but who lack the skills, wealth, or ability to consume existing solutions in order to satisfy that desire. But by devoting some percentage of resources to disruptive strategies,





companies can profit additionally from disruptive innovation before someone else inevitably does, and build a foundation of growth for the future.

Identifying Areas of New Growth: Targeting Jobs to Be Done

To identify customers who will welcome disruptive innovations, companies should use a jobs-to-be-done approach. The premise is simple: Customers don't really buy products. They "hire" them to do a job. Instead of asking what products customers want to buy, ask what fundamental problems customers hope to address.

While traditional market research segments markets by product, size, demographics, or some other easily applied category, the jobs-to-be-done approach taps into what really drives customer behavior. By identifying what jobs people really care about, companies develop more convenient, reliable, or affordable ways for customers to solve important problems disrupting existing markets and creating new ones that would otherwise have remained invisible.



A Classic Case: The Steel Industry

Steel minimills are a classic example of a disruption that transformed an existing industry with a cheaper solution. In the 1970s, steel makers such as Nucor used minimill technology — a smaller, simpler way to manufacture steel than the prevailing integrated mill technology — to enter the steel market. At first, minimills could sell only to the least-demanding customers at the very bottom of the market.

These customers were looking for rebar — bars of steel to bury in cement to reinforce it. They didn't need the higher-quality and more-expensive options provided by leading integrated mills such as U.S. Steel and Bethlehem Steel. The integrated mills were happy to get rid of these customers

Dow Corning Xiameter Beyond Technical Innovation

Driving disruption does not necessarily require technological innovation. It can also mean developing new ways to deliver value. Dow Corning launched a disruptive distribution channel called Xiameter to capture a low-margin segment the company had previously ignored. Silicone was becoming a commodity, and new demand for it was coming from smaller companies with less money to spend. The company knew that continuing to pass up this market risked the company's long-term prospects by failing to cultivate new customers.

Because simply cutting prices would cannibalize existing high-end customers, Xiameter was designed to offer products to these price-driven, smaller customers in a more direct, simplified fashion with fewer services. Selection and order size would be limited. Customers would have to accept that what they wanted wouldn't be made until after the order was placed, enabling Dow Corning to cut the costs of a standing inventory. Credit terms would be fixed and the price of each order would be set by the spot market, not negotiated in advance. And because automating as much of the customer transaction as possible was essential to keeping down overhead, Xiameter was created as an online entity.

It quickly delivered on its promise, sometimes in unexpected ways:

- ▶ Dow Corning earned back its investment in just three months.
- ▶ New orders allowed better use of underutilized manufacturing capacity.
- ▶ More demand for silicone products drove up prices, which in turn increased profits for Dow Corning as a whole.
- ▶ Prior to Xiameter the company had no online sales, but now 30% of its sales are online — nearly three times the industry average.
- ▶ Despite worries that Xiameter would cannibalize the existing customer base, most of its customers had never before done business with Dow Corning.

As these new customers have grown their businesses, they have become eager users of Dow Corning's high-end offerings, creating a new source of high-margin customers.

since they produced very little profit. Over the next two decades, minimills moved progressively up-market until they pinned integrated steel mills to the very highest market tiers, driving many historical market leaders to bankruptcy.

Pursuing New Growth Opportunities

When pursuing new growth opportunities, companies have a choice. They can follow a deliberate strategy — setting a goal, defining a set of steps to reach that goal, and then methodically acting on each step. This highly conscious and typically quite analytical process involves assessment of market structure, competitive analysis, and detailed market research to determine customer needs.

But there's an alternative: emergent strategy. Companies that take this approach try to retain flexibility and gather feedback from the marketplace on what works and what doesn't. They change their strategies on the fly to adapt to new information that emerges from the marketplace.

Emergent strategies work in highly uncertain situations, such as those that surround the pursuit of disruptive innovations. In these situations, operating managers tend to encounter unanticipated results and problems that business planners didn't foresee. Adhering to a rigorous deliberate strategy in such fluid circumstances can lead companies to ignore market signals and fail to adapt — sticking doggedly to a strategy that clearly isn't working. Emergent strategies encourage managers to respond to problems in the most appropriate way, even if it results in deviating significantly from the deliberate course.

How Innosight Can Help

Innosight is an innovation and strategy consulting firm, with offices in Boston, Singapore, and India. Our comprehensive consulting model facilitates the discovery of new, high-growth markets and the rapid creation of breakthrough products and services. Innosight has worked with one-third of the Fortune 50 as well as with national governments.

Contact us at +1-781-652-7200, email inquiries@innosight.com or visit www.innosight.com.

The pursuit of disruptive innovation through an emergent strategy should be guided by key principles:

- Incorporate learning and rapid adjustment in the emergent strategy plan.
- Determine and pursue information you can gather quickly and that will increase your confidence that you are going in the right direction.
- Explicitly test key assumptions to help you reduce the venture's risk by finding the right strategy more efficiently and with more targeted investment.
- Revisit and iterate your strategy as you learn more. Some assumptions that seemed to be important will become less important; new assumptions will emerge that need to be tested.
- If you learn that your strategy appears less attractive than you thought, consider how to shape it in directions that will increase your chances of success. Don't be afraid to kill a fundamentally flawed strategy.
- To facilitate the iterative process, establish defined milestones and checkpoints.

Company Headquarters

Innosight
 92 Hayden Avenue
 Lexington, MA 02421 United States
 Phone: +1-781-652-7200
 Toll free: +1-877-934-7787
 Fax: +1-781-652-7202
 Email: inquiries@innosight.com

International Offices

Innosight Asia-Pacific
 8 Eu Tong Sen Street
 #15-89, The Central
 Singapore 059818
 Phone: +65-6884-9375
 Email: info-sg@innosight.com

Innosight India

Bangalore G-01, Prestige Loka, 7/1
 Brunton Road, Bangalore
 Karnataka, India
 Phone: +91-44-4299-4352
 Email: info-in@innosight.com