

COURSE: BUSINESS MODEL INNOVATIONS

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Disruptive Innovations and Business Models



"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."

Combine Methods and Approaches

Innovation

Design

TRIZ (“theory of inventive problem solving”)

Lean Six Sigma

Human Factors

Theory of Constraints

PDSA Continuous Improvement

Categories of Innovations

Breakthrough Innovations

Sustaining Innovations

Disruptive Innovations

Breakthrough Innovation

Revolutionary Science

Typically involves a paradigm shift

Transistors

Structure of DNA

Quartz Watch Movement

1. Non-consumers or
2. Consumers who would not typically use the products - are now able to consume

Sustaining Innovation

Occurs naturally in an industry

Almost always an improvement to the bottom line

If the innovation is not recognized or is ignored – the company could suffer

Generally, the innovation is handled well and there is a natural transition in the industry

Changes the “rules of the game”

Disruptive Innovation

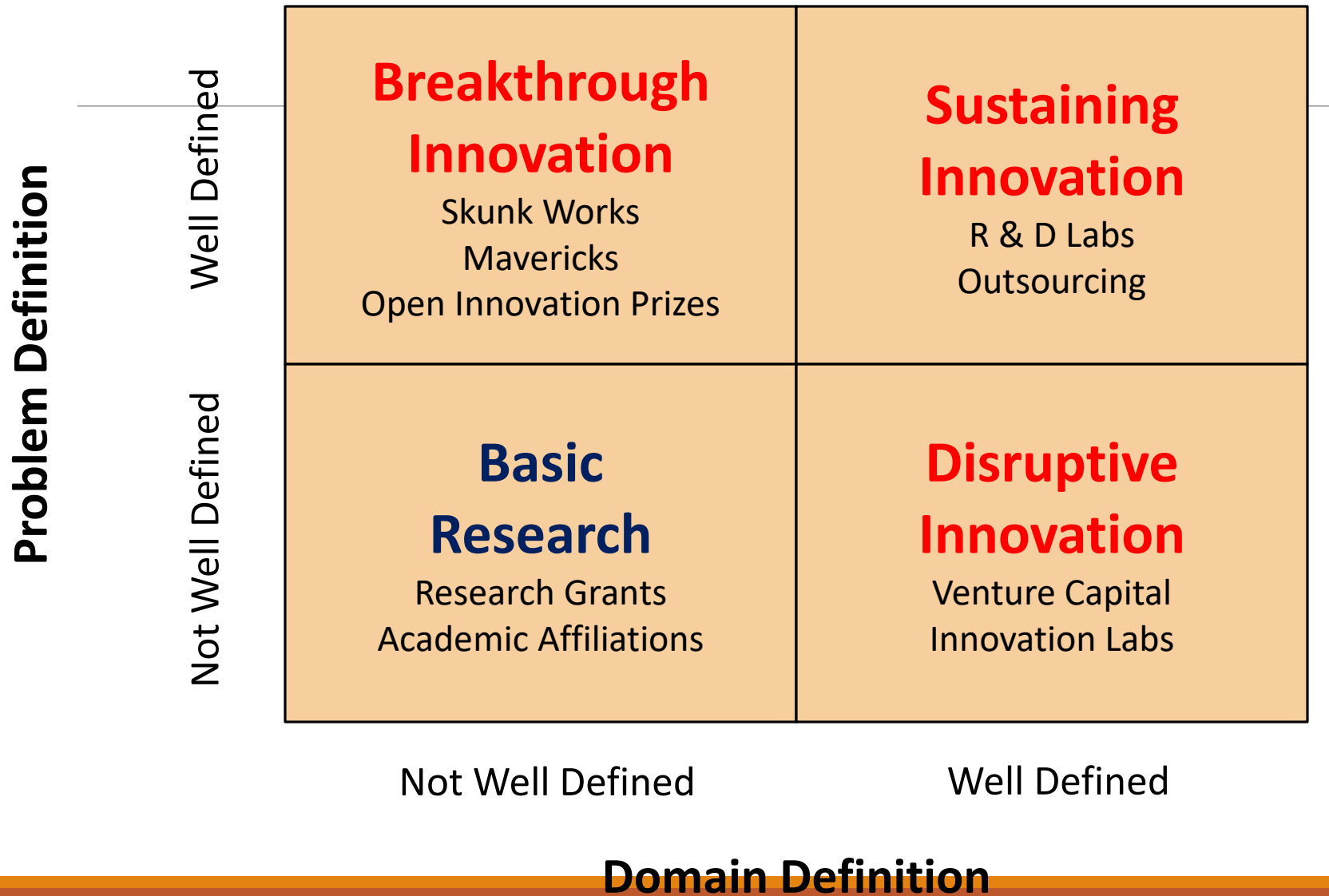
Typically originates from outside of an organization and frequently outside of the industry

It is like a wrecking ball in the way it changes the industry

Disruption changes the “the game itself”

Industry leaders typically try to stop or negate its impact – a losing proposition

Innovation Matrix



Disruptive Innovation

The leading companies were destroyed because it brought to market a product that was:

- **Good Enough**
- **Simpler**
- **More Affordable**

These innovations inevitably improve, march up-market and "disrupt" incumbents by gradually pushing them out of ever more complex and margin-rich product segments

Disruptive Innovation

The term “Disruptive Innovation” is broadly misunderstood

Many people think it’s just new and different, or radical improvements

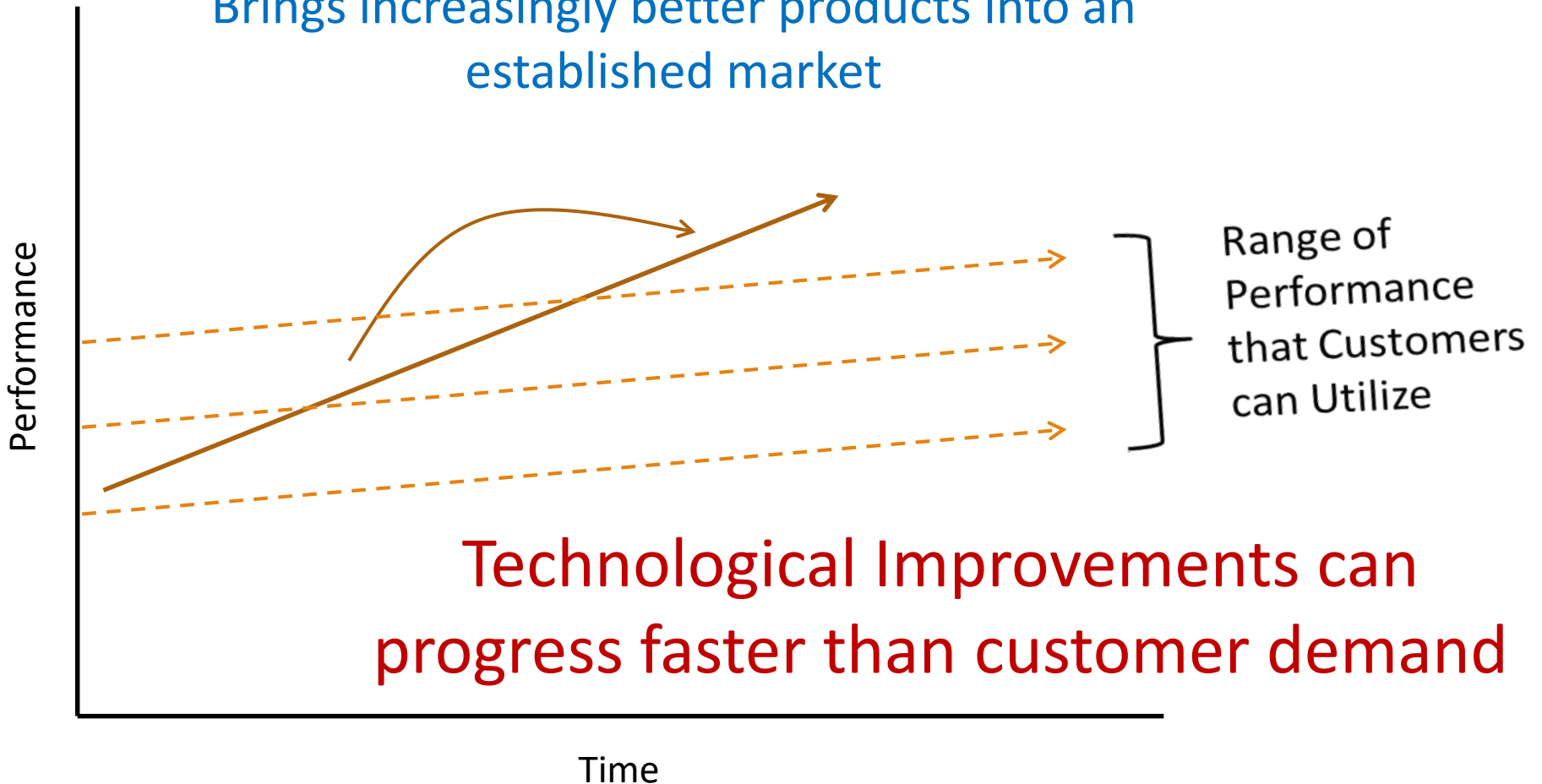
Instead, disruptive innovation changes industries because:

- 1. It makes complicated and expensive processes simple and**
- 2. Opens them up to a wider audience**

Disruptive Innovation

Sustaining Innovations

Brings increasingly better products into an established market



Smart Phone Disruption?

One of the most popular smartphone manufacturers in the world is Xiaomi

A Chinese company whose devices draw frequent comparisons to the iPhone

Models include:

- Redmi 2
- Mi 3 and
- Mi 4i
- The most expensive model (Mi 4i) costs \$219 off-contract

Its current focus is on developing countries, regions of the world that haven't already pledged allegiance to the iPhone or mass-market Android



Some Examples of Disruptive Innovations...

Minicomputers in the 1980s...

Digital Equipment Corporation (DEC) was once the leading minicomputer manufacturer (second-largest computer company after IBM)

Other manufacturers were:

IBM

Data General

Prime

Wang Laboratories

Honeywell

Computervision



Some Facts on Minicomputers...

Minicomputers were sold directly to the customers

Price Range \$50,000 - \$500,000

High cost of Training, Support and Service

Gross Profit Margin of about 45% for a \$250,000 sale

Gross Profit Margin of about 60% for a \$500,000 sale



Disruptive Competition...

Sold through distribution networks

Price Range \$2,000

Low cost of Training, Support and Service

Gross Profit Margin of about 20%

Why Bother Worrying, Right? !!

1. None of the existing Minicomputer customers could even use these microcomputers to take care of their needs!
2. Why give up 45 – 60% gross margins for smaller sales and 20% margins?



Examples of Disruptive Innovations

Minicomputers in the 1980s got disrupted

- The microprocessor was the Breakthrough Innovation
- It destroyed Digital Equipment Corporation (DEC), Data General, Wang Laboratories, Honeywell, Prime, and Computervision
- Minicomputers started out being

Good Enough

Simpler

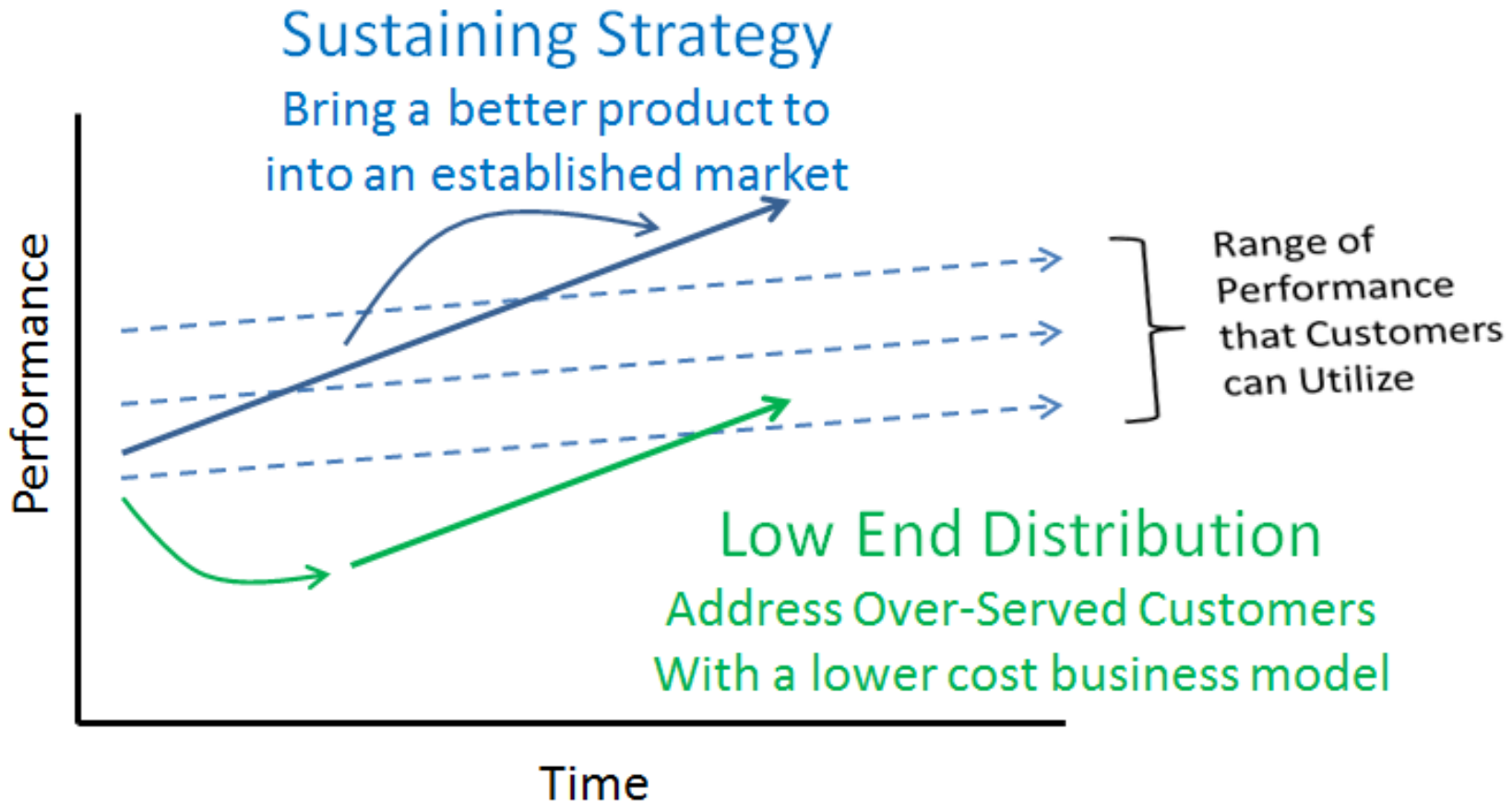
More Affordable

Disruptive Innovation

What Happened?

Almost all of the Minicomputer manufacturing companies collapsed in unison

Digital Equipment Corporation was sold to Compaq in 1998



Let's Look at some Examples

Toyota dominating the "Big 3" American Auto Makers



1957 – Toyota
Introduced the
Toyopet

It was a bust

- Toyota Motor Sales, U.S.A., Inc., was formed Oct. 31, 1957
- Sold 287 Toyopet Crown sedans
- Very underpowered and overpriced for the US market
- 4-cylinder, 88.7 cubic-inch engine
- Capable of attaining 78 mph
- Fuel rating of 23.5 mpg
- **Discontinued in 1961**

Let's Look at some other examples...

Next – They tried something different



1966 – Toyota
Introduces the Corolla

Unit-body Construction (unibody)

Using a unibody chassis, Toyota
could produce a vehicle under
1,000 kg (2,200 lb)

Disruptive Innovation?

Some Corolla quotes at that time:

“**Extreme simplicity** was at the core of the first Corolla's engineering”

“There was nothing sophisticated about the first Corolla and **it wasn't pretty, but it was so simple that there were almost no parts to break**”



- **Good Enough?**
- **Simpler?**
- **More Affordable?**

Were the Big 3 Automakers Worried?

Not really

They were happy to keep their higher profits on the more luxury lines of cars

They were OK letting Toyota have a share of the inexpensive, low margin cars

Remember:

These innovators inevitably improve, march up-market and "disrupt" incumbents by gradually pushing them out of ever more complex and margin-rich product segments

Other Examples of Disruptive Innovations

Netflix vs. Blockbuster

Netflix drove Blockbuster into bankruptcy

What was the business model that allowed Netflix to compete?

- The US Postal Service – delivering to your door
- And then – streaming video over the internet

Good Enough?

Simpler?

More Affordable?

Another Disrupted Businesses

259 Borders
Superstores

114 Borders Express
and Waldenbooks

26 Borders Airport
Stores



CEO Mike Edwards bids farewell to the book retailer's fans and customers as the company announced it was going out of business after 40 years

July 2011

Who Drove Borders Out of Business?

Amazon.com

They drove a 40 year old company out of business

What was the business model that first allowed Netflix to compete?

- Internet sales
- Delivered to your door

Good Enough

Simpler

More Affordable

One you Might Not Know About

Walmart vs. Department Stores

When Walmart began there were
316 Department Store companies



The first Walmart store – July 2, 1962 in Rogers, Ark

One you Might Not Know About

Walmart vs. Department Stores

A Retail Revolution

Sam Walton's strategy was built on an unshakeable foundation:

The Lowest Prices Anytime, Anywhere

Their business model is low price and convenience

How many Department Store Companies are there now?

There are now 8 – of which Macy's is the largest

Good Enough?

Simpler?

More Affordable?

One Department Store company Escaped

The Dayton Hudson Corporation

- John Geisse developed the concept of upscale discount retailing and approached the company leaders
- They started a separate division and allowed it to compete with the parent company
- They opened their first upscale discount store on May 1, 1962

What's the company's name?

**In 2000, Target was the largest
division and the fastest-growing arm
of Dayton Hudson**



(75 percent of the company's revenue and profits)

Invented the Digital Camera

Steven Sasson invented and built the first digital camera using a charge-coupled device image sensor in 1975



Who did he work for?

Eastman Kodak Company

Why didn't Kodak pursue the digital camera?

- They did not recognize its mass-market potential
- Focused instead on high-end cameras for niche markets
- Executives also feared cannibalizing their core film sales

Change is Inevitable



Change is inevitable – and is one of the most stressful things in life

People and companies are reluctant to change

- largely because they have been successful doing things a particular way

In times of change - companies that change their products and business models thrive and prosper

Biggest Disruptors of the Decade

By - Transforming what exists or

By - Creating what doesn't through

simplicity convenience affordability accessibility

Apple	Amazon	Google
Facebook	Wal-Mart	Verizon
Cisco Systems	Uber	Netflix
Pandora	Skype	Tato Nano (\$1,580 car)
Airbnb	Alibaba	Snapchat

Cloud Storage	Mobile Internet	Oil & Gas Recovery
Advanced Robotics	Internet of Things	Near-Autonomous Vehicles
3-D Printing	Advanced Materials	Renewable Electricity

Why Don't Companies Innovate?

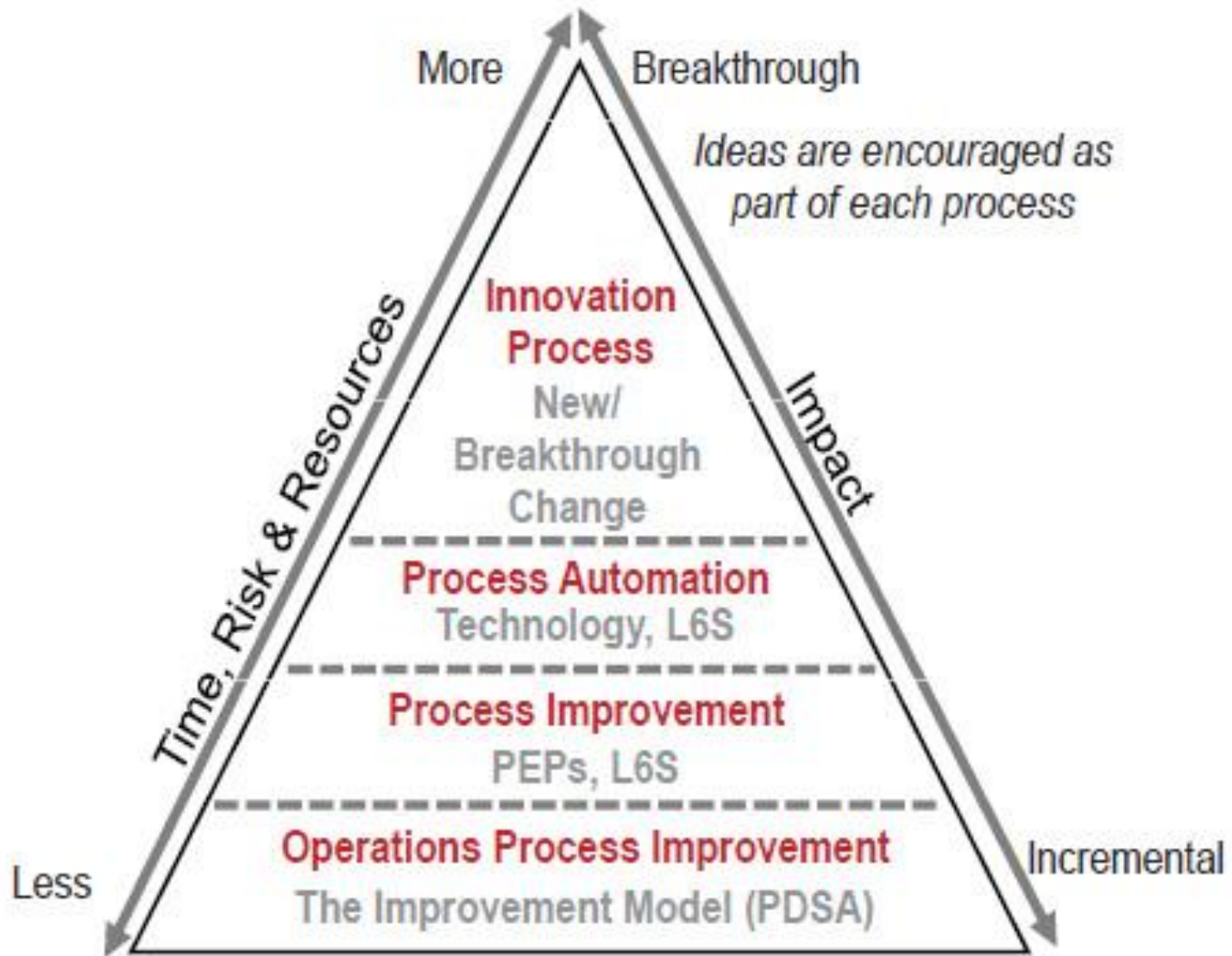
Good firms are usually aware of the innovations

Their business environment does not allow them to pursue the innovation when it first arises

- they may not be profitable enough at first
- their development can take scarce resources away from that of sustaining innovations

The company doesn't place sufficient value on the innovation to pursue it

Innovation Pyramid



Methodology

The approaches to the various forms of Innovation are very similar

The Process – The D⁴ Road

Map

Define

Discover

Develop

Demonstrate

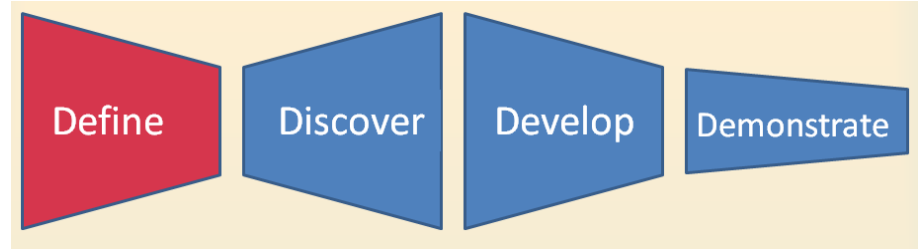
- Create Innovation Opportunity
- Scope the Opportunity
- Manage People and Projects

- Refine the Opportunity
- Leverage Team Brain Power
- Search Knowledge Bases
- Prioritize & Select Ideas

- Formulate Design
- Select Design
- Optimize Design

- Build a working model
- Map Processes
- Optimize Processes
- Improve and Transition

Define the Innovation



Identify actionable innovation gaps, or high-potential innovation projects based on the identification of unmet customer needs and new market territory

Observe how customers struggle with existing solutions so you can understand their unarticulated needs

Approach in the Define Phase

1. Identify a Focus Market
2. Identify Jobs Customers are Trying to Get Done
3. Categorize the Jobs to Be Done (JTBD)
4. Create a Jobs Statement
5. Prioritize the JTBD Opportunities
6. Identify Outcome Expectations Regarding the Job

Identify Jobs-to-be-Done

Customers don't buy products and services

They hire various solutions at various times to get a wide variety of jobs done

It is the higher purpose for which customers buy products, services, and solutions

Types of Jobs-to-be-Done

- 1. Functional Job** – describes the task that customers want to achieve
- 2. Emotional Job** – related to feelings and perception
- 3. Ancillary Job** – other jobs that customers want to get done before, during, or after they get the main job done

Restaurant Experience

Customer Loyalty

It costs FIVE TIMES more to acquire new customers than it does to keep current ones

Reducing your customer defection rate by 5% can increase your profitability by 25% to 125%

The probability of selling to an existing customer is 60–70%. The probability of selling to a new prospect is 5-20%; (that's up to 14 times more, or 5 on average)

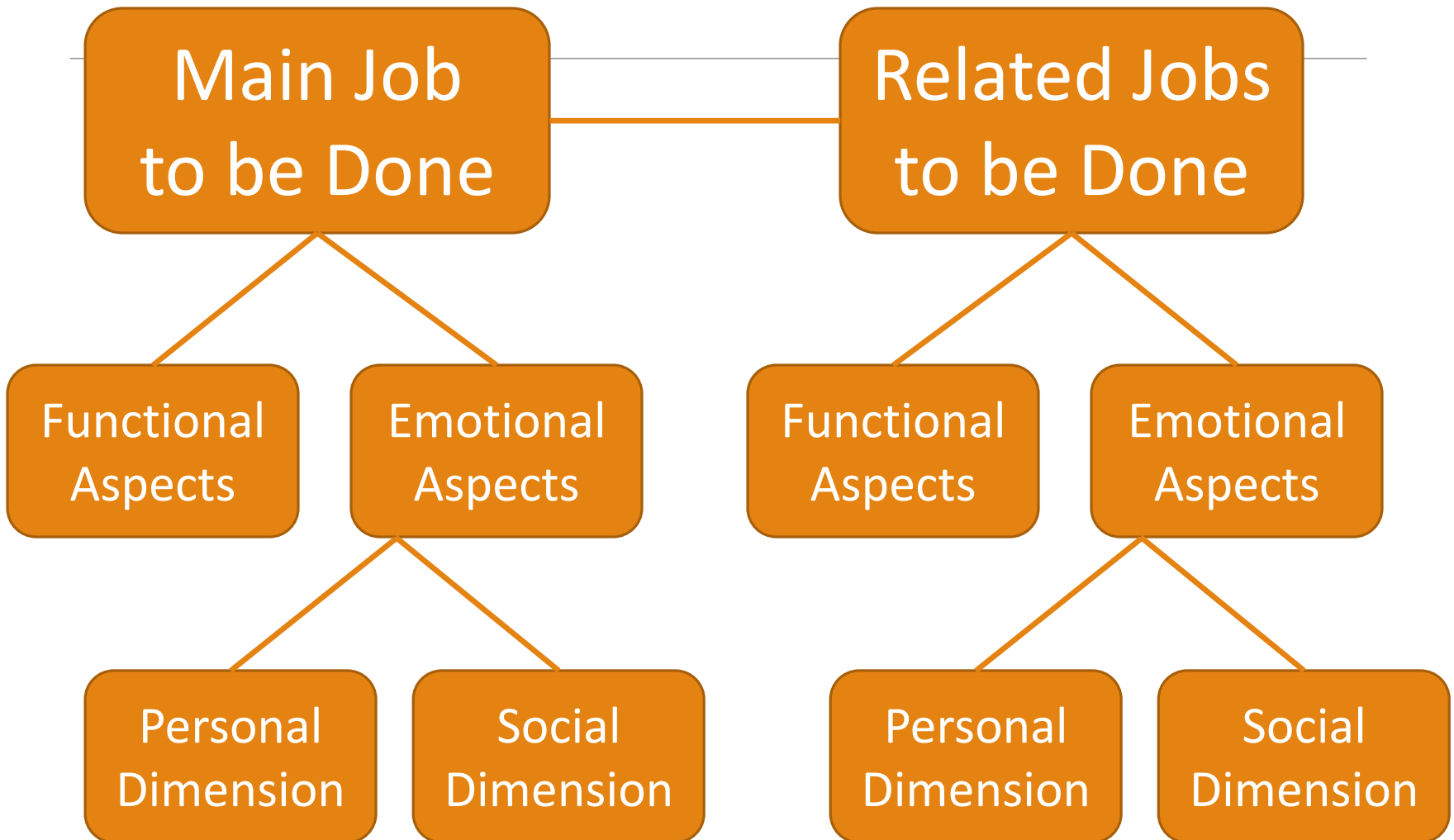
Why is customer experience important?

79% of consumers will commit to a deeper brand relationship through product or service adoption – after a satisfying online experience

59% of customers will stop doing business with the brand after just one bad experience in any channel

From an IBM customer study

Types of Jobs-to-be-Done





mon Go



A Sensation - \$16 million of revenue per day in July
By mid September – that fell to \$2 million per day

It launched with relatively little actual "game"

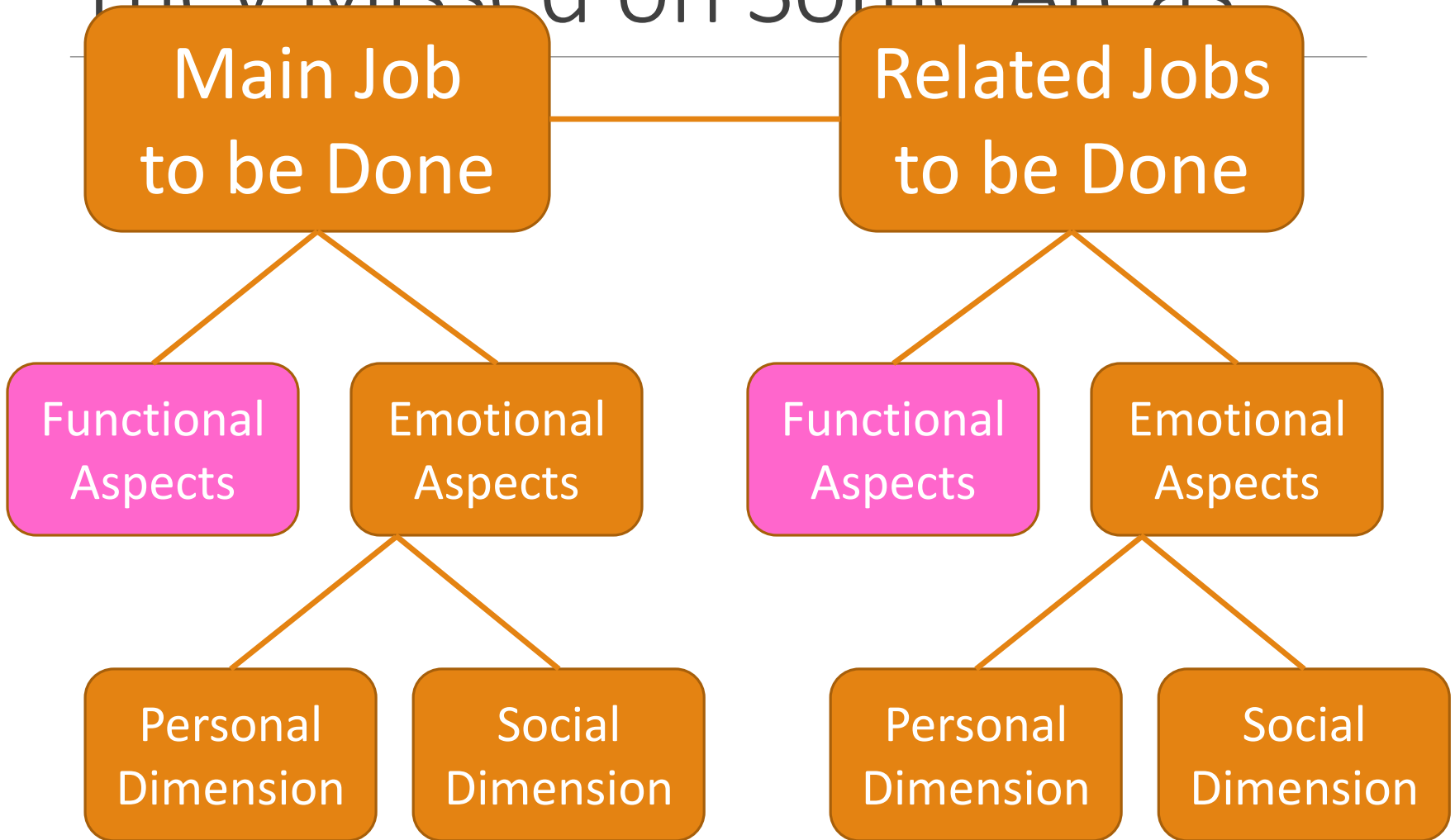
Featured shallower gameplay than its siblings on Nintendo's gaming platforms

Mechanisms for battling Pokémon were relatively simplistic

There was no way for people to interact in real time in the game



They Missed on Some Areas



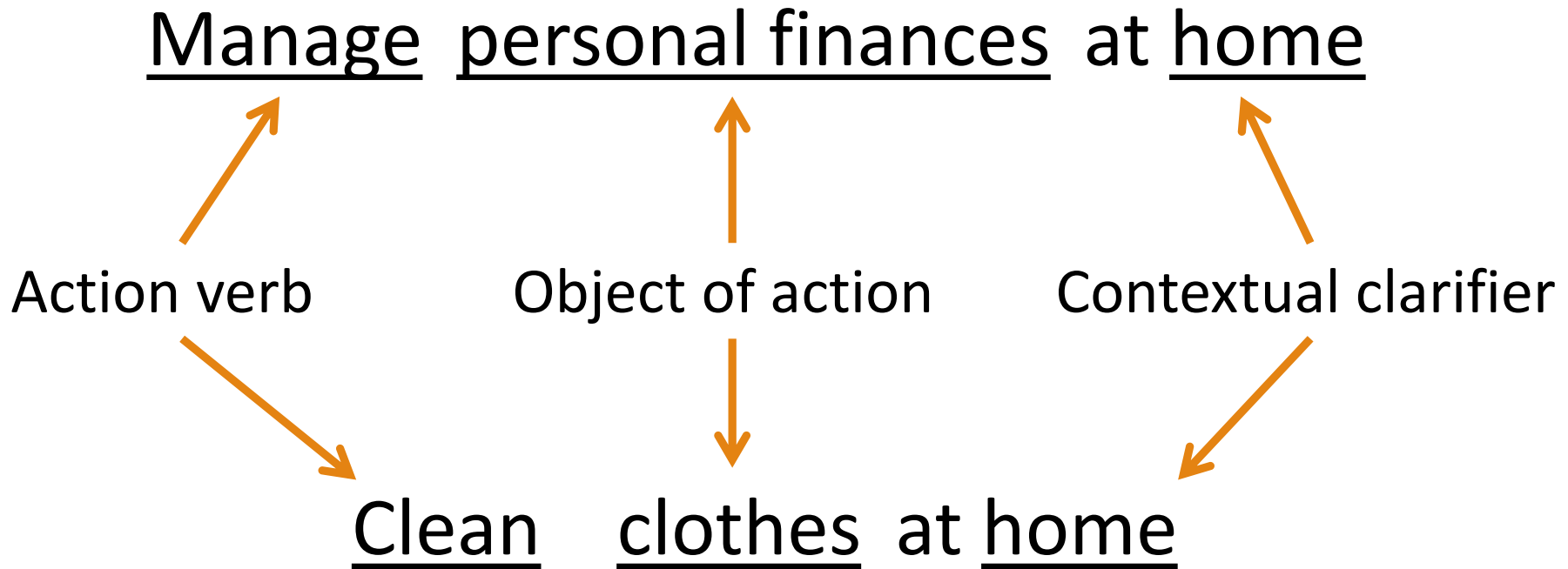
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Create a Job Statement

Structure of a Job Statement



Prioritize the JTBD Opportunities

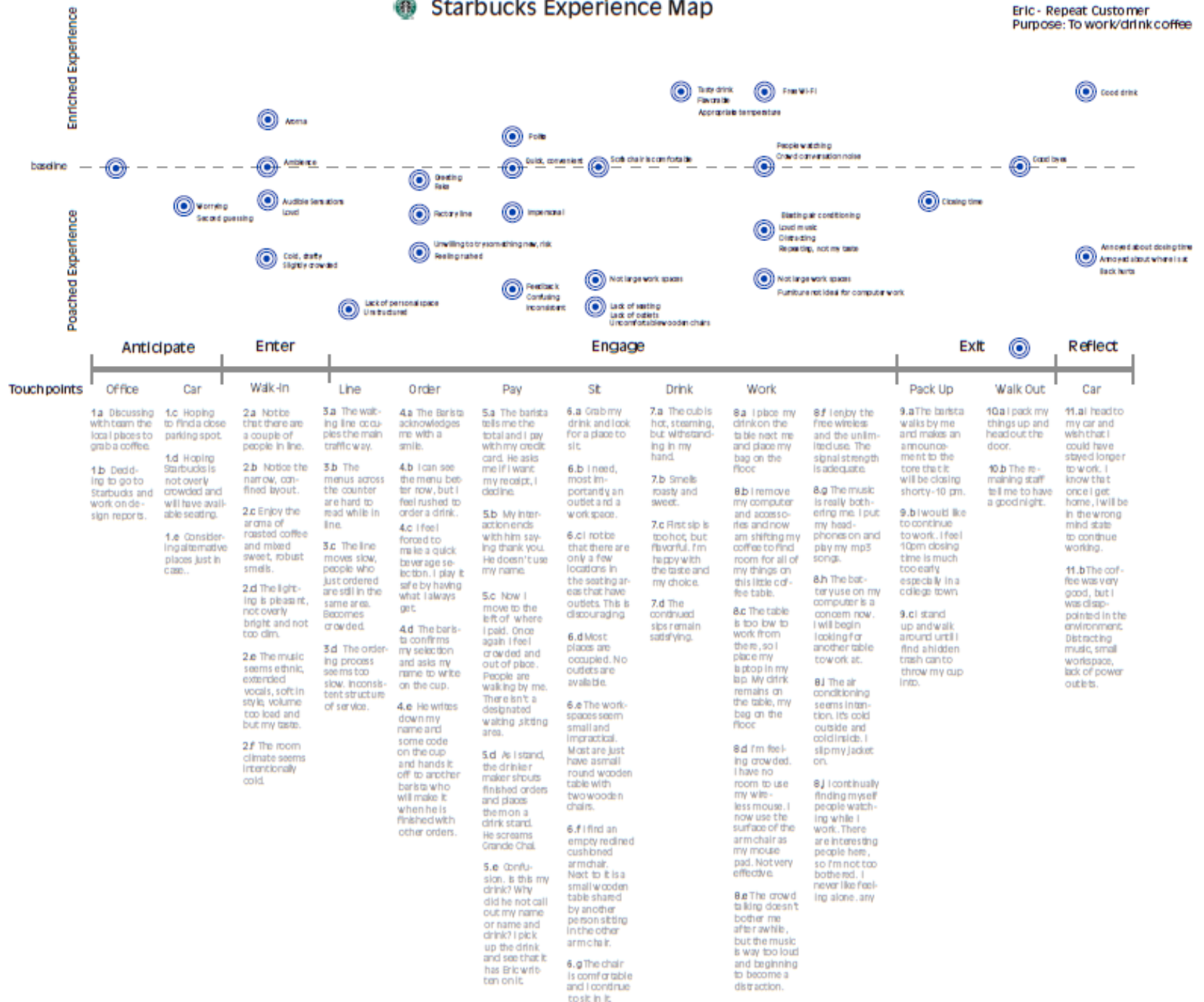
There are hundreds of jobs that customers are trying to get done

Prioritizing is a function of:

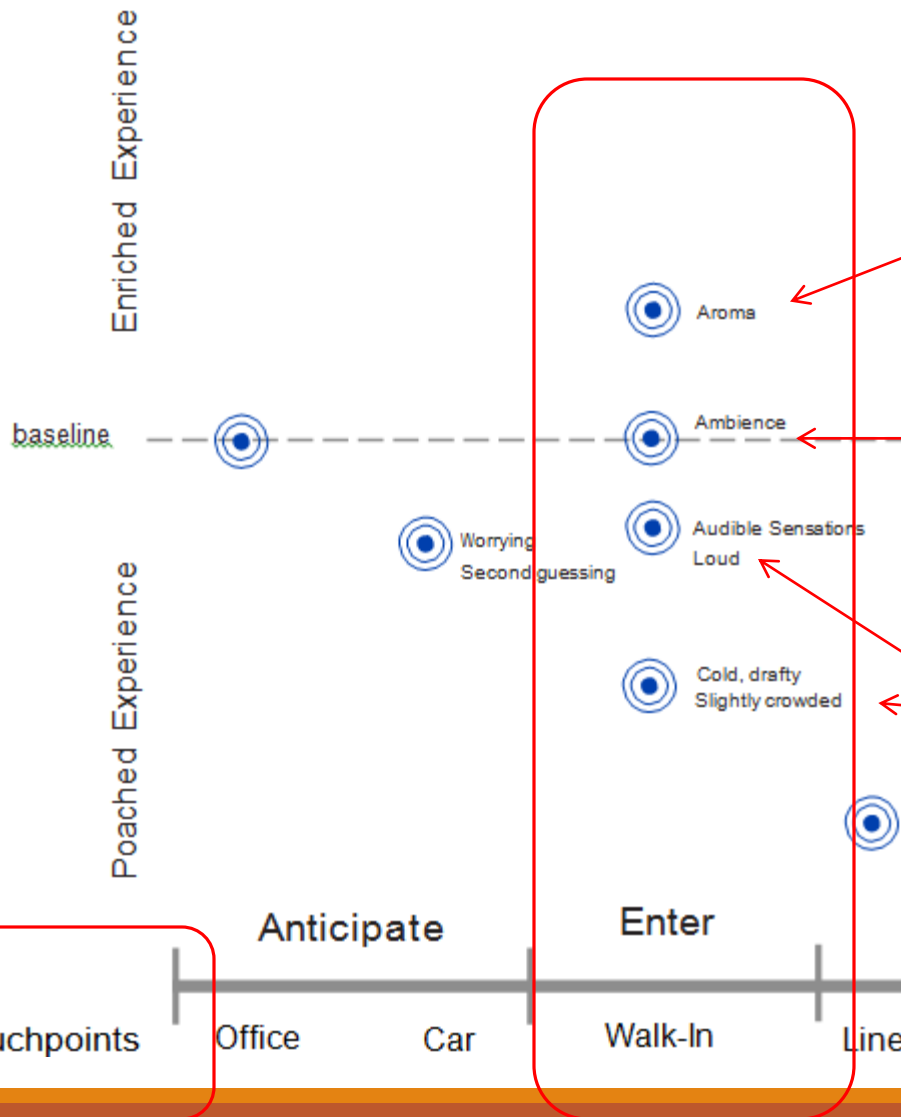
- 1. How important they are**
- 2. How satisfied customers are with existing solutions**

Tools to use

Likert Scale from customer input	Multiple Criteria Decision Analysis
Simple Decision Matrix	Weighted Pugh Analysis



The Top Portion - Experience



Enriched Experience:

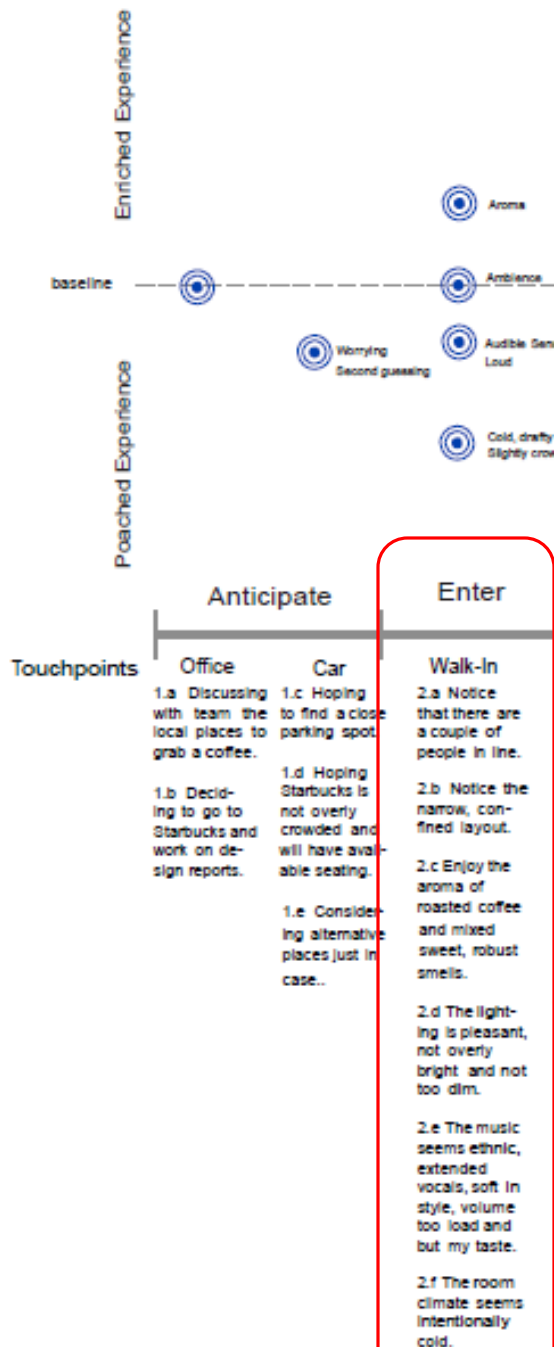
- Aroma

Neutral Experience:

- Ambience

Negative Experiences:

- Audible Sensations – Loud
- Cold
- Drafty
- Slightly Crowded



2.a. Notice that there are a couple of people in line

2.b. Notice the narrow confined layout

2.c. Enjoy the aroma of roasted coffee and mixed sweet, robust smells

2.d. The lighting is pleasant, not overly bright and not too dim

2.e. The music seems ethnic, extended vocals, soft in style, volume too load and but my taste

2.f. The room climate seems intentionally cold

Reference and source

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