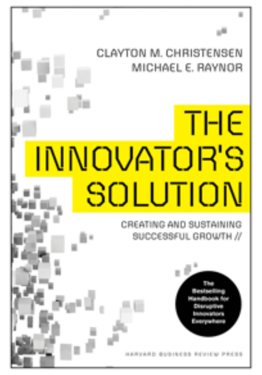


JAYMERA BOOK SUMMARY

HANDBOOK FOR DISRUPTIVE INNOVATORS & DISRUPTIVE GROWTH BUSINESS BUILDERS

INNOVATOR'S DILEMMA

The dilemma every manager faces: should we invest to protect the least profitable end of our business, so that we can retain our least loyal, most price-sensitive customers? Or should we invest to strengthen our position in the most profitable tiers of our business, with customers who reward us with premium prices for better products?

A sustaining innovation targets demanding, high-end customers with better performance than what was previously available. Established competitors have powerful motivations to fight sustaining battles and have the resources to win.
Disruptive innovations introduce products and services that are not as good as currently available products. These offer other benefits: simpler, more convenient and less expensive products that appeal to new or less-demanding customers.

The forces that propel well-managed companies up-market are always at work, in every company in every industry, leading predictably in one direction: sustaining innovations. These are so attractive that sustaining companies systematically ignore disruptive threats and opportunities until the game is over.
Because the pace of technological progress outstrips customers' abilities to use it, the previously not good enough technology eventually improves enough to intersect with the needs of more demanding customers. When that happens, the disruptors are on a path that will ultimately crush the incumbents.

DISRUPTION

Following a strategy of disruption increases the odds of creating a successful growth business. For an idea to be successfully disruptive it needs to be disruptive relative to all established players in the targeted market. Established firms that hope to capture the growth created by disruption need to do so from within an autonomous business with a cost structure that offers headroom for subsequent profitable migration up-market.

Many disruptions are hybrids, combining elements of the following fundamental two types of disruption:

New-market disruptions compete with non-consumption because new-market disruptive products are so much more affordable to own and simpler to use that they enable a whole new population of people to begin owning and using the product, and to do so in a more convenient setting. The disruptive innovation does not invade the mainstream market. New-market disruptors' challenge is to create a new value network, where it is non-consumption, not the incumbent, that must be overcome. As a result, the incumbent leaders feel no pain and little threat until the disruption is in its final stages. New-market disruptions induce incumbents to ignore the attackers.
Low-end disruptions take root at the low end of the original or mainstream value network. They are pure low-cost business models that grow by picking off the least attractive of the incumbents' customers. Low-end disruptions motivate incumbents to flee the attackers.

Disruption is an ongoing force: disruptors in one generation become disruptees later.

DISRUPTION POTENTIAL TESTING

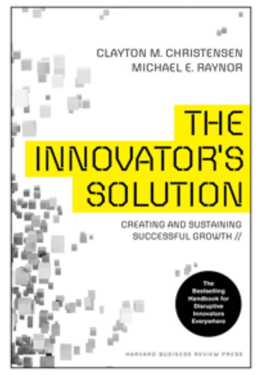
An idea has new-market disruption potential if and only if all of the following questions can be answered affirmatively:

1. Is there a large population of people who historically have not had the money, equipment or skill to do this for themselves, and as a result have gone without it altogether or have needed to pay someone with more expertise to do it for them?
2. To use the product or service, do customers need to go to an inconvenient centralised location?
3. Is the innovation disruptive to all of the significant incumbent firms in the industry?

An idea has low-end disruption potential if and only if all of the following questions can be answered affirmatively:

1. Are there customers at the low en of the market who would be happy to purchase a product with less (but good enough) performance if they could get it at a lower price?
2. Can we create a business model that enables us to earn attractive profits at the discount prices required to win the business of these observed customers at the low end?
3. Is the innovation disruptive to all of the significant incumbent firms in the industry?

However, this is not the evaluation and selection process applied in reality. Middle management plays a crucial role in deciding which of the ideas are carried to upper management. The process of sorting through and packaging ideas into plans that can win funding, shape those ideas to resemble the ideas that were approved and became successful in the past. As a result, the set of ideas that has been submitted to top management for approval is very different from the population of ideas that is bubbling at the bottom.



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APPROACHES TO CREATING NEW-GROWTH BUSINESSES

The characteristics of the three strategies that firms might pursue in creating new-growth businesses: target performance of the product or service, target customers of market application and impact on the required business model:

Sustaining innovations

Target (incremental or breakthrough) performance improvement in attributes most valued by the industry's most demanding customers. Target most attractive (i.e. profitable) customers in the mainstream markets who are willing to pay for improved performance. Improve or maintain profit margins by exploiting the existing processes and cost structure and making better use of current competitive advantages.

Low-end disruptions

Target performance that is good enough alone the traditional metrics of performance at the low end of the mainstream market. Target over-served customers in the low end of the mainstream market. Utilises a new operating or financial approach or both: a different combination of lower gross profit margins and higher asset utilisation that can earn attractive returns at discount prices.

New-market disruptions

Target lower performance in traditional attributes but improved performance in new attributes, typically simplicity and convenience. Target con-consumption: customers who historically lacked the money or skill to buy and use the product. The business model must make money lower price and margin per unit sold, and at unit production volumes that initially will be small.

JOB-TO-BE-DONE FOCUS

Three-quarters of all product development investments are unsuccessful because they are focused on traditional segmentation schemes - such as product type, price point and customer demographics or psychographics. Companies do this for 4 reasons:

1. Fear of focus: the more focused on one specific job the less appealing it might become for other jobs; focus is scary until you realise it means turning your back on markets you could never have anyway;
2. Senior executives' demand for quantification of opportunities: managers define market segments along the lines for which data are available & collected for historical performance measurement;
3. Channel structure: many channels are organised by product categories rather than jobs that customers need to get done;
4. Advertising economics & brand strategy: it seems easier to communicate to traditional customer segments.

Jobs that customers are trying to get done constitute a circumstance-based categorisation of markets. Companies that target their products at the circumstances in which customers find themselves, rather than at the customers themselves, are those that can launch predictably successful products, The critical unit of analysis is the circumstance and not the customer.

Knowing what job a product gets hired to do (and knowing what jobs are out there that aren't getting done very well) can give innovators a much clearer road map for improving their products to beat the true competition from the customer's perspective. This would also significantly increase chances of finding new growth among non-consumers. Observing what people seem to be trying to achieve for themselves is the way to ascertain the job to be done.

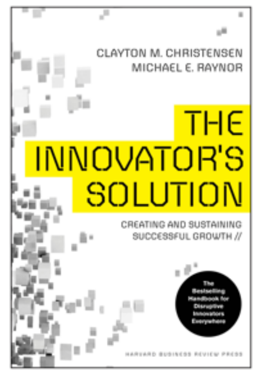
TEMPLATE FOR NEW-MARKET DISRUPTION

The following is a template for finding ideal customers and market applications for disruptive innovations:

1. The target customers are trying to get a job done, but because they lack the money or skill, a simple, inexpensive solution has been beyond reach.
2. These customers will compare the disruptive product to having nothing at all. As a result, they are delighted to buy it even though it may not be as good as other products available at high prices to current users with deeper expertise in the original value network. The performance hurdle required to delight such new-market customers is quite modest.
3. The technology that enables the disruption might be quite sophisticated, but disruptors deploy it to make the purchase and use of the product simple, convenient, and foolproof. It is the "foolproofedness" that creates new growth by enabling people with less money and training to begin consuming.
4. The disruptive innovation creates a whole new value network. The new consumers typically purchase the product through new distribution channels and use the product in new venues.

For incumbents the innovation should be framed as a threat during the resource allocation process as this will ensure high commitment. Later, the responsibility for the project should be shifted to an autonomous organisational unit that can frame it as an opportunity as this will enable opportunistic flexibility.

No promises of big numbers in the future should be made in exchange for resources in the present. Instead, project budgets should be killed or approved based on fit with the 4 rules pattern above, not numerical rules.



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PROCESS OF (DE-)COMMODITISATION

It is overshooting - the more-than-good-enough circumstance - that connects disruption and the phenomenon of commoditisation. A company in these circumstances simply can't win: either disruption will steal its markets or commoditisation will steal its profits. The only way modular disruptors can keep profits healthy is to carry their low-cost business models up-market as fast as possible so that they can keep competing against higher-cost makers of proprietary products. In turn, this causes the process of de-commoditisation:

1. The low cost strategy of modular product assemblers is only viable as long as they are competing against higher cost opponents. This means that as soon as they drive the high-cost suppliers of proprietary products out of a tier of the market, they must move up-market to take them on again in a higher tier in order to continue to earn attractive profits.
2. Because the mechanisms that determine how rapidly they can move up-market are the performance-defining subsystems, these elements become not good enough.
3. Competition among subsystem suppliers causes their engineers to devise designs that are increasingly proprietary and inter-dependent as they strive to enable their customers to deliver better performance in their end-use products.
4. The leading providers of these subsystems therefore find them-selves selling differentiated, proprietary products with attractive profits.
5. This creation of a profitable, proprietary product is the beginning of the next cycle of commoditisation and de-commoditisation.

SOURCING STRUCTURE OF A NEW-GROWTH VENTURE

Ideal sourcing structures differ between two circumstances:

In a not-good-enough world
When product functionality and reliability are not yet good enough to address the needs of customers, companies must compete by making the best possible products. To do this, they must build their products around proprietary, interdependent architectures. The alter-native of standardised, modular architectures, would take too many degrees of freedom away from engineers to optimise performance.
These companies must be integrated: they must control the design and manufacture of every critical component of the system.

In a world of overshooting
Once their requirements for functionality and reliability have been met, customers begin to redefine what is not good enough in terms of speed, responsiveness, customisation and convenience. This changes the basis of competition.
As functionality is more than good enough, companies have the slack to trade away some performance in order to introduce modularity with standard interfaces. This allows nonintegrated organisations to assemble and trade components and subsystems, with disintegration of the industry as a consequence. These nonintegrated competitors then disrupt the integrated leader.

You are in a modular world only if the following conditions are met:

1. Specifiability: suppliers and customers both know what to specify in terms of crucial attributes of components;
2. Verifiability: they are able to measure these attributes;
3. Predictability: there are no poorly understood or unpredictable inter-dependencies across the interfaces.

ORGANISATIONAL CAPABILITIES FOR DISRUPTIVE GROWTH

An organisation's capabilities become its disabilities when disruption is afoot, causing many innovations to fail. Organisations develop a capability for sustaining innovation that resides in three dimensions:
Resources The resource choice most often trips a venture up is the choice of its managers. Traditional selection criteria (good communicator, results oriented, decisive, good people skills and uninterrupted string of past successes) do not cut it. However, managers' repertoire of past experiences (successes and failures) is pivotal as is their willingness and ability to learn.
Processes Processes by their nature are meant not to change but to help employees perform recurrent tasks in a consistent way. New disruptive businesses cannot rely on existing processes - including market research and financial budgeting - that were designed for a sustaining business as they don't enable new growth opportunities.
Values An organisation's values are the standards by which employees make prioritisation decisions; those by which they judge whether an order is (un)attractive, a customer is (un)important, or an idea for a new product is (un)attractive. Companies' values change as they migrate up-market. As a result large companies have lost the ability to enter small emerging markets: opportunity is too small.
The best home for disruptive innovations is an autonomous unit.

It represents a summary of the following management book:
"THE INNOVATOR'S SOLUTION - creating and sustaining successful growth"
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