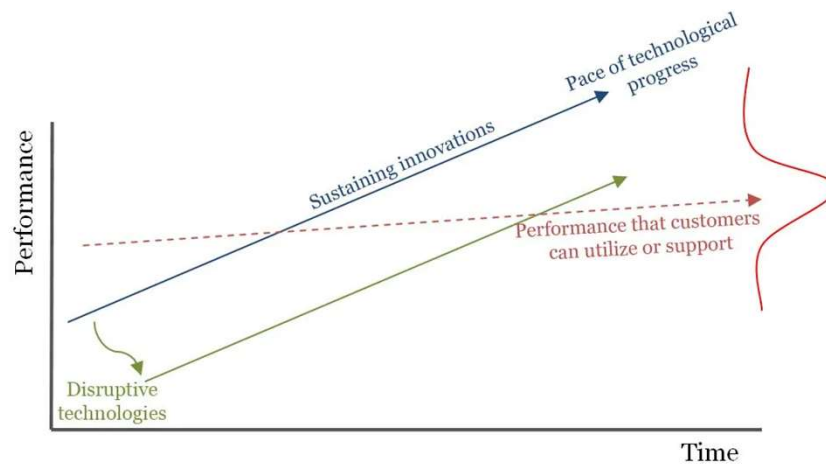


Innovation and Technology Management

1

Disruptive Innovation



2

Key stakeholders for Disruptive Innovation

- Incumbant
 - Has a well-established market
 - Provides great outcomes for existing customers
 - Indulges in sustaining innovation to improve outcomes for their best customers
 - Will fight with any competitors who try to enter their market
- Disruptor
 - Target products and markets that the established companies are motivated to ignore or run away from.
 - **New market disruption:** compete with “nonconsumption”
 - **Low-end disruption:** low-cost business models that grew by picking off the least attractive of the established firms’ customers

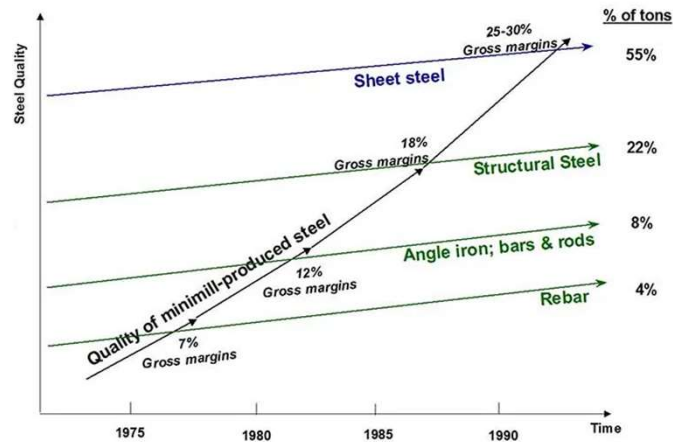
3

Questions for Low end disruption

1. Are there customers at the low end 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 overserved customers at the low end?

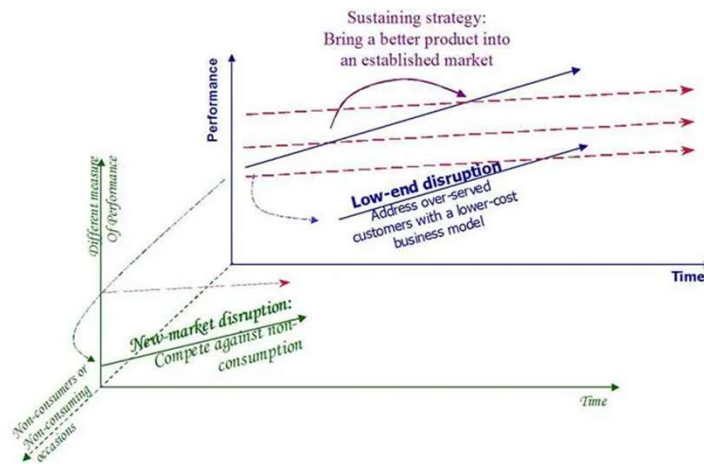
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Low end Marketing Disruption - The Case of Minimill-produced steel



5

New Market Disruption



6

Questions for New Marketing Disruption

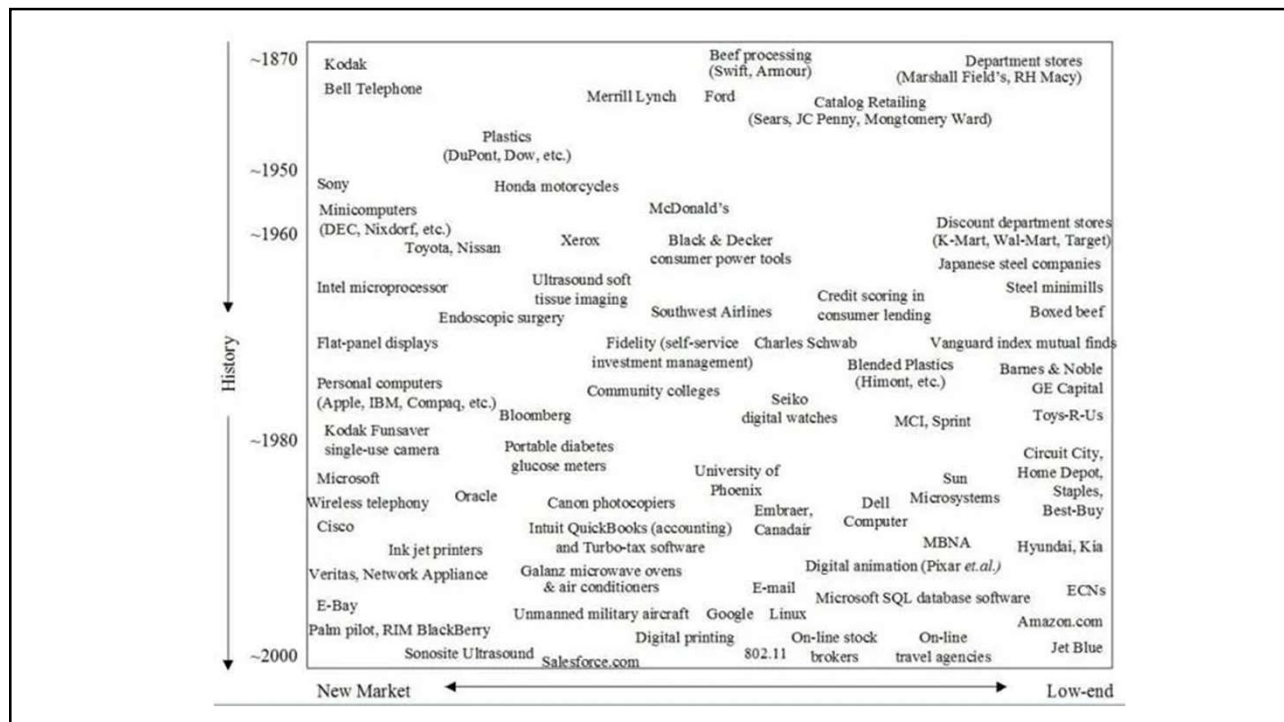
1. Is there a large population of people who historically have not had the money, equipment, or skill to do this thing for themselves, and as a result have gone without it altogether or have needed to pay someone with more expertise to do it for them?
2. To use the product or service, do customers need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

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Final Question

- Is the innovation disruptive to *all* of the significant incumbent firms in the industry? If it appears to be sustaining to one or more significant players in the industry, then the odds will be stacked in that firm's favor, and the entrant is unlikely to win.

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Catalysts of Disruption

- Overserving
 - Product has more features than demands of mainstream customers
- Defining characteristic
 - Feature set that doesnot cater to mainstream customers
 - Delivers much lower margins
- Improvisation
 - Businesses rarely stay were they started
- Value network
 - Atleast one element of the value network is disturbed

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Nature of Technology led disruptions

- Digitization: Information stored without a physical artefact
 - Marginal cost of creating and storing a digital product is near zero
- Long Tail of retailing
 - Ability to stock obscure products
 - Ability to serve niche and micro consumer preferences
- Reach versus Richness
 - Number of customer reached versus customization of the message
- Use of Interactive Web
 - Use of real time stakeholder feedback in business process
- Big Data
 - Harnessing the power of data

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Tech-enabled business models – Platform Models

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NETWORKED MARKET	SIDE 1	SIDE 2	PLATFORM PROVIDERS
			<i>Rival Providers of Proprietary Platforms</i>
PC operating systems	Consumers	Application developers*	Windows, Macintosh
Online recruitment	Job seekers*	Employers	Monster, CareerBuilder
Miami Yellow Pages	Consumers*	Advertisers	BellSouth, Verizon
Web search	Searchers*	Advertisers	Google, Yahoo
HMOs	Patients*	Doctors	Kaiser, WellPoint
Video games	Players*	Developers	PlayStation, Xbox
Minneapolis shopping malls	Shoppers*	Retailers	Mall of America, Southdale Center
			<i>Rival Providers of Shared Platforms</i>
Linux application servers	Enterprises	Application developers	IBM, Hewlett-Packard, Dell
Wi-Fi equipment	Laptop users	Access points	Linksys, Cisco, Dell
DVD	Consumers	Studios	Sony, Toshiba, Samsung
Phoenix Realtors Association	Home buyers*	Home sellers	100+ real estate brokerage firms
Gasoline-powered engines	Auto owners	Fueling stations	GM, Toyota, Exxon, Shell
Universal Product Code	Product suppliers	Retailers	NCR, Symbol Technologies

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Components of a Two-sided platform

- Two user groups
 - Two distinct user groups on either side of the network
 - Mobilization through subsidization or exclusive affiliation
- Platform
 - It facilitates interactions between the two groups
 - It provides technology and the rules
- Network effects
 - The value of the network to any user depends on the number of other users with whom they can interact
 - Cross side network effects
 - Same side network effects

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Strategies for Platform business models

- **Get Pricing Right**
 - Subsidize quality and price sensitive users
 - Secure marquee users exclusive participation in your platform
- **Cope with winner-take-all competition**
 - Decide whether the two sided market you are eyeing will eventually be served by a single platform
 - Decide whether to share the single platform or fight for proprietary control
- **Avoid Envelopment**
 - Fight or Change business models or leverage other players in value net