DISRUPTIVE STRATEGY WITH CLAY CHRISTENSEN:

Aligning with Innovation and Disruption

HBX

KEY TAKEAWAYS

→ There are three main types of innovation: sustaining innovation, low-end disruptive innovation, and new-market disruptive innovation

→ New technology is not intrinsically disruptive; it depends on how it is deployed into the market relative to the business models for existing products or services

- Incumbents typically win sustaining battles
- Entrants typically win disruptive battles

→ Start innovating today—even while your core business is strong; disruption is typically an opportunity long before it is a threat

- Spot disruption in your industry early by studying customers who stopped using your product or service

→ An organization cannot disrupt itself

- Disruptive business models must be separated from the core business

CASE STUDY

WR Hambrecht founder, Bill Hambrecht, pioneered a disruptive model for initial public offerings (IPOs) in the U.S., leveraging auctions to serve the "low-end" of the market. When Google approached Bill about underwriting its 2004 IPO, one of the highest profile IPOs in years, Bill and his team felt that they had finally made it. Should Bill Hambrecht pursue the opportunity with Google, which would require a sustaining business model, or should his firm continue focusing on smaller, low-end disruptive IPOs?

	PERFORMANCE TARGETED PERFORMANCE OF THE PRODUCT OR SERVICE	**CUSTOMERS** TARGETED CUSTOMERS OR MARKET APPLICATION	**BUSINESS MODEL** IMPACT ON THE REQUIRED BUSINESS MODEL
SUSTAINING INNOVATIONS INCUMBENTS TYPICALLY WIN	Performance improvement in attributes most valued by the industry's most demanding customers. These improvements may be incremental or breakthrough in character.	The most attractive (i.e., profitable) customers in the mainstream markets who are willing to pay for improved performance.	Improves or maintains profit margins by exploiting the existing processes and cost structure and by making better use of current competitive advantages.
LOW-END DISRUPTIONS ENTRANTS TYPICALLY WIN	Performance that is good enough along the traditional metrics of performance at the low-end of the mainstream market.	Over-served customers in the low-end of the mainstream market.	Utilizes a new operating or financial approach or both to earn attractive returns at the discount prices required to win business at the low-end of the market.
NEW-MARKET DISRUPTIONS ENTRANTS TYPICALLY WIN	Lower performance in "traditional" attributes, but improved performance in new attributes—typically simplicity and convenience.	Targets non-consumption: customers who historically lacked the money or skill to buy and use the product.	Business model must make money at lower price per unit sold, and at unit production volumes that initially will be small. Gross margin dollars per unit sold will be significantly lower.

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