

## Simple Steps to Create Disruptive Growth Businesses

With competitors lurking around every corner, new technologies advancing at a seemingly dizzying pace and the cost of getting it wrong growing by the day, companies seeking to create growth through innovation face more challenges than ever.

The statistics are stark. Only 25 percent of all new products that established companies introduce in their markets succeed. Seventy-five percent fail. Only 10 percent of companies can maintain a level of growth that gives their shareholders above average returns over the long term. Ninety percent cannot.

Most of those companies seem to be doing all the right things—listening to their best customers, keeping a close eye on competitors, and investing heavily in technological advancements. Long-term success requires more. It requires that companies develop strategies around disruptive innovations.

Disruptive innovations either create new markets or reshape existing markets by delivering relatively simple, convenient, low-cost innovations to a set of customers who are ignored by industry leaders.

Steel minimills are a classic example of a disruption innovation that transformed an existing industry with a cheaper solution. In the 1970s, a set of 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 only sell to the least demanding customers at the very bottom of the market. These customers were looking for bars of steel to bury in cement to reinforce the strength of that concrete (known as “rebar”). These customers 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 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.

Historically, companies that dominate an industry have had little interest in pursuing these types of innovations because profit margins seem lower and the innovations don’t address the needs of those companies’ best customers.

However, companies that have recognized the value in pursuing disruptive growth—such as Intel, Cisco, Johnson & Johnson, Procter & Gamble, Dow Corning and IBM—have all profited from this type of innovation at various points in their histories.

For example, P&G’s Crest Whitestrips created an entire new market by targeting customers who found it too inconvenient or too expensive to go to the dentist to get their

teeth whitened. By making it simple and affordable for people to do it themselves, P&G has created a booming new growth business.

The good news for companies seeking to improve their ability to create new growth businesses is that following a few simple principles can dramatically improve their chances of success.

**Principle 1: Quality is a relative term.**

Have you ever purchased a Kodak FunSaver? Do you consider it a good product? Most people enthusiastically say that they love the product. It is simple, cheap and convenient to obtain. However, Kodak gulped hard when it introduced its disposable Kodak FunSaver in the late 1980s. It worried about attaching the Kodak brand to a camera whose pictures wouldn't be as good as those taken by a high-end camera. But a customer that forgets to bring their camera on vacation considers the FunSaver's pictures vastly superior to no pictures at all.

Dow Corning produces the highest quality silicones in the world. You can find its products in thousands of applications, ranging from shampoos to space shuttles. In 2003, it launched a service called Xiameter, designed specifically to compete at the commodity end of the silicone business. Xiameter's target customers don't really care about value-added services. They just want to get basic silicone at competitive prices.

It might appear counterintuitive that a company that bases its reputation on product quality would want to compete in the least-demanding part of its industry. Dow Corning recognized that quality can only be expressed relative to the problem customers are trying to solve. Xiameter is a perfect solution for its target customers; it would be a terrible solution for a demanding customer looking for high-end, specially formulated silicone.

By taking advantage of scale economics and understanding how to design distinct business models, Dow Corning has created a profitable new growth opportunity in a very challenging market space.

**Principle 2: You can in fact be too good**

The U.S.'s landline telephone network is a true technological marvel. It effortlessly handles millions of simultaneous calls with pitch-perfect call quality. Voice communication is possible in even the most extreme emergency conditions. "Lifeline" capability means a blizzard could knock down every tree in your neighborhood and your phone would still have a dial tone. Networks have what is known as "five 9s" reliability, which means a network works 99.999 percent of the time. That equates to annual downtime of about five minutes.

Yet an increasing number of customers are choosing to "cut the cord," shutting down their landline phone and using their mobile phone as their only option. The call quality might be lower. Customers might run the risk of having a call dropped midstream. But they deem the performance to be "good enough," especially given the mobile phone's convenience and flexibility.

In short, landline technology *overshoots* most mainstream needs. One of the biggest challenges most companies face is understanding that they can in fact produce products and services that are too good for a given group of customers. Further improvements along overshoot dimensions promise limited returns. After all, if a product's performance already exceeds a customer's needs, why would they pay more money for improvements they don't need and can't utilize?

**Principle 3: Nonconsumers can be great customers.**

When Sony entered the consumer electronics market in the 1950s, it didn't try to beat established tabletop radio providers by introducing better products. Rather, it introduced its simple, portable and relatively inexpensive transistor radios to teenagers who wanted to listen to baseball games or music out of the earshot of disapproving parents. Sometimes, the best target customers are those that lack the ability, wealth or skills to consume products.

Many service-based industries have large pools of nonconsumers. For example, for a long time most adults who wanted to pursue further education lacked attractive alternatives. They lacked the time, money or test scores to go to four-year institutions. Even taking courses at a community college required going to inconvenient locations. Enter the University of Phoenix. It explicitly targets adult learners, making it simpler and more affordable for those customers to obtain highly relevant forms of education. It added an online offering in the late 1980s, further enhancing its ability to provide compelling services to its customers. Today, more than 250,000 students a year attend the University of Phoenix's online and campus-based programs.

**Principle 4: When you don't know, you are likely to be wrong.**

Remember how Palm successfully create a mass market for Personal Digital Assistants while larger companies like Apple, Sony, Motorola, and Hewlett-Packard all stumbled? Think Palm had a brilliant insight from day one? Think again. Its first product, called the Zoomer, bombed. But Palm had enough money left over to learn from its failures, simplify its product, and find success.

When a company is entering a new market, research suggests it is likely to start out with a flawed strategy. The problem is most companies think they are following the right strategy. By the time they recognize they are going in the wrong direction, they have run out of time, money or both. When the right strategy isn't apparent, limit investment, run experiments, and be prepared to adjust.

**Principle 5: The path to complicated destinations often starts simple**

When the Internet burst onto the mainstream in the mid 1990s, numerous entrepreneurs recognized that the technology could be a great way to facilitate transactions between buyers and sellers. Companies like Chemdex, eSteel and ChemConnect tried to match sophisticated buyers and sellers in industries such as steel and chemicals. They failed.

eBay started modestly, bringing together collectors of simple collectibles like Beanie Babies and Pez dispensers. Over time, it started selling more complicated items, such as

automobiles and high-end collectibles. As a testament to the power of its model, in 2003 it became the fastest company in U.S. history to reach \$3 billion in revenues.

### **Simple steps to put the principles into action**

Although these principles seem simple, it can oftentimes be frustratingly difficult to put them into action. Following a few simple steps can help any company begin to make tangible progress

- **Develop a common language:** One of the biggest hurdles facing companies seeking to follow these principles is that they seem to run counter to many of the perceived wisdoms of the business world. Without a common language, companies can end up defaulting towards old approaches when new ones are required. Find a coalition of the willing that is interested in disruptive innovation. Start holding discussion groups that build the group's understanding of the concepts.
- **Run a disruptive diagnostic:** Analyze your current portfolio of products and services. Look to see if there are signs that some products "overshoot" customer needs, meaning they have performance that customers don't need and aren't willing to pay for. If you can see those signs, you are at risk of being attacked by a usurper armed with a "good enough," low-priced approach. Then, scan the fringes of the market to see signs of someone who has found a simple way to compete against nonconsumption. Seek to identify untapped pockets of customers that might welcome a disruptive solution.
- **Invest a little to learn a lot:** The principles discussed above help companies create entirely new growth businesses. Of course, 80 to 90 percent of what any company needs to do involves improving its existing, core business. But allocating a small amount of money and time towards investigating new growth spaces can be a great way to make progress. Focus early activities on knowledge building, not execution.
- **Seek a few quick, but small wins:** The old saying goes, "Nothing succeeds like success." The same is true when it comes to building disruptive capabilities. Demonstration projects that show the value of thinking differently build organizational confidence in the power of the concepts.

Although it might appear difficult, the success of established companies such as Procter & Gamble shows that success is possible. Following the principles discussed above can allow you to look at opportunities in new ways. Where you once saw threats, you can now see opportunity. A product or service you dismissed as "not good enough" might be the exact sort of thing your company needs. You can begin to truly unlock new market growth.