

Disruptive Innovation

The word "Disruption" is controversial in business. It is so misinterpreted that any mention of it makes discussions go off the rails immediately.

The term is most commonly misused when applied to new products and services that haven't yet been copied by competitors. People imagine that if you're doing something competitors aren't, they must be getting disadvantaged in some way. Or, in other words, they're being "disrupted".

Now, as you'd expect, since it is easy for competitors to replicate most things easily, such "disruption" is short lived.

The fact of the matter is that really new things can only be considered disruptive if they're not easily copied.

Researchers usually use the term "disruption" in a few, very specific cases. Normally, they argue, a product or service is disruptive only in two situations:

1. A product or service is disruptive if it serves a segment that incumbents don't want. Generally, this is for a financial reason: maybe margins are too thin to make the customer a decent proposition, or else the functionality the supplier is selling is more than the customer can afford. In this scenario, a disruptor with a small cost base is in the position to enter the market with something that's excellent for the low end market, and use this as a beach-head for expansion upward. Practically speaking, an incumbent supplier is pretty much unable to respond because their cost bases are optimised to serve high end customers. This form of disruption is the model that was pioneered by South West Airlines and Ryan Air.
2. It provides customers an alternative to a product or service they are presently using, but which does much more than they need. In this case, the customer will be paying a premium for capabilities they don't use, so the entrant is able to undercut the incumbent supplier by providing fewer features at a better price. Here, too, the incumbent is unable to respond because it has optimised its cost base to provide for its best customers, and cannot easily remove them without jeopardising its most valuable segment. This is what has occurred with Microsoft Office, whose features are used by, at most, 20% of its customers.

In both these cases, the supplier is under threat in the long term because the new player is able to do something the current one can't. Disruption, here, means a big company with an entrenched position can be overturned by a smaller one. However, you don't have to take my word for it: you can read Clayton Christensen's Innovators Dilemma for details on the mechanics of the process, as well as some great case studies.

About the Author

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